

ch1

Student: _____

1. Building a new warehouse is an operating activity.

True False

2. The payment of dividends is a financing activity.

True False

3. Daily activities involved in running a business such as buying supplies and paying wages are operating activities.

True False

4. Financing activities include borrowing money from a financial institution and obtaining money by issuing shares of ownership (called stock certificates).

True False

5. Stockholders are creditors of a company.

True False

6. All corporations acquire financing by issuing shares of ownership (called stock certificates) for sale on public stock exchanges.

True False

7. You paid \$10,000 to buy 1% of the stock in a corporation that has now gone bankrupt. The company owes \$10 million dollars to creditors. As a result of the bankruptcy, you will lose \$100,000.

True False

8. The stockholders' equity of a company is the difference between assets and liabilities.

True False

9. A company owes \$200,000 on a bank loan. If this loan is documented using a formal written debt contract, it will be reported as a liability called Notes Payable.
True False
10. The accounting decisions that were made when preparing a company's financial statements are explained in the auditor's report.
True False
11. Accounts payable, notes payable and wages payable are examples of liabilities.
True False
12. Expenses are the costs incurred in doing business which are necessary to earn revenue.
True False
13. For a new business, the beginning balance of Retained Earnings is zero.
True False
14. If a company reports net income on the income statement, then the statement of cash flows must show an increase in cash flows from operating activities for the period.
True False
15. In the United States, generally accepted accounting principles (GAAP) are established by the PCAOB (Public Company Accounting Oversight Board).
True False
16. The Securities and Exchange Commission (SEC) is the government agency that has jurisdiction over public companies in the United States.
True False
17. The Sarbanes-Oxley Act (SOX) requires top management of companies to sign a report certifying their responsibilities for financial statements.
True False

18. Revenue is reported on the income statement only if cash was received at the point of sale.

True False

19. Accounts payable and accounts receivable are reported on the income statement.

True False

20. Contributed Capital is an asset on the balance sheet.

True False

ANONYMOUS, INC.
BALANCE SHEET
SEPTEMBER 30, 2010

Assets	
Cash	\$1,568,000
Accounts Receivable	310,500
Inventories	208,200
Property, Plant & Equipment	391,600
Other Assets	<u>869,400</u>
Total Assets	<u>\$3,347,700</u>
Liabilities	
Accounts Payable	\$1,439,200
Notes Payable	<u>?</u>
Total Liabilities	<u>?</u>
Stockholders' Equity	
Contributed Capital	1,263,600
Retained Earnings	<u>207,100</u>
Total Stockholders' Equity	<u>1,470,700</u>
Total Liabilities & Stockholders' Equity	<u>\$3,347,700</u>

21. What is the missing amount for Total Liabilities?

- A. \$3,347,700
- B. \$1,439,200
- C. \$1,470,700
- D. \$1,877,000

22. What is the missing amount for Notes Payable?

- A. \$207,100
- B. \$437,800
- C. \$1,439,200
- D. \$3,347,700

23. How many of the following statements regarding the balance sheet for Anonymous Inc. are true?

- The \$207,100 shown on the balance sheet has been distributed to stockholders as dividends.
- Retained Earnings is misclassified. It should be reported as an Asset.
- Anonymous, Inc., is owed \$310,500 from customers who have purchased goods or services from the company, but have not yet paid for them.

- A. None
- B. One
- C. Two
- D. Three

24. As of September 30, 2010, which source provided more financing for Anonymous, Inc.?

- A. owners
- B. creditors
- C. both provided equal financing
- D. neither provided any financing

25. Net Income is

- A. the amount the company earned after expenses and dividends are subtracted from revenue.
- B. the amount by which assets exceed expenses.
- C. the amount by which assets exceed liabilities.
- D. the amount by which revenues exceed expenses.

26. Expenses are shown

- A. on the income statement in the time period in which they are paid.
- B. on the income statement in the time period in which they are incurred.
- C. on the balance sheet in the time period in which they are paid.
- D. on the balance sheet in the time period in which they are incurred.

27. Cash flow from investing activities includes

- A. money received from a company's stockholders for the sale of stock.
- B. money received from the sale of the company's office building.
- C. money paid for dividends to the company's stockholders.
- D. money paid for salaries of employees.

28. Which of the following would not represent a financing activity?

- A. Paying dividends to stockholders.
- B. An investment of financial capital by the owners.
- C. Borrowing money from a bank to finance the purchase of new equipment.
- D. Collecting cash from customers.

29. Investing activities:

- A. involve day to day events like selling goods and services, which occur when running a business.
- B. involve the buying or selling of land, buildings, equipment, and other long-term investments.
- C. involve the receipt of interest from short-term investments such as certificates of deposits (CD's).
- D. involve the payment of wages, rent and other costs of running a business.

30. Public corporations:

- A. are businesses owned by two or more people, each of whom is personally liable for the debts of the business.
- B. are businesses whose stock is bought and sold on a stock exchange.
- C. are businesses whose stock is bought and sold privately.
- D. are businesses where stock is not used as evidence of ownership.

31. Which of the following would represent an operating activity?

- A. Purchasing equipment with money borrowed from creditors.
- B. An investment of financial capital by the owners.
- C. Buying the company's office supplies.
- D. Repaying a loan the company had taken out.

32. The separate entity assumption means:

- A. a company's financial statements reflect only the business activities of that company.
- B. each separate owner's finances must be revealed in the financial statements.
- C. each separate entity that has a claim on a company's assets must be shown in the financial statements.
- D. if the business is a sole proprietorship, the owners' personal activities are included in the company's financial statements.

33. Accounting information systems:

- A. are summarized by reports that are published to the public.
- B. capture and report the results of a business's operating, investing, and financing activities.
- C. monitor business activities only in financial terms.
- D. capture only the information that is needed by the owners of the company.

34. Which of the following would represent an investing activity?

- A. Purchasing equipment.
- B. An investment of financial capital by the owners.
- C. Borrowing money from a bank.
- D. Repaying a loan the company had taken out.

35. Creditors are:

- A. people or organizations who owe money to a business.
- B. people or organizations to whom a business owes money.
- C. stockholders of a business.
- D. customers of a business.

36. Operating activities:

- A. involve day to day events related to production and sales.
- B. relate to the acquisition or sale of long-term assets.
- C. only involve financial exchanges.
- D. involve the payment of dividends to owners.

37. The three main types of business activities measured by financial statements are:

- A. selling goods, selling services, and obtaining financing.
- B. operating activities, investing activities, and financing activities.
- C. hiring, producing, and advertising.
- D. generating revenues, paying expenses, and paying dividends.

38. Financing that individuals or institutions have provided to a company is

- A. always classified as liabilities.
- B. classified as liabilities when provided by creditors and stockholders' equity when provided by owners.
- C. always classified as equity.
- D. classified as stockholders' equity when provided by creditors and liabilities when provided by owners.

39. Financial statements are most commonly prepared:

- A. semi-monthly.
- B. monthly, quarterly and annually.
- C. whenever management feels like it.
- D. weekly.

40. Which of the following is true?

- A. Companies can choose to end their fiscal year on any date they feel is most relevant.
- B. Companies must end their fiscal year on March 31, June 30, September 30, or December 31.
- C. Companies can select any date except a holiday to end their fiscal year.
- D. Companies must end their fiscal year on December 31.

41. Assets:

- A. represent the amounts earned by a company.
- B. must equal the liabilities of a company.
- C. must equal the stockholders' equity of the company.
- D. represent the resources owned by a company.

42. Which of the following are the three basic elements of the balance sheet?

- A. assets, liabilities, and retained earnings.
- B. assets, liabilities, and contributed capital.
- C. assets, liabilities, and revenues.
- D. assets, liabilities, and stockholders' equity.

43. The Don't Bite Me Pest Control Company has 10,000 gallons of insecticide supplies on hand that cost \$300,000; a bill from the vendor for \$100,000 of these supplies has not yet been paid. The company expects to earn \$800,000 for its services when it uses the insecticide supplies. The company would report a supplies asset in the amount of

- A. \$10,000
- B. \$200,000.
- C. \$300,000
- D. \$800,000

44. The Publish or Perish Printing Company paid a dividend to stockholders. This will be reported on the:

- A. audit report.
- B. income statement.
- C. balance sheet.
- D. statement of retained earnings.

45. Which of the following is not true?

- A. $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$
- B. $\text{Liabilities} = \text{Assets} - \text{Stockholders' Equity}$
- C. $\text{Stockholders' Equity} + \text{Liabilities} - \text{Assets} = 0$
- D. $\text{Liabilities} - \text{Stockholders' Equity} = \text{Assets}$

46. Which of the following would affect stockholders' equity?

- A. A company borrows \$100 million and buys \$100 million in equipment.
- B. A company pays \$100 million to stockholders as a dividend.
- C. A company sells \$100 million in assets for \$100 million cash.
- D. A company receives payment for \$100 million in accounts receivable.

47. At the end of last year, the company's assets totaled \$860,000 and its liabilities totaled \$740,000. During the current year, the company's total assets increased by \$58,000 and its total liabilities increased by \$24,000. At the end of the current year, stockholders' equity was

- A. \$154,000.
- B. \$120,000.
- C. \$34,000.
- D. \$178,000.

48. A company's balance sheet contained the following information:

Contributed Capital	\$12,000	Total Assets	\$176,000
Accounts Payable	\$64,000	Retained Earnings	\$28,000

Assume Notes Payable is the only other item on the balance sheet. Notes Payable must equal

- A. \$200,000.
- B. \$8,000.
- C. \$72,000.
- D. \$344,000.

49. During its first year of operations, Widgets Incorporated reported sales revenue of \$386,000 but collected only \$303,000 from customers. The amount to be reported as accounts receivable at the end of the year is

- A. \$689,000.
- B. \$386,000.
- C. \$303,000.
- D. \$83,000.

50. If XYZ Company had \$12 million in revenue and net income of \$3 million then its:

- A. expenses must have been \$15 million.
- B. expenses must have been \$9 million.
- C. assets must have been \$12 million.
- D. assets must have been \$3 million.

51. The Whackem-Smackem Software Company sold \$11 million of computer games in its first year of operations. The company received payments of \$7.5 million for these computer games. The company's income statement would report:

- A. sales revenue of \$7.5 million.
- B. accounts receivable of \$3.5 million.
- C. expenses of \$3.5 million.
- D. sales revenue of \$11 million.

52. Dividends are reported on the:

- A. Income statement.
- B. Balance sheet.
- C. Statement of retained earnings.
- D. Income statement and balance sheet.

53. Which of the following would not affect a company's net income?

- A. A change in the company's income taxes.
- B. Changing the selling price of a company's product.
- C. Paying a dividend to stockholders.
- D. Advertising a new product.

54. Which of the following would be reported on the income statement for 2010?

- A. Supplies that were purchased and used in 2009 but paid for in 2010.
- B. Dividends that were paid in 2010.
- C. Supplies that were purchased, used, and paid for in 2010.
- D. Supplies that were purchased in 2009 and paid for in 2010 but have not been used.

55. Find the missing data.

CINNAMON AND SPICE, INC.

Income Statement

For the Year Ended December 31, 2010

Revenues	
Sales Revenue	\$3,810,200
Total Revenues	<u> ?</u>
Expenses	
Wages Expense	1,314,900
Advertising and Promotion Expenses	482,200
Other Selling and Administrative Expenses	?
Interest Expense	225,600
Income Tax Expense	117,700
Other Expenses	<u>253,700</u>
Total Expenses	<u>3,445,600</u>
Net Income	<u><u> ?</u></u>

- A. Total revenues are \$3,810,200, other selling and administrative expenses are \$1,051,500, and net income is \$364,600.
- B. Total revenues are \$2,495,300, other selling and administrative expenses are \$1,051,500, and net income is (\$950,300).
- C. Total revenues are \$364,600, other selling and administrative expenses are \$3,081,000, and net income is \$7,255,800.
- D. Total revenues are \$3,810,200, other selling and administrative expenses are \$364,600, and net income is \$7,255,800.

56. Which of the following is a true statement?

- A. The SEC approves the rules used by the auditors in determining whether a public company's financial statements are in conformity with GAAP.
- B. The PCAOB and the SEC were both created by the FASB.
- C. The SEC was created by the PCAOB.
- D. The PCAOB approves the rules used by auditors in determining whether a public company's financial statements are in conformity with GAAP.

57. Which inference may be considered incorrect concerning the Statement of Retained Earnings?

HOOPER'S HOPS

Statement of Retained Earnings

For the Year Ended December 31, 2010

Retained Earnings, January 1, 2010	\$167,800
Net Income for 2010	219,100
Dividends for 2010	<u>(36,400)</u>
Retained Earnings, December 31, 2010	<u>\$350,500</u>

- A. Retained earnings of \$350,500 will appear on the balance sheet as of December 31, 2010.
- B. The net income in the above statement came from the income statement for the year ending December 31, 2010.
- C. Dividends are shown in parenthesis because they are distributions made by a company to its stockholders as a return on their investment.
- D. Retained earnings represents the amount of cash at the end of 2010.

58. Which of the following statements is true?

- A. The "net change in cash" reported on the statement of cash flows is also reported on the statement of retained earnings.
- B. Both the income statement and the statement of cash flows show the result of a company's operating activities.
- C. The statement of cash flows is for a period of time while the income statement is at a point in time.
- D. The statement of cash flows is at a point of time while the income statement is for a period of time.

GIL'S FISHING EQUIPMENT, INC.

Statement of Cash Flows

For the Year Ended December 31, 2010

Cash flows from operating activities	
Cash collected from customers	A
Cash paid to suppliers and employees	B
Cash paid for other operating activities	<u>C</u>
Net cash flow from operating activities	
Cash flows from investing activities	
Cash paid to purchase equipment and other assets	D
Cash received from selling equipment and other assets	<u>E</u>
Net cash flow from investing activities	
Cash flows from financing activities	
Cash paid on notes payable	F
Cash paid for dividends	<u>G</u>
Net cash flow from financing activities	
Net change in cash during the year	
Cash at beginning of year	
Cash at end of year	

59. In the above statement of cash flows, which letters represent cash outflows?

- A. B, C, D, F and G.
- B. A, E and G.
- C. B, C, E and F.
- D. A, E, F and G.

60. In the above statement of cash flows, which letters represent cash inflows?

- A. B, C, D, F and G.
- B. A, E and G.
- C. B, C, E and F.
- D. A and E.

61. In the statement of cash flows, the company's payment of a \$1,900 electric bill would be classified as:

- A. an operating cash outflow.
- B. a financing cash outflow.
- C. an investing cash inflow.
- D. an investing and a financing cash flow.

62. In the U.S., generally accepted accounting principles are established:

- A. directly by the 1933 Securities Act.
- B. by the Public Company Accounting Oversight Board(PCAOB).
- C. by the Financial Accounting Standards Board(FASB).
- D. by the American Institute of Certified Public Accountants (AICPA).

63. In the U.S., public companies have to be audited by independent auditors using rules approved by the:

- A. 1933 Securities Act.
- B. Public Company Accounting Oversight Board (PCAOB).
- C. Financial Accounting Standards Board (FASB).
- D. American Institute of Certified Public Accountants (AICPA).

64. The purpose of a statement of retained earnings is to:

- A. estimate the current value of a company's assets.
- B. report how the profits of a company have been distributed to stockholders or retained in the business.
- C. show where the money is flowing into and out of a company.
- D. explain the specific revenues and expenses arising during the period.

65. Which of the following is true about the format of financial statements?

- A. A double underline is drawn below the subtotal for total liabilities on the balance sheet.
- B. Dollar signs are omitted if the heading states that amounts are reported in U.S. dollars.
- C. Dividends are reported in parenthesis on the statement of retained earnings.
- D. The heading of each financial statement indicates who, when, and what in that particular order.

66. If a company uses \$50,000 of its cash to buy an asset then:

- A. assets and liabilities will be unchanged.
- B. assets will rise \$50,000 as will liabilities.
- C. assets will rise \$50,000 as will stockholders' equity.
- D. assets will fall \$50,000 and liabilities will rise \$50,000.

67. During 2010, a company's assets rise \$56,000 and its liabilities rise \$38,000. If no dividend is paid and no further capital is contributed, net income for 2010 was:

- A. \$56,000.
- B. \$18,000.
- C. \$94,000.
- D. \$38,000

68. Which of the following is **not** an expense?

- A. Wages of employees.
- B. Interest incurred on a loan the company had taken out.
- C. Dividends.
- D. Corporate income tax.

69. Which of the following statements is not true concerning the notes to the financial statements?
- A. Notes to the financial statements explain what policies were used to prepare the financial statements.
 - B. Notes to the financial statements provide additional information about what is included in the financial statements.
 - C. Notes to the financial statements provide additional information about financial matters that are not included in the financial statements.
 - D. Notes to the financial statements provide financial information about the owners of the business.

70. Every financial statement should have "who, what, and when" in its heading. These are:
- A. the name of the person preparing the statement, the type of financial statement, and when the financial statement was reported to the SEC.
 - B. the name of the person preparing the statement, the name of the company, and the date the statement was prepared.
 - C. the name of the company, the type of financial statement, and the time period or date from which the data were taken.
 - D. the name of the company, the purpose of the statement, and when the financial statement was reported to the IRS.

71. Which of the following is not a difference between notes payable and accounts payable?
- A. Notes payable are not interest free while accounts payable may be interest free.
 - B. Notes payable can remain unpaid longer than accounts payable.
 - C. Notes payable are documented using formal written debt contracts while accounts payable are generally informal.
 - D. Notes payable are not reported as liabilities on the balance sheet while accounts payable are reported as liabilities on the balance sheet.

72. The WC Company borrowed \$26,500 from a bank during 2010.
- A. This would be listed as (\$26,500) under investing activities on the statement of cash flows.
 - B. This would be listed as (\$26,500) under operating activities on the statement of cash flows.
 - C. This would be listed as \$26,500 under investing activities on the statement of cash flows.
 - D. This would be listed as \$26,500 under financing activities on the statement of cash flows.

73. Which of the following would **not** be acceptable as an alternative term used for the income statement?
- A. Statement of Operations.
 - B. Statement of Financial Position.
 - C. Statement of Earnings.
 - D. Profit and Loss Statement.

74. A creditor might look at a company's financial statements to determine if the:

- A. company is likely to have the resources to repay its debts.
- B. company's stock is likely to fall, signaling a good time to sell.
- C. company's stock is likely to rise, signaling a good time to buy.
- D. company's stock is likely to vary up and down.

75. An investor might look at a company's financial statements to determine:

- A. if competitors' earnings are rising or falling.
- B. if the company's stock is likely to fall, signaling a good time to sell.
- C. if the company's creditors are having a good year.
- D. if the company's owners are financially sound.

76. What would a financial statement user learn from reading the auditors' report?

- A. Whether the financial statements present a fair picture of the company's financial results and are prepared in accordance with GAAP.
- B. Whether or not it is a good time to purchase the stock.
- C. What the company plans to distribute as dividends.
- D. Whether or not the company has plans for future expansion.

77. Which of the following business organizations has only one owner?

- A. A corporation.
- B. A sole proprietorship.
- C. A public company.
- D. A partnership.

78. Internal users of financial data include:

- A. investors.
- B. creditors.
- C. management.
- D. regulatory authorities.

79. Investors are often interested in the amount of net income distributed as dividends. In which section of the financial statements would investors look to find this amount?

- A. Statement of retained earnings.
- B. Balance sheet.
- C. Notes to the financial statements.
- D. Income statement.

80. A company's quarterly income statements show that in the last three quarters both sales revenue and net income have been falling. Which of the following conclusions drawn by users are valid, given this information?

- A. Creditors are likely to conclude that the risk of lending to the company is falling and might be willing to accept a lower interest rate on loans.
- B. Investors are likely to conclude that the stock price is likely to rise, making the company more attractive as a potential investment.
- C. Investors are likely to conclude that the company is more attractive as a potential investment.
- D. Owners may conclude that the company will be less likely to distribute dividends.

81. Investors and creditors look at the balance sheet to see whether the company

- A. is profitable.
- B. owns enough assets to pay what it owes to creditors.
- C. has had a positive cash flow from operations.
- D. is paying sufficient dividends to stockholders.

82. To determine whether generally accepted accounting principles (GAAP) were followed in the preparation of financial statements, an examination of:

- A. tax documents would be performed by the IRS.
- B. the annual report would be performed by the SEC.
- C. the financial statements and related documents would be performed by an independent auditor.
- D. the financial statements and related documents would be performed by the FASB.

83. Generally accepted accounting principles (GAAP) were (are) established by:

- A. an Italian monk in 1494.
- B. the U.S. Congress in 1933.
- C. the PCAOB in 2004.
- D. the FASB.

84. Which of the following statements is false?

- A. When choosing between a company that pays steady dividends and one that retains its earnings to support future growth, investors will always choose the company that pays steady dividends.
- B. Companies can develop reputations for honest financial reporting even when conveying bad news.
- C. Trends in a company's net income from year to year can provide clues about its future earnings, which can help investors to decide whether to buy stock in the company.
- D. Information in the notes to the financial statements can influence a user's interpretation of balance sheet and income statement information.

A company started the year with the following: Assets \$100,000; Liabilities \$30,000; Contributed Capital \$60,000; Retained Earnings \$10,000.

During the year the company earned revenue of \$5,000, all of which was received in cash, and incurred expenses of \$3,000, all of which was unpaid as of the end of the year. In addition, the company paid dividends of \$1,000 to owners. Assume no other activities occurred during the year.

85. What was the amount of net income for the year?

- A. \$2,000
- B. \$1,000
- C. \$3,000
- D. \$5,000

86. The amount of Retained Earnings at the end of the year is

- A. \$15,000.
- B. \$11,000.
- C. \$12,000.
- D. \$1,000.

87. The amount of liabilities at the end of the year is

- A. \$30,000.
- B. \$33,000.
- C. \$28,000.
- D. \$32,000.

88. The amount of Assets at the end of the year is

- A. \$105,000.
- B. \$108,000.
- C. \$104,000.
- D. \$107,000.

89. Which of the following would not be reported on the Balance Sheet for a company?

- A. Accounts receivable
- B. Accounts payable
- C. Advertising expense
- D. Cash

90. A company sold goods to customers and received cash. Choose the FALSE statement.

- A. Revenue will increase on the income statement.
- B. Assets will increase on the balance sheet.
- C. Stockholders' equity will increase on the balance sheet.
- D. Expenses will decrease on the income statement.

91. A company incurred \$2,000 for utilities for the last month of the year. The company has not paid this bill yet. Choose the TRUE statement.

- A. \$2,000 should be reported on the income statement as Utilities Expense.
- B. Nothing should be reported about this in the current year's financial statements.
- C. \$2,000 should be reported as Accounts receivable on the Balance Sheet at the end of the year.
- D. \$2,000 should be reported as Utilities Expense on the Balance Sheet at the end of the year.

92. A company began the year with Assets of \$100,000, Liabilities of \$20,000 and Stockholders' equity of \$80,000. During the year Assets increased \$55,000 and stockholders' equity increased \$20,000. What was the change in Liabilities for the year?

- A. Increase of \$75,000
- B. Increase of \$35,000
- C. Decrease of \$75,000
- D. Decrease of \$35,000

93. For the current year, the first year of operations, a company sold \$100,000 of goods to customers and received \$90,000 in cash from customers. The remainder is owed to the company at the end of the year. The company incurred \$70,000 in expenses for the year and paid \$65,000 of these in cash. The remainder is owed by the company at the end of the year. Based on this information, what is the amount of net income for the year?

- A. \$25,000
- B. \$35,000
- C. \$20,000
- D. \$30,000

94. At the end of the current year, a company purchased and paid cash of \$100,000 for a piece of equipment to be used for several years in the business. Choose the TRUE statement.

- A. On the Statement of Cash Flows, \$100,000 will be shown as a cash inflow from investing activities.
- B. On the Statement of Cash Flows, \$100,000 will be shown as a cash outflow from financing activities.
- C. On the Balance Sheet at the end of the year, Total Assets will not change as a result of this purchase.
- D. On the Income Statement, \$100,000 will be reported as Equipment Expense.

95. A company incurred \$5,000 in wages for employees for the year. \$4,500 of these wages were paid by the end of the year. Choose the TRUE statement.
- A. Wages payable on the income statement will be \$4,500.
 - B. Wages expense on the income statement will be \$500.
 - C. Wages expense on the balance sheet will be \$5,000.
 - D. Wages payable on the balance sheet will be \$500.
96. A company issued stock to investors for cash of \$50,000. Choose the TRUE statement.
- A. Cash will increase \$50,000 and contributed capital will increase \$50,000.
 - B. Cash will decrease \$50,000 and retained earnings will decrease \$50,000.
 - C. Cash will increase \$50,000 and retained earnings will increase \$50,000.
 - D. Cash will decrease \$50,000 and contributed capital will increase \$50,000.
97. Which of the following statements about organizational forms of a business is FALSE?
- A. In a sole proprietorship form of business or in a partnership form, the owner(s) are personally responsible for the debts of the business.
 - B. The partnership agreement states how profits are to be shared between partners and what happens when a new partner is to be admitted or an existing partner is retiring.
 - C. A corporation is a separate entity from both a legal and accounting perspective.
 - D. The owners of a corporation are legally responsible for the corporation's debts and taxes.
98. A legal document called a stock certificate is used to indicate ownership in a
- A. Corporation
 - B. Sole proprietorship
 - C. Partnership
 - D. Both sole proprietorship and partnership
99. Stockholders' equity is
- A. a liability of the business.
 - B. an economic resource controlled by the business.
 - C. the owners' claims on the business.
 - D. the profit generated by the business.
100. The Income Statement
- A. reports the amount of Assets of a company.
 - B. reports results of operations in physical measures.
 - C. reports the amount of profit distributed to owners during the period.
 - D. reports the amount of revenues earned and expenses incurred during the period.

101. Which of the following statements concerning financial reporting is FALSE?

- A. Accounting rules in the U.S. are called GAAP.
- B. Accounting rules developed by the IASB are called IFRS.
- C. Both GAAP and IFRS share the same goal which is to ensure useful information to users of financial statements.
- D. There are no differences between the accounting rules developed by FASB and those developed by IASB.

102. Which of the following statements concerning financial reporting is TRUE?

- A. The FASB requires all financial decision makers to adhere to a code of professional conduct.
- B. The Sarbanes-Oxley Act does not require businesses to maintain an audited system of internal control.
- C. A fundamental characteristic of useful financial information is that it fully depicts the economic substance of business activities.
- D. There is no attempt to eliminate the difference in accounting rules in the U.S. and elsewhere as this would not allow investors to more easily compare financial statements of companies from different countries.

103. The statement of cash flows shows the following information:

Cash Flows from operating activities	\$16,500
Cash Flows from investing activities	(\$8,400)
Cash Flows from financing activities	(\$2,900)

The beginning cash was \$14,000.

What is the amount of cash at the end of the period?

- A. \$41,800
- B. \$30,500
- C. \$8,800
- D. \$19,200

104. Which of the following would not appear as a possible asset on the balance sheet?

- A. Accounts receivable
- B. Supplies
- C. Retained earnings
- D. Cash

105. Which of the following would not appear as a possible liability on the balance sheet?

- A. Accounts payable
- B. Retained earnings
- C. Notes payable
- D. Wages payable

106. The statement of cash flows for a company contained the following:

Cash Flows from Operating activities	\$29,000
Cash Flows from Investing activities	\$30,000
Cash Flows from Financing activities	(\$45,000)

What was the change in cash for the period?

- A. \$14,000 increase
- B. \$15,000 increase
- C. \$14,000 decrease
- D. \$15,000 decrease

A company's financial records at the end of the year were as follows:

Cash	\$70,000
Accounts receivable	28,000
Supplies	4,000
Accounts payable	10,000
Notes payable	5,000
Retained earnings, beginning of period	17,000
Contributed capital	40,000
Service Revenue	53,000
Wages expense	8,000
Advertising expense	5,000
Rent expense	10,000

107. What is the amount of net income on the income statement for the year?

- A. \$30,000
- B. \$38,000
- C. \$88,000
- D. \$47,000

108. What is the amount of total assets to be reported on the balance sheet at the end of the year?

- A. \$112,000
- B. \$102,000
- C. \$119,000
- D. \$155,000

109. What is the amount of total stockholders' equity that would be reported on the Balance Sheet at the end of the year?

- A. \$30,000
- B. \$57,000
- C. \$87,000
- D. \$102,000

A company began the year with assets of \$100,000 and liabilities of \$75,000. During the year assets increased by \$12,000 and liabilities decreased by \$9,000.

110. What is the amount of stockholders' equity at the beginning of the year?

- A. Zero
- B. \$25,000
- C. \$175,000
- D. \$100,000

111. What is the amount of the change in stockholders' equity during the year?

- A. \$3,000 increase
- B. \$21,000 increase
- C. \$21,000 decrease
- D. \$3,000 decrease

112. In this period, a company recorded sales revenue of \$50,000 from sales of goods to customers who agreed to pay later. In the next period, the company received payment from customers of \$45,000. Choose the TRUE statement.

- A. Revenue for this period is \$45,000.
- B. Accounts receivable at the end of this period is \$5,000.
- C. Accounts payable at the end of this period is \$5,000.
- D. Cash for next period will increase by \$50,000.

113. Investing activities on the Statement of Cash Flows are

- A. transactions with lenders, borrowing and repaying cash.
- B. transactions with stockholders, selling company stock and paying dividends.
- C. activities directly related to running the business to earn profit.
- D. buying and selling productive resources with long lives.

114. Faithful representation is a characteristic of external financial reporting that means

- A. the financial reports of a business are assumed to include the results of only that business's activities.
- B. financial information can be compared across businesses because similar accounting methods are applied.
- C. the results of business activities are reported using an appropriate monetary unit.
- D. financial information depicts the economic substance of business activities.

115. Relevance is an objective of external financial reporting and means

- A. the financial reports of a business are assumed to include the results of only that business's activities.
- B. financial information can be compared across businesses because similar accounting methods have been applied.
- C. the financial information possesses a feature that allows it to influence a decision.
- D. the financial information depicts the economic substance of business activities.

116. The separate entity assumption means

- A. the financial information depicts the economic substance of the business activities.
- B. the financial reports of a business are assumed to include the results of only that business's activities.
- C. the results of business activities are reported in an appropriate monetary unit.
- D. the financial information can be compared across businesses because similar accounting methods have been applied.

117. Assets reported on the balance sheet would include which of the following?

- A. Accounts receivable, sales revenue and cash
- B. Equipment, supplies expense and cash
- C. Accounts payable, retained earnings and cash
- D. Accounts receivable, equipment and cash

118. Liabilities on the balance sheet would include which of the following?

- A. Accounts payable, notes payable and contributed capital
- B. Accounts receivable, supplies expense and retained earnings
- C. Accounts payable, notes payable and wages payable
- D. Contributed capital, retained earnings and notes payable

119. Which of the following statements is FALSE?

- A. Cash flows from financing activities would appear on the Statement of Cash Flows.
- B. Dividends would appear on the Statement of Retained Earnings.
- C. Assets would appear on the Income Statement.
- D. Revenues would appear on the Income Statement.

The first year of operations for a company was 2010. The net income for the year 2010 was \$20,000 and dividends of \$12,000 were paid. In 2011, the company reported net income of \$34,000 and paid dividends of \$5,000. At the end of 2010, the company had total assets of \$150,000, and at the end of 2011, total assets were \$240,000.

120. What was the amount of retained earnings at the end of 2010?

- A. \$20,000
- B. \$8,000
- C. \$150,000
- D. \$155,000

121. What is the amount of retained earnings at the end of 2011?

- A. \$37,000
- B. \$240,000
- C. \$29,000
- D. \$269,000

The following accounts are taken from the December 31, 2011 financial statements of a company.

Accounts payable	\$ 2,075
Accounts receivable	800
Selling & Administrative expenses	2,500
Cash	2,200
Contributed capital	2,000
Dividends	1,900
Income tax expense	400
Interest expense	75
Other expenses	500
Notes payable	5,000
Other assets	2,500
Other liabilities	3,000
Other operating expenses	2,000
Other revenue	300
Property and equipment	11,000
Retained earnings as of December 31, 2010	4,800
Salaries expense	3,000
Supplies	300
Service revenue	10,000

122. What is the amount of net income for the year 2011?

- A. \$3,825
- B. \$1,825
- C. \$10,300
- D. \$5,625

123. What is the amount of total assets at the end of 2011?

- A. \$16,800
- B. \$16,500
- C. \$21,600
- D. \$23,500

124. What is the amount of total liabilities at the end of 2011?

- A. \$7,075
- B. \$10,075
- C. \$9,075
- D. \$12,975

125. What is the amount of retained earnings on the Balance Sheet at the end of 2011?

- A. \$7,725
- B. \$6,725
- C. \$4,800
- D. \$4,725

126. Choose the TRUE statement.

- A. A company with Net Income will also have a cash increase from operating activities.
- B. A company with Liabilities of \$80,000 and Stockholders' equity of \$50,000 will have Assets of \$30,000.
- C. If a company has total revenues of \$80,000, total expenses of \$50,000 and dividends of \$10,000, they will have net income of \$20,000.
- D. A company with total stockholders' equity of \$120,000 and \$75,000 of contributed capital must have total retained earnings of \$45,000.

127. At the end of the current year, a company paid cash to acquire a storage facility with plans to use it in its business activities for several years. Choose the TRUE statement.

- A. In the current year, total assets will decrease and stockholders' equity will decrease.
- B. In the current year, total assets will decrease and stockholders' equity will increase.
- C. This year, this activity will be reported as a cash outflow from investing activities on the Statement of Cash Flows.
- D. This year, this activity will not result in any changes to the balance sheet or the income statement.

128. Which of the following would be reported on the income statement for the year?

- A. The amount of Cash at the end of the year.
- B. The amount of Supplies used up during the current year.
- C. The amount of dividends distributed to owners during the current year.
- D. The amount of unpaid employee wages at the end of the year.

129. Which of the following would be reported on the income statement for the current year?

- A. In the current year, the company sold goods to customers who agreed to pay next year.
- B. In the current year, the company received payment in cash for goods that were sold to customers last year.
- C. In the current year, the company borrowed money from the bank which is to be used in the business activities this year.
- D. In the current year, the company issued stock to owners and received cash immediately.

At the end of last year, a company had Assets of \$300,000 and Liabilities of \$125,000. During the current year the company paid cash to acquire equipment at a cost of \$50,000, borrowed \$70,000 signing a formal contract with the bank, and issued \$100,000 of stock to owners receiving cash immediately. During the current year the company paid \$30,000 of dividends to owners.

130. What was the amount of the change in Assets during the year?

- A. Increase \$190,000
- B. Increase \$140,000
- C. Increase \$70,000
- D. Increase \$90,000

131. What was the amount of the change in liabilities during the year?

- A. Increase of \$100,000
- B. Increase of \$40,000
- C. Increase of \$70,000
- D. Increase of \$170,000

A company started the current year with assets of \$700,000, liabilities of \$350,000 and contributed capital of \$200,000. During the current year, assets increased by \$400,000, liabilities decreased by \$50,000 and contributed capital increased by \$275,000. There was no payment of dividends to owners during the year.

132. Based on this information, what was the amount of retained earnings at the beginning of the year?

- A. \$150,000
- B. \$0
- C. \$550,000
- D. \$350,000

133. What was the amount of the change in total stockholders' equity during the year?

- A. \$350,000 increase
- B. \$450,000 increase
- C. \$250,000 increase
- D. \$200,000 increase

134. What was the amount of net income for the year?

- A. \$225,000
- B. \$275,000
- C. \$175,000
- D. \$450,000

The Statement of Cash Flows for the current year contained the following:

Cash Inflow from customers	\$10,000
Cash Outflow from purchase of equipment	\$40,000
Cash Inflow from capital contributed by stockholders	\$30,000
Cash Outflow from payments to suppliers & employees	\$ 5,000
Cash Outflow from payment of dividends to stockholders	\$ 1,000
Cash Inflow from borrowing from the bank	\$20,000

The change in cash for the current year was an increase of \$14,000.

135. What was the amount of Cash Flows from Operating Activities?

- A. Cash inflow of \$5,000
- B. Cash inflow of \$35,000
- C. Cash inflow of \$25,000
- D. Cash inflow of \$4,000

136. What was the amount of Cash Flows from Investing Activities?

- A. Cash Outflow of \$1,000
- B. Cash Outflow of \$40,000
- C. Cash Outflow of \$10,000
- D. Cash Inflow of \$10,000

137. What is the amount of Cash Flows from Financing Activities?

- A. Cash outflow of \$40,000
- B. Cash inflow of \$5,000
- C. Cash inflow of \$49,000
- D. Cash inflow of \$10,000

The table shows financial data for Purrfect Pets, Inc. as of June 30, 2010.

Accounts Receivable	\$419,200
Retained Earnings	117,900
Inventories	58,400
Other Assets	69,400
Accounts Payable	349,200
Property, Plant and Equipment	118,500
Cash	732,600
Contributed Capital	662,100
Notes Payable	268,900

138. Prepare a balance sheet using these data.

139. Fill in the missing items in the balance sheet.

PURRFECT PETS, INC.
BALANCE SHEET
SEPTEMBER 30, 2010

Assets	
Cash	\$743,800
Accounts Receivable	?
Inventories	54,900
Property, Plant and Equipment	119,300
Other Assets	<u>71,400</u>
Total Assets	<u>\$ _____ ?</u>
Liabilities	
Accounts Payable	\$342,500
Notes Payable	<u>?</u>
Total Liabilities	<u>607,600</u>
Stockholders' Equity	
Contributed Capital	662,100
Retained Earnings	<u>?</u>
Total Equity	<u>789,400</u>
Total Liabilities and Stockholders' Equity	<u>\$ _____ ?</u>

140. Calculate the net income for the Green Thumb, Inc. Then, assuming the company had retained earnings of \$162,000 as of January 1, 2010, and paid out \$46,000 in dividends during the year, prepare its statement of retained earnings.

GREEN THUMB, INC.

Income Statement

For the Year Ended December 31, 2010

Revenues

Sales Revenue	\$1,865,300
Total Revenues	<u>1,865,300</u>

Expenses

Wages Expense	724,800
Advertising and Promotion Expenses	262,500
Other Selling and Administrative Expenses	350,800
Interest Expense	43,900
Income Tax Expense	56,500
Other Expenses	<u>122,400</u>
Total Expenses	<u>1,560,900</u>

Net Income \$ _____ ?

141. Each of the following independent companies is missing numerical data. Use your knowledge of the financial statement equations and their interrelationships to fill in the missing amounts.

Company	Total Revenues	Total Expenses	Net Income (Loss)	Total Assets	Total Liabilities	Stockholders' Equity
Alpha Co.	\$60,000	\$	\$20,000	\$	\$33,000	\$66,000
Bravo, Inc.		100,000	(30,000)		92,000	38,000
Charlie Co.	30,000	10,000		60,000	40,000	

142. Use the following 2010 data to prepare the annual income statement for Kvass, Inc.

Other Selling and Administrative Expenses	\$1,050,300
Other Expenses	247,600
Sales Revenue	4,885,300
Advertising and Promotion Expenses	552,500
Wages Expense	2,524,400
Income Tax Expense	166,500
Interest Expense	113,900

143. Following is a list of financial statement items and amounts for Tim Burr's Tree Service as of 12/31/10, the end of its first year in operation. Use this information to prepare the Income Statement, Statement of Retained Earnings, and Balance Sheet.

Accounts Receivable	\$40,000
Accounts Payable	30,000
Cash	10,000
Contributed Capital	20,000
Notes Payable	10,000
Equipment	50,000
Service Revenue	100,000
Fuel Expense	10,000
Rent Expense	15,000
Advertising Expense	5,000
Wages Expense	20,000
Retained Earnings	?
Dividends	10,000

144. Match the category of business activity to the specific business action.

- | | | |
|-----------------------|---|-------|
| 1. Financing activity | The purchase of a new line of assembly equipment. | _____ |
| 2. Operating activity | Company payment of a dividend. | _____ |
| 3. Operating activity | The purchase of office supplies. | _____ |
| 4. Investing activity | The purchase of advertising time by the company. | _____ |
| 5. Investing activity | The building of a new factory. | _____ |
| 6. Financing activity | Company payment on a bank loan. | _____ |

145. Match the characteristic of the company with the description of the type of company.

- | | | |
|---------------------------------|--|-------|
| 1. Publicly traded corporation | Issues shares of stock that are traded on a stock exchange such as the NYSE. | _____ |
| 2. Publicly traded corporation | Owners are personally liable for the debts of the company. | _____ |
| 3. Privately traded corporation | Shares of stock must be purchased directly from current owners. | _____ |
| 4. Partnership | Can raise more financial capital by selling stock to the greatest number of investors. | _____ |

146. Match the lettered terms to the blanks below to complete the relevant formula for each financial statement.

- A. Cash at beginning of year
- B. Net cash flow from operating activities
- C. Balance of retained earnings from previous year
- D. Net cash flow from investing activities
- E. Liabilities
- F. Net cash flow from financing activities
- G. Balance of retained earnings at end of year
- I Net income
- J. Revenue
- K. Assets
- L. Stockholders' equity
- M. Expenses
- N. Cash at end of year
- O. Dividends paid

A letter may be used more than once. Use the blank on the left side of the equal sign for the "bottom line" number that is reported at the end of each financial statement. Rearrange the formula if necessary.

- | | |
|--------------------------------|---------------------------------------|
| Balance Sheet | _____ = _____ + _____ |
| Income Statement | _____ = _____ - _____ |
| Statement of Retained Earnings | _____ = _____ + _____ - _____ |
| Statement of Cash Flows | _____ = _____ ± _____ ± _____ + _____ |

147. Each item in the statement of retained earnings can appear on another financial statement. Match the letter of the financial statement with the item in the statement of retained earnings.

- | | | |
|-------------------------------------|--------------------------------------|-------|
| 1. Income statement for 2010 | Retained earnings, January 1, 2010 | _____ |
| 2. Balance sheet at end of 2009 | Net income for 2010 | _____ |
| 3. Balance sheet at end of 2010 | Dividends for 2010 | _____ |
| 4. Statement of cash flows for 2010 | Retained earnings, December 31, 2010 | _____ |

148. Match the organization with the description that best reflects it. (There are more descriptions than organizations.)

- | | | |
|---|-------|-------|
| 1. The U.S. agency that certifies foreign accounting firms to practice in the US | SEC | _____ |
| 2. The rules of accounting in the U.S. | GAAP | _____ |
| 3. Created in 1933, this organization regulates activities associated with the stock market such as the reporting of financial data by publicly owned companies | PCAOB | _____ |
| 4. The U.S. board that approves the rules for auditing publicly owned companies | FASB | _____ |

149. Match the term and the explanation. (There are more explanations than terms.)

- | | | |
|--|--------------------|-------|
| 1. Day to day events involved in the production and sales of a company's goods or services | investors | _____ |
| 2. The idea that a company should report its financial data in the relevant currency. | audit | _____ |
| 3. The total amount of profits that are kept by the company. | balance sheet | _____ |
| 4. A financial statement that shows a company's revenues and expenses. | operating activity | _____ |
| 5. An example of external users of financial statements | unit of measure | _____ |
| 6. Events involving the purchase or sale of long-term assets, like property and equipment | concept | _____ |
| 7. A procedure by which independent evaluators assess the accounting procedures and financial reports of a company | retained earnings | _____ |
| 8. A financial statement showing a company's assets, liabilities and stockholders' equity | investing activity | _____ |
| | income statement | _____ |

ch1 Key

1. Building a new warehouse is an operating activity.

FALSE

It is an investing activity.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #1
Topic Area: Statement of Cash Flows

2. The payment of dividends is a financing activity.

TRUE

Payment of dividends to company's stockholders is a financing activity.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #2
Topic Area: Statement of Cash Flows

3. Daily activities involved in running a business such as buying supplies and paying wages are operating activities.

TRUE

Supplies and wages are normal operating costs.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #3
Topic Area: Statement of Cash Flows

4. Financing activities include borrowing money from a financial institution and obtaining money by issuing shares of ownership (called stock certificates).

TRUE

These are financing activities.

*AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #4
Topic Area: Statement of Cash Flows*

5. Stockholders are creditors of a company.

FALSE

They are the owners of a company.

*AACSB: analytic skills
AICPA BB: legal
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 1
Phillips - Chapter 01 #5
Topic Area: Business decision makers*

6. All corporations acquire financing by issuing shares of ownership (called stock certificates) for sale on public stock exchanges.

FALSE

Privately owned corporations do not sell stock publicly.

*AACSB: analytic skills
AICPA BB: legal
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 1
Phillips - Chapter 01 #6
Topic Area: Organizational forms*

7. You paid \$10,000 to buy 1% of the stock in a corporation that has now gone bankrupt. The company owes \$10 million dollars to creditors. As a result of the bankruptcy, you will lose \$100,000.

FALSE

Owners of a corporation are not liable for the debts of the company.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: measurement

Blooms: application

Difficulty: Medium

Learning Objective: 1

Phillips - Chapter 01 #7

Topic Area: Organizational forms

8. The stockholders' equity of a company is the difference between assets and liabilities.

TRUE

Assets = Liabilities + Stockholders' Equity, therefore, Assets - Liabilities = Stockholders' Equity

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #8

Topic Area: Accounting equation

9. A company owes \$200,000 on a bank loan. If this loan is documented using a formal written debt contract, it will be reported as a liability called Notes Payable.

TRUE

Formal debt, evidenced by a written contract or note, is reported as notes payable as opposed to informal debt which is reported as accounts payable.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #9

Topic Area: Financial statements

10. The accounting decisions that were made when preparing a company's financial statements are explained in the auditor's report.

FALSE

Accounting decisions made when preparing financial statements are explained in the notes to the financial statements, not the auditor's report.

*AACSB: analytic skills
AICPA BB: legal
AICPA FN: reporting
Blooms: knowledge
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #10
Topic Area: Financial reporting*

11. Accounts payable, notes payable and wages payable are examples of liabilities.

TRUE

Anything with the word "payable" in the title is reported as liabilities.

*AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #11
Topic Area: Financial statements*

12. Expenses are the costs incurred in doing business which are necessary to earn revenue.

TRUE

Expenses are the costs of activities that have occurred in the business which are necessary in generating revenue.

*AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: knowledge
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #12
Topic Area: Financial statements*

13. For a new business, the beginning balance of Retained Earnings is zero.

TRUE

There can not be any retained earnings from earlier periods since the business is new.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: knowledge
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #13
Topic Area: Financial statements

14. If a company reports net income on the income statement, then the statement of cash flows must show an increase in cash flows from operating activities for the period.

FALSE

Net income is not the same as cash flows from operating activities.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: measurement
Blooms: comprehension
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #14
Topic Area: Financial statements

15. In the United States, generally accepted accounting principles (GAAP) are established by the PCAOB (Public Company Accounting Oversight Board).

FALSE

GAAP rules in the United States are established by the Financial Accounting Standards Board (FASB).

AACSB: analytic skills
AICPA BB: legal
AICPA FN: reporting
Blooms: knowledge
Difficulty: Easy
Learning Objective: 4
Phillips - Chapter 01 #15
Topic Area: Regulatory environment

16. The Securities and Exchange Commission (SEC) is the government agency that has jurisdiction over public companies in the United States.

TRUE

The SEC oversees public offerings of stock in the United States.

*AACSB: analytic skills
AICPA BB: legal
AICPA FN: reporting
Blooms: knowledge
Difficulty: Easy
Learning Objective: 4
Phillips - Chapter 01 #16
Topic Area: Regulatory environment*

17. The Sarbanes-Oxley Act (SOX) requires top management of companies to sign a report certifying their responsibilities for financial statements.

TRUE

SOX identifies primary responsibility for financial statements to rest with top management.

*AACSB: analytic skills
AICPA BB: legal
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 4
Phillips - Chapter 01 #17
Topic Area: Regulatory environment*

18. Revenue is reported on the income statement only if cash was received at the point of sale.

FALSE

Revenue is reported on the income statement when goods or services are provided to customers which may not be the same time as when cash is received.

*AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #18
Topic Area: Financial statements*

19. Accounts payable and accounts receivable are reported on the income statement.

FALSE

Accounts payable is a liability and accounts receivable is an asset. Both are reported on the balance sheet, not the income statement.

*AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #19
Topic Area: Income Statement*

20. Contributed Capital is an asset on the balance sheet.

FALSE

Contributed capital is a component of stockholders' equity.

*AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #20
Topic Area: Balance Sheet*

ANONYMOUS, INC.
BALANCE SHEET
SEPTEMBER 30, 2010

Assets	
Cash	\$1,568,000
Accounts Receivable	310,500
Inventories	208,200
Property, Plant & Equipment	391,600
Other Assets	<u>869,400</u>
Total Assets	<u>\$3,347,700</u>
Liabilities	
Accounts Payable	\$1,439,200
Notes Payable	<u>?</u>
Total Liabilities	<u>?</u>
Stockholders' Equity	
Contributed Capital	1,263,600
Retained Earnings	<u>207,100</u>
Total Stockholders' Equity	<u>1,470,700</u>
Total Liabilities & Stockholders' Equity	<u>\$3,347,700</u>

Phillips - Chapter 01

21. What is the missing amount for Total Liabilities?

- A. \$3,347,700
- B. \$1,439,200
- C. \$1,470,700
- D. \$1,877,000**

Total Assets = Total Liabilities + Total Stockholders' Equity

\$3,347,700 = Total Liabilities + \$1,470,700

\$1,877,000 = Total Liabilities

AACSB: analytic

AICPA BB: resource management

AICPA FN: measurement

Blooms: analysis

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #21

Topic Area: Balance Sheet

22. What is the missing amount for Notes Payable?

- A. \$207,100
- B. \$437,800**
- C. \$1,439,200
- D. \$3,347,700

Total Liabilities = Total Assets - Total Stockholders' Equity. There is only one other liability, accounts payable, so Notes Payable is equal to Total Liabilities - Accounts Payable.

Total Liabilities = Accounts Payable + Notes Payable

\$1,877,000 = \$1,439,200 + Notes Payable

\$437,800 = Notes Payable

AACSB: analytic

AICPA BB: resource management

AICPA FN: measurement

Blooms: analysis

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #22

Topic Area: Balance Sheet

23. How many of the following statements regarding the balance sheet for Anonymous Inc. are true?

- The \$207,100 shown on the balance sheet has been distributed to stockholders as dividends.
- Retained Earnings is misclassified. It should be reported as an Asset.
- Anonymous, Inc., is owed \$310,500 from customers who have purchased goods or services from the company, but have not yet paid for them.

A. None

B. One

C. Two

D. Three

\$310,500 is the amount of Accounts Receivable which is the amount that customers owe to Anonymous, that is, what is receivable to them.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: analysis

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #23

Topic Area: Balance Sheet

24. As of September 30, 2010, which source provided more financing for Anonymous, Inc.?

A. owners

B. creditors

C. both provided equal financing

D. neither provided any financing

Total Liabilities (creditor financing) is greater than Total Stockholders' Equity (owner financing).

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: analysis

Difficulty: Medium

Learning Objective: 3

Phillips - Chapter 01 #24

Topic Area: Financial Statement relevance to users

25. Net Income is

- A. the amount the company earned after expenses and dividends are subtracted from revenue.
- B. the amount by which assets exceed expenses.
- C. the amount by which assets exceed liabilities.
- D.** the amount by which revenues exceed expenses.

Dividends are not expenses of doing business and are not involved in determining the amount of net income on the income statement. Net income is determined by subtracting expenses incurred from revenues earned during a period of time. Assets and liabilities are reported on the Balance Sheet.

AACSB: analytic

AICPA BB: resource management

AICPA FN: measurement

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #25

Topic Area: Income Statement

26. Expenses are shown

- A. on the income statement in the time period in which they are paid.
- B.** on the income statement in the time period in which they are incurred.
- C. on the balance sheet in the time period in which they are paid.
- D. on the balance sheet in the time period in which they are incurred.

Expenses are reported on the income statement when they are incurred which may not be the same period as when they are paid.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #26

Topic Area: Financial statements

27. Cash flow from investing activities includes

- A. money received from a company's stockholders for the sale of stock.
- B.** money received from the sale of the company's office building.
- C. money paid for dividends to the company's stockholders.
- D. money paid for salaries of employees.

Proceeds from the sale of capital stock and dividends paid to stockholders are financing activities. Paying salaries are operating activities.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #27

Topic Area: Statement of Cash Flows

28. Which of the following would not represent a financing activity?

- A. Paying dividends to stockholders.
- B. An investment of financial capital by the owners.
- C. Borrowing money from a bank to finance the purchase of new equipment.
- D.** Collecting cash from customers.

Paying dividends to stockholders, issuing capital stock and borrowing money from a bank are all financing activities. Collecting cash from customers is an example of cash flow from operating activities.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #28

Topic Area: Statement of Cash Flows

29. Investing activities:

- A. involve day to day events like selling goods and services, which occur when running a business.
- B.** involve the buying or selling of land, buildings, equipment, and other long-term investments.
- C. involve the receipt of interest from short-term investments such as certificates of deposits (CD's).
- D. involve the payment of wages, rent and other costs of running a business.

Cash flows from sales, interest received from short-term investments and paying costs of running a business are operating activities. Buying and selling long-term assets are investing activities.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #29

Topic Area: Statement of Cash Flows

30. Public corporations:

- A. are businesses owned by two or more people, each of whom is personally liable for the debts of the business.
- B.** are businesses whose stock is bought and sold on a stock exchange.
- C. are businesses whose stock is bought and sold privately.
- D. are businesses where stock is not used as evidence of ownership.

Owners of a corporation are not personally liable for the debts of the business. A private corporation is a business whose stock is traded privately. Ownership in a corporation is evidenced by shares of stock. Public corporations are those corporations whose stock is traded on the stock exchanges.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 1

Phillips - Chapter 01 #30

Topic Area: Organizational forms

31. Which of the following would represent an operating activity?

- A. Purchasing equipment with money borrowed from creditors.
- B. An investment of financial capital by the owners.
- C. Buying the company's office supplies.**
- D. Repaying a loan the company had taken out.

Borrowing money from creditors is a financing activity and purchasing equipment is an investing activity. Issuing capital stock to stockholders and repaying debt are financing activities. Buying office supplies to be used in running the business is part of cash flows from operating activities.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #31

Topic Area: Statement of Cash Flows

32. The separate entity assumption means:

- A. a company's financial statements reflect only the business activities of that company.**
- B. each separate owner's finances must be revealed in the financial statements.
- C. each separate entity that has a claim on a company's assets must be shown in the financial statements.
- D. if the business is a sole proprietorship, the owners' personal activities are included in the company's financial statements.

The separate entity assumption states that the financial statements of the business reflect only the activities of the business, not those of the owners, irrespective of the business form.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #32

Topic Area: Financial statements

33. Accounting information systems:

- A. are summarized by reports that are published to the public.
- B.** capture and report the results of a business's operating, investing, and financing activities.
- C. monitor business activities only in financial terms.
- D. capture only the information that is needed by the owners of the company.

The accounting information system gathers information for use by decision makers who may be internal or external and also gathers information in non-financial terms. The owners are just one type of decision maker whose needs are addressed by the accounting information system.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: measurement

Blooms: comprehension

Difficulty: Medium

Learning Objective: 1

Phillips - Chapter 01 #33

Topic Area: Financial information

34. Which of the following would represent an investing activity?

- A.** Purchasing equipment.
- B. An investment of financial capital by the owners.
- C. Borrowing money from a bank.
- D. Repaying a loan the company had taken out.

Issuing capital stock to owners, borrowing money from a bank and repaying a loan are all financing activities.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #34

Topic Area: Statement of Cash Flows

35. Creditors are:

- A. people or organizations who owe money to a business.
- B.** people or organizations to whom a business owes money.
- C. stockholders of a business.
- D. customers of a business.

Creditors are defined from the viewpoint of the business and people who owe money to a business are not the creditors of the business. Stockholders are owners of the business, not creditors of the business. Customers of a business are those who receive services or goods from the business. The term *creditor* describes a person or organization who has a claim on the business because the business owes money to them.

AACSB: analytic

AICPA BB: legal

AICPA FN: reporting

Blooms: knowledge

Difficulty: Medium

Learning Objective: 1

Phillips - Chapter 01 #35

Topic Area: Business decision makers

36. Operating activities:

- A.** involve day to day events related to production and sales.
- B. relate to the acquisition or sale of long-term assets.
- C. only involve financial exchanges.
- D. involve the payment of dividends to owners.

Acquisition or sale of long-term assets is an investing activity. Not all operating activities involve financial exchanges. Paying dividends to owners is a financing activity. The activities related to running a business to earn a profit are operating activities.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #36

Topic Area: Business activities

37. The three main types of business activities measured by financial statements are:

- A. selling goods, selling services, and obtaining financing.
- B.** operating activities, investing activities, and financing activities.
- C. hiring, producing, and advertising.
- D. generating revenues, paying expenses, and paying dividends.

The three main types of business activities reported in the financial statements are operating activities (such as selling goods, selling services, hiring, producing and advertising, generating revenues and paying expenses), investing activities and financing activities (such as obtaining financing and paying dividends).

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: knowledge

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #37

Topic Area: Business activities

38. Financing that individuals or institutions have provided to a company is

- A. always classified as liabilities.
- B.** classified as liabilities when provided by creditors and stockholders' equity when provided by owners.
- C. always classified as equity.
- D. classified as stockholders' equity when provided by creditors and liabilities when provided by owners.

Financing can be provided by creditors (classified as liabilities) or provided by owners (classified as stockholders' equity).

AACSB: analytic skills

AICPA BB: legal

AICPA FN: reporting

Blooms: comprehension

Difficulty: Hard

Learning Objective: 1

Phillips - Chapter 01 #38

Topic Area: Business decision makers

39. Financial statements are most commonly prepared:

- A. semi-monthly.
- B.** monthly, quarterly and annually.
- C. whenever management feels like it.
- D. weekly.

While financial statements can be prepared at any time during the year, they are commonly prepared monthly, quarterly and annually to meet the information needs of external as well as internal decision makers.

AACSB: analytic skills
AICPA BB: legal
AICPA FN: reporting
Blooms: knowledge
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #39
Topic Area: Financial reporting

40. Which of the following is true?

- A.** Companies can choose to end their fiscal year on any date they feel is most relevant.
- B. Companies must end their fiscal year on March 31, June 30, September 30, or December 31.
- C. Companies can select any date except a holiday to end their fiscal year.
- D. Companies must end their fiscal year on December 31.

Companies are allowed to choose any date for the end of their accounting period.

AACSB: analytic
AICPA BB: legal
AICPA FN: reporting
Blooms: knowledge
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #40
Topic Area: Financial reporting

41. Assets:

- A. represent the amounts earned by a company.
- B. must equal the liabilities of a company.
- C. must equal the stockholders' equity of the company.
- D.** represent the resources owned by a company.

The amounts earned by a company are revenue. Assets must equal the sum of liabilities and stockholders' equity
Assets are the resources or things of value owned by a company.

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: knowledge
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #41
Topic Area: Financial statements

42. Which of the following are the three basic elements of the balance sheet?

- A. assets, liabilities, and retained earnings.
- B. assets, liabilities, and contributed capital.
- C. assets, liabilities, and revenues.
- D.** assets, liabilities, and stockholders' equity.

The balance sheet equation is $\text{assets} = \text{liabilities} + \text{stockholders' equity}$.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: knowledge

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #42

Topic Area: Balance Sheet

43. The Don't Bite Me Pest Control Company has 10,000 gallons of insecticide supplies on hand that cost \$300,000; a bill from the vendor for \$100,000 of these supplies has not yet been paid. The company expects to earn \$800,000 for its services when it uses the insecticide supplies. The company would report a supplies asset in the amount of

- A. \$10,000
- B. \$200,000.
- C.** \$300,000
- D. \$800,000

The company has 10,000 gallons of supplies, not \$10,000 of supplies. Assets are measured in dollar terms. Supplies asset is reported as the cost of supplies on hand. The amount is not affected by whether any of it has not yet been paid.

AACSB: analytic

AICPA BB: critical thinking

AICPA FN: measurement

Blooms: application

Difficulty: Hard

Learning Objective: 2

Phillips - Chapter 01 #43

Topic Area: Financial information

44. The Publish or Perish Printing Company paid a dividend to stockholders. This will be reported on the:

- A. audit report.
- B. income statement.
- C. balance sheet.
- D.** statement of retained earnings.

The audit report is issued by independent auditors and reports the results of their examination of the company's financial statements. The income statement and the balance sheet do not report the amount of dividends paid to stockholders. The statement of retained earnings shows the reasons (net income and dividends) for the change in retained earnings from the beginning to the end of the period.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Hard

Learning Objective: 2

Phillips - Chapter 01 #44

Topic Area: Financial statements

45. Which of the following is not true?

- A. $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$
- B. $\text{Liabilities} = \text{Assets} - \text{Stockholders' Equity}$
- C. $\text{Stockholders' Equity} + \text{Liabilities} - \text{Assets} = 0$
- D.** $\text{Liabilities} - \text{Stockholders' Equity} = \text{Assets}$

The basic accounting equation is $\text{assets} = \text{liabilities} + \text{stockholders' equity}$.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #45

Topic Area: Accounting equation

46. Which of the following would affect stockholders' equity?
- A. A company borrows \$100 million and buys \$100 million in equipment.
 - B.** A company pays \$100 million to stockholders as a dividend.
 - C. A company sells \$100 million in assets for \$100 million cash.
 - D. A company receives payment for \$100 million in accounts receivable.

Borrowing money to buy equipment will increase liabilities and increase assets. Selling \$100 million of assets for cash of \$100 million will not change total assets. Receiving cash in payment of accounts receivable will not change total assets. Stockholders' equity will be decreased as a result of recording a dividend paid to stockholders.

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #46
Topic Area: Accounting equation

47. At the end of last year, the company's assets totaled \$860,000 and its liabilities totaled \$740,000. During the current year, the company's total assets increased by \$58,000 and its total liabilities increased by \$24,000. At the end of the current year, stockholders' equity was
- A.** \$154,000.
 - B. \$120,000.
 - C. \$34,000.
 - D. \$178,000.

\$120,000 is the amount of stockholders' equity at the end of last year. \$34,000 is the amount of the change in stockholders' equity for the current year

$$\begin{aligned} \text{Solution: End of last year: } & \$860,000 = \$740,000 + \text{SE} \\ & \$120,000 = \text{SE} \\ \text{This year: Change in SE} & = \$58,000 - \$24,000 = \$34,000 \text{ increase} \\ \text{SE} & = \$120,000 + \$34,000 = \$154,000 \end{aligned}$$

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: application
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #47
Topic Area: Accounting equation

48. A company's balance sheet contained the following information:

Contributed Capital	\$12,000	Total Assets	\$176,000
Accounts Payable	\$64,000	Retained Earnings	\$28,000

Assume Notes Payable is the only other item on the balance sheet. Notes Payable must equal

- A. \$200,000.
- B. \$8,000.
- C. \$72,000.**
- D. \$344,000.

The accounting equation is: Total Assets (\$176,000) = Total Liabilities (\$64,000 + Notes Payable) + Total Stockholders' Equity (\$12,000 + \$28,000). A B and D are incorrect. C is correct.

Solution:

$$A = L + SE$$
$$\$176,000 = L + (\$12,000 + \$28,000)$$
$$\$136,000 = L$$
$$L = A/P + N/P$$
$$\$136,000 = \$64,000 + N/P$$
$$\$72,000 = N/P$$

AACSB: analytic
AICPA BB: critical thinking
AICPA FN: reporting
Blooms: application
Difficulty: Hard
Learning Objective: 2
Phillips - Chapter 01 #48
Topic Area: Accounting equation

49. During its first year of operations, Widgets Incorporated reported sales revenue of \$386,000 but collected only \$303,000 from customers. The amount to be reported as accounts receivable at the end of the year is

- A. \$689,000.
- B. \$386,000.
- C. \$303,000.
- D. \$83,000.**

Of the \$386,000 sales to customers during the year, customers have paid the company \$303,000 which leaves a balance of accounts receivable of \$83,000.

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: application
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #49
Topic Area: Financial statements

50. If XYZ Company had \$12 million in revenue and net income of \$3 million then its:

- A. expenses must have been \$15 million.
- B.** expenses must have been \$9 million.
- C. assets must have been \$12 million.
- D. assets must have been \$3 million.

Revenue of \$12 million minus the amount of expenses is equal to the amount of net income \$3 million. Therefore, the amount of expenses must be \$9 million.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #50

Topic Area: Financial statements

51. The Whackem-Smackem Software Company sold \$11 million of computer games in its first year of operations. The company received payments of \$7.5 million for these computer games. The company's income statement would report:

- A. sales revenue of \$7.5 million.
- B. accounts receivable of \$3.5 million.
- C. expenses of \$3.5 million.
- D.** sales revenue of \$11 million.

Revenues are measured as the amount of sales to customers, not the amount collected from customers during the year. Accounts receivable, the amount owed to Software Company at the end of the year, \$3.5 million, is an asset on the balance sheet, not an expense reported on the income statement.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #51

Topic Area: Income Statement

52. Dividends are reported on the:

- A. Income statement.
- B. Balance sheet.
- C. Statement of retained earnings.**
- D. Income statement and balance sheet.

Dividends are not expenses on the income statement and are not Assets, Liabilities or Stockholders' Equity on the Balance Sheet. The statement of retained earnings reports the change in retained earnings during the period from net income and dividends.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: knowledge

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #52

Topic Area: Financial statements

53. Which of the following would not affect a company's net income?

- A. A change in the company's income taxes.
- B. Changing the selling price of a company's product.
- C. Paying a dividend to stockholders.**
- D. Advertising a new product.

Income tax expense is reported on the income statement and a change in the company's income taxes would affect net income. Sales of a company's product are revenue on the income statement and a change in the selling price would affect net income. Advertising expense is reported on the income statement and advertising a new product would affect net income. Since dividends are not reported on the income statement, paying a dividend to stockholders would not affect net income.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #53

Topic Area: Net Income

54. Which of the following would be reported on the income statement for 2010?

- A. Supplies that were purchased and used in 2009 but paid for in 2010.
- B. Dividends that were paid in 2010.
- C. Supplies that were purchased, used, and paid for in 2010.
- D. Supplies that were purchased in 2009 and paid for in 2010 but have not been used.

Supplies used in 2009 would be reported on the income statement in 2009. Dividends are not reported on the income statement. Supplies that have not been used are reported on the balance sheet as an asset, not on the income statement. Supplies which are used in 2010 are reported on the income statement for 2010.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #54

Topic Area: Income Statement

56. Which of the following is a true statement?

- A. The SEC approves the rules used by the auditors in determining whether a public company's financial statements are in conformity with GAAP.
- B. The PCAOB and the SEC were both created by the FASB.
- C. The SEC was created by the PCAOB.
- D.** The PCAOB approves the rules used by auditors in determining whether a public company's financial statements are in conformity with GAAP.

The SEC oversees public trading of stock of US companies. The FASB is a private sector body which formulates generally accepted accounting principles. The SEC was created by congressional legislation. The PCAOB is one of the bodies who approves the rules used by auditors to determine if a public company's financial statements conform to GAAP.

AACSB: analytic skills
AICPA BB: legal
AICPA FN: reporting
Blooms: knowledge
Difficulty: Medium
Learning Objective: 4
Phillips - Chapter 01 #56
Topic Area: Regulatory environment

57. Which inference may be considered incorrect concerning the Statement of Retained Earnings?

HOOPER'S HOPS

Statement of Retained Earnings

For the Year Ended December 31, 2010

Retained Earnings, January 1, 2010	\$167,800
Net Income for 2010	219,100
Dividends for 2010	<u>(36,400)</u>
Retained Earnings, December 31, 2010	<u>\$350,500</u>

- A. Retained earnings of \$350,500 will appear on the balance sheet as of December 31, 2010.
- B. The net income in the above statement came from the income statement for the year ending December 31, 2010.
- C. Dividends are shown in parenthesis because they are distributions made by a company to its stockholders as a return on their investment.
- D.** Retained earnings represents the amount of cash at the end of 2010.

Retained earnings is a component of stockholders' equity and does not represent the amount of cash that a company has at a point in time.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #57
Topic Area: Financial statements

58. Which of the following statements is true?

- A. The "net change in cash" reported on the statement of cash flows is also reported on the statement of retained earnings.
- B.** Both the income statement and the statement of cash flows show the result of a company's operating activities.
- C. The statement of cash flows is for a period of time while the income statement is at a point in time.
- D. The statement of cash flows is at a point of time while the income statement is for a period of time.

The change in cash is not reported on the statement of retained earnings. Both the statement of cash flows and the income statement are reported for a period of time. The income statement reports the results of operations and the statement of cash flows reports the cash flows from operating activities.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #58
Topic Area: Financial statements

GIL'S FISHING EQUIPMENT, INC.
Statement of Cash Flows
For the Year Ended December 31, 2010

Cash flows from operating activities	
Cash collected from customers	A
Cash paid to suppliers and employees	B
Cash paid for other operating activities	<u>C</u>
Net cash flow from operating activities	
Cash flows from investing activities	
Cash paid to purchase equipment and other assets	D
Cash received from selling equipment and other assets	<u>E</u>
Net cash flow from investing activities	
Cash flows from financing activities	
Cash paid on notes payable	F
Cash paid for dividends	<u>G</u>
Net cash flow from financing activities	
Net change in cash during the year	
Cash at beginning of year	
Cash at end of year	

Phillips - Chapter 01

59. In the above statement of cash flows, which letters represent cash outflows?

- A.** B, C, D, F and G.
- B. A, E and G.
- C. B, C, E and F.
- D. A, E, F and G.

Cash collected from customers (letter A) and Cash received from selling equipment and other assets (letter E) are both cash inflows.

Letters B, C, D, F and G all represent cash paid for various activities, and therefore, represent cash outflows.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #59

Topic Area: Statement of Cash Flows

60. In the above statement of cash flows, which letters represent cash inflows?

- A. B, C, D, F and G.
- B. A, E and G.
- C. B, C, E and F.
- D.** A and E.

B, C, D, F, and G letters all represent cash outflow activities. A and E letters represent cash inflows.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #60

Topic Area: Statement of Cash Flows

61. In the statement of cash flows, the company's payment of a \$1,900 electric bill would be classified as:
- A. an operating cash outflow.
 - B. a financing cash outflow.
 - C. an investing cash inflow.
 - D. an investing and a financing cash flow.

Paying for a cost of running a business is not a financing cash outflow and is not an investing cash inflow of the business; it is an operating cash outflow.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #61
Topic Area: Statement of Cash Flows

62. In the U.S., generally accepted accounting principles are established:
- A. directly by the 1933 Securities Act.
 - B. by the Public Company Accounting Oversight Board(**PCAOB**).
 - C. by the Financial Accounting Standards Board(**FASB**).
 - D. by the American Institute of Certified Public Accountants (**AICPA**).

The 1933 Securities Act established the SEC, but did not establish generally accepted accounting principles. The PCAOB approves rules that auditors use for determining if GAAP is being followed by public companies, but does not establish GAAP rules. The AICPA is a voluntary professional organization of public accountants. The private sector standard-setting body in the United States is the FASB and this body establishes GAAP.

AACSB: analytic skills
AICPA BB: legal
AICPA FN: reporting
Blooms: knowledge
Difficulty: Medium
Learning Objective: 4
Phillips - Chapter 01 #62
Topic Area: Regulatory environment

63. In the U.S., public companies have to be audited by independent auditors using rules approved by the:

- A. 1933 Securities Act.
- B. Public Company Accounting Oversight Board (PCAOB).**
- C. Financial Accounting Standards Board (FASB).
- D. American Institute of Certified Public Accountants (AICPA).

The 1933 Securities Act established the SEC, but did not approve the auditing rules used to perform audits of public companies. The FASB establishes GAAP rules, but not the auditing rules used in performing audits of public companies. The AICPA is a voluntary professional association of public accountants and has no standard-setting authority. The PCAOB approves the audit rules used to perform audits of public companies.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: reporting

Blooms: knowledge

Difficulty: Medium

Learning Objective: 4

Phillips - Chapter 01 #63

Topic Area: Regulatory environment

64. The purpose of a statement of retained earnings is to:

- A. estimate the current value of a company's assets.
- B. report how the profits of a company have been distributed to stockholders or retained in the business.**
- C. show where the money is flowing into and out of a company.
- D. explain the specific revenues and expenses arising during the period.

The statement of retained earnings reports the way that net income (profits) and the distribution to stockholders (dividends) affected the financial position of the company during the period. This is not an estimate of the value of the company's assets.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #64

Topic Area: Financial statements

65. Which of the following is true about the format of financial statements?

- A. A double underline is drawn below the subtotal for total liabilities on the balance sheet.
- B. Dollar signs are omitted if the heading states that amounts are reported in U.S. dollars.
- C. Dividends are reported in parenthesis on the statement of retained earnings.**
- D. The heading of each financial statement indicates who, when, and what in that particular order.

A double underline is used for the final totals on the balance sheet for Total Assets and for Total Liabilities and Stockholders' Equity.

Dollar signs are used at the top and bottom of a column of amounts.

The order of the financial statement heading is Who, What and When.

Since dividends are subtracted in arriving at the ending amount of retained earnings, it is shown in parenthesis to indicate a subtraction.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #65

Topic Area: Financial statements

66. If a company uses \$50,000 of its cash to buy an asset then:

- A. assets and liabilities will be unchanged.**
- B. assets will rise \$50,000 as will liabilities.
- C. assets will rise \$50,000 as will stockholders' equity.
- D. assets will fall \$50,000 and liabilities will rise \$50,000.

One asset will increase and another asset will decrease by the same amount so there will be no change in total assets. There are no liabilities or stockholders' equity involved in this activity.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #66

Topic Area: Accounting equation

67. During 2010, a company's assets rise \$56,000 and its liabilities rise \$38,000. If no dividend is paid and no further capital is contributed, net income for 2010 was:

- A. \$56,000.
- B. \$18,000.**
- C. \$94,000.
- D. \$38,000

Since assets increased by \$56,000 and liabilities increased by \$38,000, this means that stockholders' equity must have increased by \$18,000. Since there were no capital contributions or dividends paid during the year, the only change in stockholders' equity must have been the amount of net income for the year.

AACSB: analytic
AICPA BB: critical thinking
AICPA FN: measurement
Blooms: application
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #67
Topic Area: Financial statements

68. Which of the following is **not** an expense?

- A. Wages of employees.
- B. Interest incurred on a loan the company had taken out.
- C. Dividends.**
- D. Corporate income tax.

Wages of employees, Interest incurred on a loan, and Income tax incurred are expenses.
Dividends are a distribution of net income and not an expense in determining the amount of net income.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #68
Topic Area: Financial information

69. Which of the following statements is not true concerning the notes to the financial statements?
- A. Notes to the financial statements explain what policies were used to prepare the financial statements.
 - B. Notes to the financial statements provide additional information about what is included in the financial statements.
 - C. Notes to the financial statements provide additional information about financial matters that are not included in the financial statements.
 - D.** Notes to the financial statements provide financial information about the owners of the business.

The notes to financial statements explain the policies used in financial statement preparation, provide additional information about what is included in the basic statements, and provide additional disclosures not found in the basic financial statements. It does not include financial information about the owners of the business.

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #69
Topic Area: Financial statements

70. Every financial statement should have "who, what, and when" in its heading. These are:
- A. the name of the person preparing the statement, the type of financial statement, and when the financial statement was reported to the SEC.
 - B. the name of the person preparing the statement, the name of the company, and the date the statement was prepared.
 - C.** the name of the company, the type of financial statement, and the time period or date from which the data were taken.
 - D. the name of the company, the purpose of the statement, and when the financial statement was reported to the IRS.

The 'who' is the name of the company, the 'what' is the type of statement and the 'when' is the time period covered or date of the data contained.

AACSB: analytic
AICPA BB: legal
AICPA FN: reporting
Blooms: knowledge
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #70
Topic Area: Financial statements

71. Which of the following is not a difference between notes payable and accounts payable?

- A. Notes payable are not interest free while accounts payable may be interest free.
- B. Notes payable can remain unpaid longer than accounts payable.
- C. Notes payable are documented using formal written debt contracts while accounts payable are generally informal.
- D.** Notes payable are not reported as liabilities on the balance sheet while accounts payable are reported as liabilities on the balance sheet.

Notes payable is a formal promise to pay and is evidenced by a contract. Accounts payable is an informal promise to pay. Both are liabilities on the Balance Sheet.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #71

Topic Area: Financial information

72. The WC Company borrowed \$26,500 from a bank during 2010.

- A. This would be listed as (\$26,500) under investing activities on the statement of cash flows.
- B. This would be listed as (\$26,500) under operating activities on the statement of cash flows.
- C. This would be listed as \$26,500 under investing activities on the statement of cash flows.
- D.** This would be listed as \$26,500 under financing activities on the statement of cash flows.

Borrowing \$26,500 is a cash inflow from financing activities.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #72

Topic Area: Statement of Cash Flows

73. Which of the following would **not** be acceptable as an alternative term used for the income statement?

- A. Statement of Operations.
- B. Statement of Financial Position.**
- C. Statement of Earnings.
- D. Profit and Loss Statement.

Statement of Operations, Statement of Earnings, and Profit and Loss Statement are all alternative terms for the income statement.

Statement of Financial Position is an alternative name for the Balance Sheet, not the Income Statement.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #73

Topic Area: Financial statements

74. A creditor might look at a company's financial statements to determine if the:

- A. company is likely to have the resources to repay its debts.**
- B. company's stock is likely to fall, signaling a good time to sell.
- C. company's stock is likely to rise, signaling a good time to buy.
- D. company's stock is likely to vary up and down.

Looking at the financial statements to determine if the company is likely to have the resources to repay its debts or if a company's stock is likely to rise or fall are reasons why investors, not creditors, might look at a company's financial statements.

Creditors are mainly interested in whether the company is generating enough cash to make payments on its loans and whether the company has enough assets to cover its liabilities.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 3

Phillips - Chapter 01 #74

Topic Area: Financial Statement relevance to users

75. An investor might look at a company's financial statements to determine:

- A. if competitors' earnings are rising or falling.
- B.** if the company's stock is likely to fall, signaling a good time to sell.
- C. if the company's creditors are having a good year.
- D. if the company's owners are financially sound.

A company's financial statements do not contain financial information about the company's competitors, creditors or owners. Investors look closely at the income statement for information about the company's ability to generate profits and distribute dividends. Dividends and higher stock prices are more likely if the company is profitable.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 3

Phillips - Chapter 01 #75

Topic Area: Financial Statement relevance to users

76. What would a financial statement user learn from reading the auditors' report?

- A.** Whether the financial statements present a fair picture of the company's financial results and are prepared in accordance with GAAP.
- B. Whether or not it is a good time to purchase the stock.
- C. What the company plans to distribute as dividends.
- D. Whether or not the company has plans for future expansion.

The auditors' report does not include recommendations about stock purchases.

The company's dividend policy and future plans are not part of the auditors' report.

The auditors' report states whether or not the information presented is a fair picture of the company's financial results and whether or not it is in accordance with GAAP.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 4

Phillips - Chapter 01 #76

Topic Area: Regulatory environment

77. Which of the following business organizations has only one owner?

- A. A corporation.
- B.** A sole proprietorship.
- C. A public company.
- D. A partnership.

A corporation or a partnership has more than one owner. A public company is a type of corporation. A sole proprietorship is a business with one (sole) owner.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: reporting

Blooms: knowledge

Difficulty: Easy

Learning Objective: 1

Phillips - Chapter 01 #77

Topic Area: Organizational forms

78. Internal users of financial data include:

- A. investors.
- B. creditors.
- C.** management.
- D. regulatory authorities.

Investors, creditors and regulatory authorities are external users.

Managers are internal users.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 1

Phillips - Chapter 01 #78

Topic Area: Business decision makers

79. Investors are often interested in the amount of net income distributed as dividends. In which section of the financial statements would investors look to find this amount?

- A.** Statement of retained earnings.
- B. Balance sheet.
- C. Notes to the financial statements.
- D. Income statement.

The balance sheet shows Assets, Liabilities and Stockholders' equity at a point in time.

The notes to financial statements provide additional information to explain and expand on the information in the basic financial statements.

The income statement shows revenues and expenses for the period.

The statement of retained earnings shows the reason for the changes in retained earnings during a period of time.

Dividends would decrease retained earnings and would be shown on that statement.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Learning Objective: 3

Phillips - Chapter 01 #79

Topic Area: Financial Statement relevance to users

80. A company's quarterly income statements show that in the last three quarters both sales revenue and net income have been falling. Which of the following conclusions drawn by users are valid, given this information?

- A. Creditors are likely to conclude that the risk of lending to the company is falling and might be willing to accept a lower interest rate on loans.
- B. Investors are likely to conclude that the stock price is likely to rise, making the company more attractive as a potential investment.
- C. Investors are likely to conclude that the company is more attractive as a potential investment.
- D.** Owners may conclude that the company will be less likely to distribute dividends.

Creditors are not likely to conclude that the risk of lending to the company is falling when the company's sales revenue and net income have been falling.

Investors are not likely to conclude that the stock price will rise when the company is reporting falling sales revenue and falling net income and are not likely to conclude that the company will be more attractive as an investment. . Since net income is falling there are lower profits and owners may conclude that the company will be less likely to distribute dividends.

AACSB: analytic skills

AICPA BB: critical thinking

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 3

Phillips - Chapter 01 #80

Topic Area: Financial Statement relevance to users

81. Investors and creditors look at the balance sheet to see whether the company

- A. is profitable.
- B.** owns enough assets to pay what it owes to creditors.
- C. has had a positive cash flow from operations.
- D. is paying sufficient dividends to stockholders.

The income statement reports the amount of profit for the period.

The statement of cash flows reports the amount of cash flows from operating activities.

Whether dividends are 'sufficient' or not is a judgment made by investors and the amount of dividends for the period are reported on the statement of retained earnings.

The balance sheet reports the amount of assets, liabilities and stockholders' equity and could be used to evaluate the amount of cash and the amount of liabilities.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Learning Objective: 3

Phillips - Chapter 01 #81

Topic Area: Financial Statements and their relevance to users

82. To determine whether generally accepted accounting principles (GAAP) were followed in the preparation of financial statements, an examination of:

- A. tax documents would be performed by the IRS.
- B. the annual report would be performed by the SEC.
- C.** the financial statements and related documents would be performed by an independent auditor.
- D. the financial statements and related documents would be performed by the FASB.

The IRS, the SEC, and the FASB do not perform an examination of the financial statements to determine if GAAP were followed.

The independent auditor performs the examination of the financial statements to reach a conclusion of whether or not the financial statements are prepared in accordance with GAAP.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 4

Phillips - Chapter 01 #82

Topic Area: Regulatory environment

83. Generally accepted accounting principles (GAAP) were (are) established by:

- A. an Italian monk in 1494.
- B. the U.S. Congress in 1933.
- C. the PCAOB in 2004.
- D.** the FASB.

An Italian monk devised the double entry system of accounting but did not establish the rules of accounting. Legislation in 1933 resulted in the formation of the SEC. Neither the SEC nor the PCAOB establishes GAAP. The FASB is the private sector body that establishes GAAP.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: knowledge
Difficulty: Medium
Learning Objective: 4
Phillips - Chapter 01 #83
Topic Area: Regulatory environment

84. Which of the following statements is false?

- A.** When choosing between a company that pays steady dividends and one that retains its earnings to support future growth, investors will always choose the company that pays steady dividends.
- B. Companies can develop reputations for honest financial reporting even when conveying bad news.
- C. Trends in a company's net income from year to year can provide clues about its future earnings, which can help investors to decide whether to buy stock in the company.
- D. Information in the notes to the financial statements can influence a user's interpretation of balance sheet and income statement information.

Reporting news accurately - whether good or bad - will help develop reputations for honest financial reporting. Information in the notes to financial statements provide additional information for a user in making a financial decision and trend analysis is one type of financial analysis which may be used. It is not necessarily true that an investor will prefer a company that pays steady dividends over a company that retains earnings for future growth.

AACSB: analytic skills
AICPA BB: critical thinking
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 3
Phillips - Chapter 01 #84
Topic Area: Financial Statement relevance to users

A company started the year with the following: Assets \$100,000; Liabilities \$30,000; Contributed Capital \$60,000; Retained Earnings \$10,000. During the year the company earned revenue of \$5,000, all of which was received in cash, and incurred expenses of \$3,000, all of which was unpaid as of the end of the year. In addition, the company paid dividends of \$1,000 to owners. Assume no other activities occurred during the year.

85. What was the amount of net income for the year?

- A.** \$2,000
- B. \$1,000
- C. \$3,000
- D. \$5,000

Net Income = Revenue \$5,000 - Expenses \$3,000 = \$2,000

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #85

Topic Area: Income Statement

86. The amount of Retained Earnings at the end of the year is

- A. \$15,000.
- B.** \$11,000.
- C. \$12,000.
- D. \$1,000.

Retained earnings at the end of a period is calculated as: Retained earnings at beginning of period + Net income for the period - Dividends for the period.

Beginning retained earnings \$10,000 + Net Income \$2,000 - Dividends \$1,000 = Retained earnings at end of period \$11,000.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #86

Topic Area: Statement of Retained Earnings

87. The amount of liabilities at the end of the year is

- A. \$30,000.
- B. \$33,000.**
- C. \$28,000.
- D. \$32,000.

Liabilities at the end of the year are equal to liabilities at the beginning of the year plus (minus) changes to liabilities during the year. Liabilities at the beginning of the year were \$30,000 and the change in liabilities during the year was an increase of \$3,000 because the expenses incurred were unpaid as of the end of the year.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: measurement
Blooms: application
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #87
Topic Area: Financial information

88. The amount of Assets at the end of the year is

- A. \$105,000.
- B. \$108,000.
- C. \$104,000.**
- D. \$107,000.

Assets at the end of the year are equal to assets at the beginning of the year plus (minus) changes in assets during the year. Assets at the beginning of the year are \$100,000 and assets increased during the year by \$5,000 (revenues paid in cash) and decreased by \$1,000 (dividends paid in cash).

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: measurement
Blooms: application
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #88
Topic Area: Financial information

89. Which of the following would not be reported on the Balance Sheet for a company?

- A. Accounts receivable
- B. Accounts payable
- C. Advertising expense**
- D. Cash

The Balance Sheet contains Assets (Accounts receivable and Cash), Liabilities (Accounts payable) and Stockholders' equity. Advertising expense is an expense reported on the Income Statement, not the Balance Sheet.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #89

Topic Area: Financial statements

90. A company sold goods to customers and received cash. Choose the FALSE statement.

- A. Revenue will increase on the income statement.
- B. Assets will increase on the balance sheet.
- C. Stockholders' equity will increase on the balance sheet.
- D. Expenses will decrease on the income statement.**

A company sold goods (increase Revenue) for cash (increase Assets). An increase in Revenue will increase stockholders' equity.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #90

Topic Area: Financial statements

91. A company incurred \$2,000 for utilities for the last month of the year. The company has not paid this bill yet. Choose the TRUE statement.

- A.** \$2,000 should be reported on the income statement as Utilities Expense.
- B. Nothing should be reported about this in the current year's financial statements.
- C. \$2,000 should be reported as Accounts receivable on the Balance Sheet at the end of the year.
- D. \$2,000 should be reported as Utilities Expense on the Balance Sheet at the end of the year.

Utilities expense of \$2,000 should be reported on the income statement for the year and \$2,000 should be reported as accounts payable on the balance sheet at the end of the year.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #91
Topic Area: Financial statements

92. A company began the year with Assets of \$100,000, Liabilities of \$20,000 and Stockholders' equity of \$80,000. During the year Assets increased \$55,000 and stockholders' equity increased \$20,000. What was the change in Liabilities for the year?

- A. Increase of \$75,000
- B.** Increase of \$35,000
- C. Decrease of \$75,000
- D. Decrease of \$35,000

The change in assets must equal the sum of the changes in liabilities and stockholders' equity. The increase in Assets of \$55,000 must equal the sum of the increase in stockholders' equity of \$20,000 plus the increase in liabilities of \$35,000.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: measurement
Blooms: application
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #92
Topic Area: Accounting equation

93. For the current year, the first year of operations, a company sold \$100,000 of goods to customers and received \$90,000 in cash from customers. The remainder is owed to the company at the end of the year. The company incurred \$70,000 in expenses for the year and paid \$65,000 of these in cash. The remainder is owed by the company at the end of the year. Based on this information, what is the amount of net income for the year?

- A. \$25,000
- B. \$35,000
- C. \$20,000
- D. \$30,000**

Revenue is reported on the income statement when it is earned and expenses are reported when they are incurred.

Net Income = Revenue \$100,000 - Expenses \$70,000 = \$30,000.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: application
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #93
Topic Area: Income Statement

94. At the end of the current year, a company purchased and paid cash of \$100,000 for a piece of equipment to be used for several years in the business. Choose the TRUE statement.

- A. On the Statement of Cash Flows, \$100,000 will be shown as a cash inflow from investing activities.
- B. On the Statement of Cash Flows, \$100,000 will be shown as a cash outflow from financing activities.
- C. On the Balance Sheet at the end of the year, Total Assets will not change as a result of this purchase.**
- D. On the Income Statement, \$100,000 will be reported as Equipment Expense.

The purchase of equipment for cash is a cash *outflow* from investing activities on the Statement of Cash Flows. The equipment is an asset and is not reported as an expense in the year of purchase.

One asset (Equipment) would increase by \$100,000, but another asset (Cash) would decrease by \$100,000 resulting in no change in Total Assets.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Hard
Learning Objective: 2
Phillips - Chapter 01 #94
Topic Area: Financial statements

95. A company incurred \$5,000 in wages for employees for the year. \$4,500 of these wages were paid by the end of the year. Choose the TRUE statement.

- A. Wages payable on the income statement will be \$4,500.
- B. Wages expense on the income statement will be \$500.
- C. Wages expense on the balance sheet will be \$5,000.
- D. Wages payable on the balance sheet will be \$500.**

Wages expense for the year is \$5,000, and is reported on the income statement, not the balance sheet. The unpaid wages of \$500 are reported as a liability (Wages Payable) on the balance sheet.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: measurement

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #95

Topic Area: Financial information

96. A company issued stock to investors for cash of \$50,000. Choose the TRUE statement.

- A. Cash will increase \$50,000 and contributed capital will increase \$50,000.**
- B. Cash will decrease \$50,000 and retained earnings will decrease \$50,000.
- C. Cash will increase \$50,000 and retained earnings will increase \$50,000.
- D. Cash will decrease \$50,000 and contributed capital will increase \$50,000.

Cash will increase and stockholders' equity, specifically contributed capital, will increase.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: measurement

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #96

Topic Area: Financial information

97. Which of the following statements about organizational forms of a business is FALSE?

- A. In a sole proprietorship form of business or in a partnership form, the owner(s) are personally responsible for the debts of the business.
- B. The partnership agreement states how profits are to be shared between partners and what happens when a new partner is to be admitted or an existing partner is retiring.
- C. A corporation is a separate entity from both a legal and accounting perspective.
- D.** The owners of a corporation are legally responsible for the corporation's debts and taxes.

The owners of a corporation are not responsible for the debts and taxes of the business.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: measurement

Blooms: comprehension

Difficulty: Medium

Learning Objective: 1

Phillips - Chapter 01 #97

Topic Area: Organizational forms

98. A legal document called a stock certificate is used to indicate ownership in a

- A.** Corporation
- B. Sole proprietorship
- C. Partnership
- D. Both sole proprietorship and partnership

Stock is not issued in a Sole Proprietorship or in a partnership.

Ownership in a corporation is evidenced by stock certificates.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: measurement

Blooms: knowledge

Difficulty: Easy

Learning Objective: 1

Phillips - Chapter 01 #98

Topic Area: Organizational forms

99. Stockholders' equity is

- A. a liability of the business.
- B. an economic resource controlled by the business.
- C.** the owners' claims on the business.
- D. the profit generated by the business.

Stockholders' equity is not a liability, is not an asset, is not the profit generated by the business; Stockholders' equity is the claim that the owners' have on the business.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: measurement

Blooms: knowledge

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #99

Topic Area: Financial statements

100. The Income Statement

- A. reports the amount of Assets of a company.
- B. reports results of operations in physical measures.
- C. reports the amount of profit distributed to owners during the period.
- D.** reports the amount of revenues earned and expenses incurred during the period.

Assets of the company are reported on the balance sheet, not the income statement. The income statement is $\text{Revenues} - \text{Expenses} = \text{Net Income}$ and reports results of operations in monetary terms, not in physical measures. Dividends distributed to owners are reported on the statement of retained earnings, not on the income statement.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #100

Topic Area: Income Statement

101. Which of the following statements concerning financial reporting is FALSE?

- A. Accounting rules in the U.S. are called GAAP.
- B. Accounting rules developed by the IASB are called IFRS.
- C. Both GAAP and IFRS share the same goal which is to ensure useful information to users of financial statements.
- D.** There are no differences between the accounting rules developed by FASB and those developed by IASB.

U.S. accounting rules are called generally accepted accounting principles (GAAP). The International Accounting Standards Board (IASB) develops accounting rules called IFRS, and the goal of U.S. and international accounting rules are both to ensure that useful information is provided to users of financial statements.

It is not true that there are no differences between GAAP and IFRS.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 4

Phillips - Chapter 01 #101

Topic Area: Regulatory environment

102. Which of the following statements concerning financial reporting is TRUE?

- A. The FASB requires all financial decision makers to adhere to a code of professional conduct.
- B. The Sarbanes-Oxley Act does not require businesses to maintain an audited system of internal control.
- C.** A fundamental characteristic of useful financial information is that it fully depicts the economic substance of business activities.
- D. There is no attempt to eliminate the difference in accounting rules in the U.S. and elsewhere as this would not allow investors to more easily compare financial statements of companies from different countries.

The FASB *does not* establish codes of professional conduct, but AICPA does require all of its members to adhere to a code of professional conduct.

The Sarbanes-Oxley Act *does* require companies to maintain an audited system of internal controls.

There are differences in the accounting rules in the U.S. and elsewhere and eliminating these differences would make it easier to compare financial statements of companies in different countries.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 4

Phillips - Chapter 01 #102

Topic Area: Regulatory environment

103. The statement of cash flows shows the following information:

Cash Flows from operating activities	\$16,500
Cash Flows from investing activities	(\$8,400)
Cash Flows from financing activities	(\$2,900)

The beginning cash was \$14,000.

What is the amount of cash at the end of the period?

- A. \$41,800
- B. \$30,500
- C. \$8,800
- D. \$19,200**

Beginning cash of \$14,000 is increased by \$16,500 of cash inflows from operating activities, and decreased by \$8,400 of cash outflows from investing activities and \$2,900 of cash outflows from financing activities.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: measurement
Blooms: application
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #103
Topic Area: Statement of Cash Flows

104. Which of the following would not appear as a possible asset on the balance sheet?

- A. Accounts receivable
- B. Supplies
- C. Retained earnings**
- D. Cash

Accounts receivable, Supplies, and Cash are examples of assets.

Retained earnings is not an asset; it is a component of stockholders' equity on the Balance Sheet.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #104
Topic Area: Balance Sheet

105. Which of the following would not appear as a possible liability on the balance sheet?

- A. Accounts payable
- B. Retained earnings**
- C. Notes payable
- D. Wages payable

Accounts payable, notes payable, and wages payable are examples of liabilities. Retained earnings is not a liability; it is a component of stockholders' equity on the balance sheet.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #105
Topic Area: Balance Sheet

106. The statement of cash flows for a company contained the following:

Cash Flows from Operating activities	\$29,000
Cash Flows from Investing activities	\$30,000
Cash Flows from Financing activities	(\$45,000)

What was the change in cash for the period?

- A. \$14,000 increase**
- B. \$15,000 increase
- C. \$14,000 decrease
- D. \$15,000 decrease

Operating activities increased cash \$29,000, investing activities increased cash \$30,000 and financing activities decreased cash \$45,000.

$$\$29,000 + \$30,000 - \$45,000 = \$14,000.$$

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: application
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #106
Topic Area: Statement of Cash Flows

A company's financial records at the end of the year were as follows:

Cash	\$70,000
Accounts receivable	28,000
Supplies	4,000
Accounts payable	10,000
Notes payable	5,000
Retained earnings, beginning of period	17,000
Contributed capital	40,000
Service Revenue	53,000
Wages expense	8,000
Advertising expense	5,000
Rent expense	10,000

Phillips - Chapter 01

107. What is the amount of net income on the income statement for the year?

- A.** \$30,000
- B. \$38,000
- C. \$88,000
- D. \$47,000

Net income = Revenue - Expenses
Net income = Revenue of \$53,000 minus expenses of \$8,000 (wages), \$5,000 (advertising), and \$10,000 (rent).

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #107

Topic Area: Income Statement

108. What is the amount of total assets to be reported on the balance sheet at the end of the year?

- A. \$112,000
- B.** \$102,000
- C. \$119,000
- D. \$155,000

Total Assets are Cash \$70,000 + Accounts receivable \$28,000 + Supplies \$4,000 = \$102,000

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #108

Topic Area: Balance Sheet

109. What is the amount of total stockholders' equity that would be reported on the Balance Sheet at the end of the year?

- A. \$30,000
- B. \$57,000
- C. \$87,000**
- D. \$102,000

Ending stockholders' equity = Contributed capital + Retained earnings at the end of the period.

Ending stockholders' equity = Contributed capital of \$40,000 + Ending retained earnings of \$47,000 (\$17,000 + \$53,000 - \$23,000) = \$87,000.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #109

Topic Area: Balance Sheet

A company began the year with assets of \$100,000 and liabilities of \$75,000. During the year assets increased by \$12,000 and liabilities decreased by \$9,000.

Phillips - Chapter 01

110. What is the amount of stockholders' equity at the beginning of the year?

- A. Zero
- B. \$25,000**
- C. \$175,000
- D. \$100,000

Assets = Liabilities + Stockholders' Equity
Assets of \$100,000 = Liabilities of \$75,000 + Stockholders' equity of \$25,000.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: measurement

Blooms: application

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #110

Topic Area: Accounting equation

111. What is the amount of the change in stockholders' equity during the year?

- A. \$3,000 increase
- B. \$21,000 increase**
- C. \$21,000 decrease
- D. \$3,000 decrease

Assets increased by \$12,000, so the total of the change in liabilities and the change in stockholders' equity must be an increase of \$12,000. Since liabilities decreased by \$9,000, stockholders' equity must have increased by 21,000.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: measurement
Blooms: application
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #111
Topic Area: Accounting equation

112. In this period, a company recorded sales revenue of \$50,000 from sales of goods to customers who agreed to pay later. In the next period, the company received payment from customers of \$45,000. Choose the TRUE statement.

- A. Revenue for this period is \$45,000.
- B. Accounts receivable at the end of this period is \$5,000.**
- C. Accounts payable at the end of this period is \$5,000.
- D. Cash for next period will increase by \$50,000.

Revenue is \$50,000.

Accounts payable is a liability account.

Cash for the next period will increase by the amount received of \$45,000. The amount owed to the company (Accounts receivable) at the end of this period is \$5,000.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: measurement
Blooms: application
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #112
Topic Area: Financial information

113. Investing activities on the Statement of Cash Flows are

- A. transactions with lenders, borrowing and repaying cash.
- B. transactions with stockholders, selling company stock and paying dividends.
- C. activities directly related to running the business to earn profit.
- D.** buying and selling productive resources with long lives.

Investing activities are transactions of buying or selling productive assets with long lives.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #113

Topic Area: Statement of Cash Flows

114. Faithful representation is a characteristic of external financial reporting that means

- A. the financial reports of a business are assumed to include the results of only that business's activities.
- B. financial information can be compared across businesses because similar accounting methods are applied.
- C. the results of business activities are reported using an appropriate monetary unit.
- D.** financial information depicts the economic substance of business activities.

Financial information possesses the characteristic of faithful representation if it depicts the economic substance of business activities.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Learning Objective: 4

Phillips - Chapter 01 #114

Topic Area: Financial reporting

115. Relevance is an objective of external financial reporting and means

- A. the financial reports of a business are assumed to include the results of only that business's activities.
- B. financial information can be compared across businesses because similar accounting methods have been applied.
- C.** the financial information possesses a feature that allows it to influence a decision.
- D. the financial information depicts the economic substance of business activities.

Financial information is relevant if it possesses a feature that allows it to influence a decision.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 3

Learning Objective: 4

Phillips - Chapter 01 #115

Topic Area: Financial Statement relevance to users

116. The separate entity assumption means

- A. the financial information depicts the economic substance of the business activities.
- B.** the financial reports of a business are assumed to include the results of only that business's activities.
- C. the results of business activities are reported in an appropriate monetary unit.
- D. the financial information can be compared across businesses because similar accounting methods have been applied.

Faithful representation is the characteristic of financial information that depicts the economic substance of the business activities.

The unit of measure assumption states that the results of business activities are reported in an appropriate monetary unit. Comparability refers to the ability of financial information to be compared across businesses because similar accounting methods have been applied. The separate entity assumption means that only that business's activities are included in its financial reports.

AACSB: analytic skills

AICPA BB: legal

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #116

Topic Area: Financial statements

117. Assets reported on the balance sheet would include which of the following?

- A. Accounts receivable, sales revenue and cash
- B. Equipment, supplies expense and cash
- C. Accounts payable, retained earnings and cash
- D.** Accounts receivable, equipment and cash

Accounts receivable, equipment and cash are all assets on the balance sheet. Accounts payable is a liability and retained earnings is a component of stockholders' equity on the balance sheet. Sales revenue and supplies expense are revenue and expense, respectively, reported on the income statement.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #117

Topic Area: Balance Sheet

118. Liabilities on the balance sheet would include which of the following?

- A. Accounts payable, notes payable and contributed capital
- B. Accounts receivable, supplies expense and retained earnings
- C.** Accounts payable, notes payable and wages payable
- D. Contributed capital, retained earnings and notes payable

Liabilities include accounts payable, notes payable, and wages payable. Contributed capital and retained earnings are stockholders' equity. Supplies expense is an expense on the income statement.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #118

Topic Area: Balance Sheet

119. Which of the following statements is FALSE?

- A. Cash flows from financing activities would appear on the Statement of Cash Flows.
- B. Dividends would appear on the Statement of Retained Earnings.
- C. Assets would appear on the Income Statement.**
- D. Revenues would appear on the Income Statement.

The Income Statement reports Net Income which is Revenue - Expenses. Dividends would be subtracted on the Statement of Retained Earnings. The Statement of Cash Flows would report cash flows from operating, investing and financing activities.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #119
Topic Area: Financial statements

The first year of operations for a company was 2010. The net income for the year 2010 was \$20,000 and dividends of \$12,000 were paid. In 2011, the company reported net income of \$34,000 and paid dividends of \$5,000. At the end of 2010, the company had total assets of \$150,000, and at the end of 2011, total assets were \$240,000.

Phillips - Chapter 01

120. What was the amount of retained earnings at the end of 2010?

- A. \$20,000
- B. \$8,000**
- C. \$150,000
- D. \$155,000

Retained earnings at the end of the year is equal to the beginning retained earnings plus net income for the year and minus dividends for the year. For the first year of operations, the beginning retained earnings would be zero. Beginning retained earnings of zero plus net income of \$20,000 minus dividends of \$12,000 = \$8,000.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: measurement
Blooms: application
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #120
Topic Area: Financial statements

121. What is the amount of retained earnings at the end of 2011?

- A. \$37,000
- B. \$240,000
- C. \$29,000
- D. \$269,000

Beginning retained earnings plus net income for the year minus dividends for the year equals ending retained earnings. Beginning retained earnings in 2011 is \$8,000 plus net income for 2011 of \$34,000 minus dividends in 2011 of \$5,000 = \$37,000.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: measurement

Blooms: application

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #121

Topic Area: Financial statements

The following accounts are taken from the December 31, 2011 financial statements of a company.

Accounts payable	\$ 2,075
Accounts receivable	800
Selling & Administrative expenses	2,500
Cash	2,200
Contributed capital	2,000
Dividends	1,900
Income tax expense	400
Interest expense	75
Other expenses	500
Notes payable	5,000
Other assets	2,500
Other liabilities	3,000
Other operating expenses	2,000
Other revenue	300
Property and equipment	11,000
Retained earnings as of December 31, 2010	4,800
Salaries expense	3,000
Supplies	300
Service revenue	10,000

Phillips - Chapter 01

122. What is the amount of net income for the year 2011?

- A. \$3,825
- B. \$1,825**
- C. \$10,300
- D. \$5,625

Net income = revenue - expenses

Total revenues are \$10,300 (service revenue of \$10,000 and other revenue of \$300). Total expenses are \$8,475 (salaries expense of 3,000, interest expense of \$75, income tax expense of \$400, selling and administrative expense of \$2,500, other expense of \$500, and other operating expense of \$2,000). Net income = Revenues \$10,300 - Expenses \$8,475 = \$1,825.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #122

Topic Area: Financial statements

123. What is the amount of total assets at the end of 2011?

- A. \$16,800**
- B. \$16,500
- C. \$21,600
- D. \$23,500

Total Assets equal Cash \$2,200 + Accounts receivable \$800 + Other assets \$2,500 + Property& equipment \$11,000 + Supplies \$300 = \$16,800.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #123

Topic Area: Financial statements

124. What is the amount of total liabilities at the end of 2011?

- A. \$7,075
- B. \$10,075**
- C. \$9,075
- D. \$12,975

Total liabilities = Accounts payable \$2,075 + Notes payable \$5,000 + Other liabilities \$3,000 = \$10,075.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #124

Topic Area: Financial statements

125. What is the amount of retained earnings on the Balance Sheet at the end of 2011?

- A. \$7,725
- B. \$6,725
- C. \$4,800
- D. \$4,725**

2011 Ending Retained Earnings = Beginning 2011 Retained Earnings \$4,800 + Net Income for the year \$1,825 - Dividends for the year \$1,900 = \$4,725.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #125

Topic Area: Financial statements

126. Choose the TRUE statement.

- A. A company with Net Income will also have a cash increase from operating activities.
- B. A company with Liabilities of \$80,000 and Stockholders' equity of \$50,000 will have Assets of \$30,000.
- C. If a company has total revenues of \$80,000, total expenses of \$50,000 and dividends of \$10,000, they will have net income of \$20,000.
- D.** A company with total stockholders' equity of \$120,000 and \$75,000 of contributed capital must have total retained earnings of \$45,000.

If a company reports Net Income for a period, it does not necessarily mean that cash increased as a result of operating activities.

Assets = Liabilities + Stockholders' equity.

Net income = Total revenue - Total expenses

Total stockholders' equity = Contributed capital + Retained earnings.

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: measurement

Blooms: application

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #126

Topic Area: Financial statements

127. At the end of the current year, a company paid cash to acquire a storage facility with plans to use it in its business activities for several years. Choose the TRUE statement.

- A. In the current year, total assets will decrease and stockholders' equity will decrease.
- B. In the current year, total assets will decrease and stockholders' equity will increase.
- C.** This year, this activity will be reported as a cash outflow from investing activities on the Statement of Cash Flows.
- D. This year, this activity will not result in any changes to the balance sheet or the income statement.

Assets are unchanged in total, but the asset Cash has decreased and the asset Storage Facility has increased by the same amount. This year the investment in the storage facility will be reported as a cash outflow in the investing activities section of the Statement of Cash Flows.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #127

Topic Area: Financial statements

128. Which of the following would be reported on the income statement for the year?

- A. The amount of Cash at the end of the year.
- B.** The amount of Supplies used up during the current year.
- C. The amount of dividends distributed to owners during the current year.
- D. The amount of unpaid employee wages at the end of the year.

Cash is an asset on the balance sheet. Dividends are reported on the statement of retained earnings, not on the income statement. The amount of unpaid wages is a liability on the balance sheet. Supplies used up during the year is an expense on the income statement.

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #128
Topic Area: Income Statement

129. Which of the following would be reported on the income statement for the current year?

- A.** In the current year, the company sold goods to customers who agreed to pay next year.
- B. In the current year, the company received payment in cash for goods that were sold to customers last year.
- C. In the current year, the company borrowed money from the bank which is to be used in the business activities this year.
- D. In the current year, the company issued stock to owners and received cash immediately.

Goods sold to customers last year was reported as Revenue on the income statement last year. Borrowing money from the bank is not an activity reported on the income statement. Issuing stock is not an activity reported on the income statement.

Revenue is earned this year from the sale of goods and is reported on the income statement for the current year.

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #129
Topic Area: Income Statement

At the end of last year, a company had Assets of \$300,000 and Liabilities of \$125,000. During the current year the company paid cash to acquire equipment at a cost of \$50,000, borrowed \$70,000 signing a formal contract with the bank, and issued \$100,000 of stock to owners receiving cash immediately. During the current year the company paid \$30,000 of dividends to owners.

Phillips - Chapter 01

130. What was the amount of the change in Assets during the year?

- A. Increase \$190,000
- B. Increase \$140,000**
- C. Increase \$70,000
- D. Increase \$90,000

Assets increased by \$70,000 from borrowing and increased \$100,000 from issuance of stock, and decreased by \$30,000 from payment of dividends.

AACSB: analytic
AICPA BB: resource management
AICPA FN: measurement
Blooms: application
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #130
Topic Area: Accounting equation

131. What was the amount of the change in liabilities during the year?

- A. Increase of \$100,000
- B. Increase of \$40,000
- C. Increase of \$70,000**
- D. Increase of \$170,000

Liabilities increased by \$70,000 from borrowing from the bank

AACSB: analytic
AICPA BB: resource management
AICPA FN: measurement
Blooms: application
Difficulty: Easy
Learning Objective: 2
Phillips - Chapter 01 #131
Topic Area: Accounting equation

A company started the current year with assets of \$700,000, liabilities of \$350,000 and contributed capital of \$200,000. During the current year, assets increased by \$400,000, liabilities decreased by \$50,000 and contributed capital increased by \$275,000. There was no payment of dividends to owners during the year.

Phillips - Chapter 01

132. Based on this information, what was the amount of retained earnings at the beginning of the year?

- A.** \$150,000
- B. \$0
- C. \$550,000
- D. \$350,000

Assets \$700,000 = Liabilities \$350,000 + Stockholders' Equity \$?

Stockholders' equity = \$350,000

Stockholders' equity = Contributed capital + Retained earnings.

\$350,000 = \$200,000 + \$150,000

AACSB: analytic skills

AICPA BB: resource management

AICPA FN: measurement

Blooms: application

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #132

Topic Area: Accounting equation

133. What was the amount of the change in total stockholders' equity during the year?

- A. \$350,000 increase
- B.** \$450,000 increase
- C. \$250,000 increase
- D. \$200,000 increase

Assets = Liabilities + Stockholders' Equity.

Assets increased by \$400,000 and liabilities decreased by \$50,000; therefore, stockholders' equity must have increased by \$450,000

AACSB: analytic

AICPA BB: resource management

AICPA FN: measurement

Blooms: application

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #133

Topic Area: Accounting equation

134. What was the amount of net income for the year?

- A. \$225,000
- B. \$275,000
- C. \$175,000**
- D. \$450,000

The amount of the change in total stockholders' equity was an increase of \$450,000 (\$400,000 + \$50,000) and \$275,000 of this increase was to contributed capital. The remainder of the increase, \$175,000, was to retained earnings and since there were no dividends distributed this year, the entire increase must have been the net income for the year.

AACSB: analytic
AICPA BB: resource management
AICPA FN: measurement
Blooms: application
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #134
Topic Area: Accounting equation

The Statement of Cash Flows for the current year contained the following:

Cash Inflow from customers	\$10,000
Cash Outflow from purchase of equipment	\$40,000
Cash Inflow from capital contributed by stockholders	\$30,000
Cash Outflow from payments to suppliers & employees	\$ 5,000
Cash Outflow from payment of dividends to stockholders	\$ 1,000
Cash Inflow from borrowing from the bank	\$20,000

The change in cash for the current year was an increase of \$14,000.

Phillips - Chapter 01

135. What was the amount of Cash Flows from Operating Activities?

- A. Cash inflow of \$5,000**
- B. Cash inflow of \$35,000
- C. Cash inflow of \$25,000
- D. Cash inflow of \$4,000

Cash flows from operating activities is equal to cash from customers minus cash paid to suppliers and employees

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: analysis
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #135
Topic Area: Statement of Cash Flows

136. What was the amount of Cash Flows from Investing Activities?

- A. Cash Outflow of \$1,000
- B. Cash Outflow of \$40,000**
- C. Cash Outflow of \$10,000
- D. Cash Inflow of \$10,000

Cash flows from investing activities is equal to cash outflow from investment in equipment.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: analysis

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #136

Topic Area: Statement of Cash Flows

137. What is the amount of Cash Flows from Financing Activities?

- A. Cash outflow of \$40,000
- B. Cash inflow of \$5,000
- C. Cash inflow of \$49,000**
- D. Cash inflow of \$10,000

Cash flows from financing activities equals cash inflows of cash contributed by stockholders plus cash inflows from borrowing from the bank minus cash outflow from paying dividends to stockholders.

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: analysis

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #137

Topic Area: Statement of Cash Flows

The table shows financial data for Purrfect Pets, Inc. as of June 30, 2010.

Accounts Receivable	\$419,200
Retained Earnings	117,900
Inventories	58,400
Other Assets	69,400
Accounts Payable	349,200
Property, Plant and Equipment	118,500
Cash	732,600
Contributed Capital	662,100
Notes Payable	268,900

Phillips - Chapter 01

138. Prepare a balance sheet using these data.

PURRFECT PETS, INC.
BALANCE SHEET
JUNE 30, 2010

Assets	
Cash	\$ 732,600
Accounts Receivable	419,200
Inventories	58,400
Property, Plant and Equipment	118,500
Other Assets	<u>69,400</u>
Total Assets	<u>\$1,398,100</u>
Liabilities	
Accounts Payable	\$ 349,200
Notes Payable	<u>268,900</u>
Total Liabilities	<u>618,100</u>
Stockholders' Equity	
Contributed Capital	662,100
Retained Earnings	<u>117,900</u>
Total Equity	<u>780,000</u>
Total Liabilities and Stockholders' Equity	<u>\$1,398,100</u>

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: analysis

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #138

Topic Area: Balance Sheet

139. Fill in the missing items in the balance sheet.

PURRFECT PETS, INC.
BALANCE SHEET
SEPTEMBER 30, 2010

Assets	
Cash	\$743,800
Accounts Receivable	?
Inventories	54,900
Property, Plant and Equipment	119,300
Other Assets	<u>71,400</u>
Total Assets	<u>\$ _____ ?</u>
Liabilities	
Accounts Payable	\$342,500
Notes Payable	<u>?</u>
Total Liabilities	<u>607,600</u>
Stockholders' Equity	
Contributed Capital	662,100
Retained Earnings	<u>?</u>
Total Equity	<u>789,400</u>
Total Liabilities and Stockholders' Equity	<u>\$ _____ ?</u>

PURRFECT PETS, INC.
BALANCE SHEET
SEPTEMBER 30, 2010

Assets	
Cash	\$ 743,800
Accounts Receivable	407,600
Inventories	54,900
Property, Plant and Equipment	119,300
Other Assets	<u>71,400</u>
Total Assets	<u>\$1,397,000</u>
Liabilities	
Accounts Payable	\$ 342,500
Notes Payable	<u>265,100</u>
Total Liabilities	<u>607,600</u>
Stockholders' Equity	
Contributed Capital	662,100
Retained Earnings	<u>127,300</u>
Total Equity	<u>789,400</u>
Total Liabilities and Stockholders' Equity	<u>\$1,397,000</u>

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: application

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #139

Topic Area: Balance Sheet

140. Calculate the net income for the Green Thumb, Inc. Then, assuming the company had retained earnings of \$162,000 as of January 1, 2010, and paid out \$46,000 in dividends during the year, prepare its statement of retained earnings.

GREEN THUMB, INC.	
Income Statement	
For the Year Ended December 31, 2010	
Revenues	
Sales Revenue	<u>\$1,865,300</u>
Total Revenues	<u>1,865,300</u>
Expenses	
Wages Expense	724,800
Advertising and Promotion Expenses	262,500
Other Selling and Administrative Expenses	350,800
Interest Expense	43,900
Income Tax Expense	56,500
Other Expenses	<u>122,400</u>
Total Expenses	<u>1,560,900</u>
Net Income	<u>\$ _____ ?</u>

Net income is \$304,400 (or \$1,865,300 - \$1,560,900).

GREEN THUMB, INC.	
Statement of Retained Earnings	
For the Year Ended December 31, 2010	
Retained Earnings, January 1, 2010	\$162,000
Net Income for 2010	304,400
Dividends for 2010	<u>(46,000)</u>
Retained Earnings, December 31, 2010	<u>\$420,400</u>

Feedback: Net Income = Revenue - Expense. Beginning Retained Earnings + Net income - Dividends = Ending Retained Earnings.

AACSB: analytic skills
AICPA BB: resource management
AICPA FN: reporting
Blooms: analysis
Difficulty: Hard
Learning Objective: 2
Phillips - Chapter 01 #140
Topic Area: Financial statements

141. Each of the following independent companies is missing numerical data. Use your knowledge of the financial statement equations and their interrelationships to fill in the missing amounts.

Company	Total Revenues	Total Expenses	Net Income (Loss)	Total Assets	Total Liabilities	Stockholders' Equity
Alpha Co.	\$60,000	\$	\$20,000	\$	\$33,000	\$66,000
Bravo, Inc.		100,000	(30,000)		92,000	38,000
Charlie Co.	30,000	10,000		60,000	40,000	

Company	Total Revenues	Total Expenses	Net Income (Loss)	Total Assets	Total Liabilities	Stockholders' Equity
Alpha Co.	\$60,000	\$40,000	\$20,000	\$99,000	\$33,000	\$66,000
Bravo, Inc.	70,000	100,000	(30,000)	130,000	92,000	38,000
Charlie Co.	30,000	10,000	20,000	60,000	40,000	20,000

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: analysis

Difficulty: Easy

Learning Objective: 2

Phillips - Chapter 01 #141

Topic Area: Financial statements

142. Use the following 2010 data to prepare the annual income statement for Kvass, Inc.

Other Selling and Administrative Expenses	\$1,050,300
Other Expenses	247,600
Sales Revenue	4,885,300
Advertising and Promotion Expenses	552,500
Wages Expense	2,524,400
Income Tax Expense	166,500
Interest Expense	113,900

KVASS, INC.

Income Statement

For the Year Ended December 31, 2010

Revenues

Sales Revenue	<u>\$4,885,300</u>
Total Revenues	<u>4,885,300</u>

Expenses

Wages Expense	2,524,400
Advertising and Promotion Expenses	552,500
Other Selling and Administrative Expenses	1,050,300
Interest Expense	113,900
Income Tax Expense	166,500
Other Expenses	<u>247,600</u>
Total Expenses	<u>4,655,200</u>

Net Income \$ 230,100

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: analysis

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #142

Topic Area: Income Statement

143. Following is a list of financial statement items and amounts for Tim Burr's Tree Service as of 12/31/10, the end of its first year in operation. Use this information to prepare the Income Statement, Statement of Retained Earnings, and Balance Sheet.

Accounts Receivable	\$40,000
Accounts Payable	30,000
Cash	10,000
Contributed Capital	20,000
Notes Payable	10,000
Equipment	50,000
Service Revenue	100,000
Fuel Expense	10,000
Rent Expense	15,000
Advertising Expense	5,000
Wages Expense	20,000
Retained Earnings	?
Dividends	10,000

Tim Burr's Tree Service
Income Statement
For the Year Ended December 31, 2010

Revenues	
Service Revenue	<u>\$100,000</u>
Total Revenues	<u>\$100,000</u>
Expenses	
Fuel Expense	10,000
Rent Expense	15,000
Advertising Expense	5,000
Wage Expense	<u>20,000</u>
Total Expenses	<u>50,000</u>
Net Income	<u>\$ 50,000</u>

Tim Burr's Tree Service
Statement of Retained Earnings
For the Year Ended December 31, 2010

Retained Earnings, January 1, 2010	\$ 0
Net Income for 2010	50,000
Dividends for 2010	<u>(10,000)</u>
Retained Earnings, December 31, 2010	<u>\$40,000</u>

Tim Burr's Tree Service
BALANCE SHEET
December 31, 2010

Assets	
Cash	\$ 10,000
Accounts Receivable	40,000
Equipment	<u>50,000</u>
Total Assets	<u>\$100,000</u>
Liabilities	
Accounts Payable	\$ 30,000
Notes Payable	<u>10,000</u>
Total Liabilities	<u>40,000</u>
Stockholders' Equity	
Contributed Capital	20,000
Retained Earnings	<u>40,000</u>
Total Equity	<u>60,000</u>
Total Liabilities and Stockholders' Equity	<u>\$100,000</u>

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: analysis
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #143
Topic Area: Financial statements

144. Match the category of business activity to the specific business action.

- | | | |
|-----------------------|---|----------|
| 1. Financing activity | The purchase of a new line of assembly equipment. | <u>4</u> |
| 2. Operating activity | Company payment of a dividend. | <u>1</u> |
| 3. Operating activity | The purchase of office supplies. | <u>2</u> |
| 4. Investing activity | The purchase of advertising time by the company. | <u>2</u> |
| 5. Investing activity | The building of a new factory. | <u>4</u> |
| 6. Financing activity | Company payment on a bank loan. | <u>1</u> |

AACSB: analytic

AICPA BB: resource management

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 2

Phillips - Chapter 01 #144

Topic Area: Statement of Cash Flows

145. Match the characteristic of the company with the description of the type of company.

- | | | |
|---------------------------------|--|----------|
| 1. Publicly traded corporation | Issues shares of stock that are traded on a stock exchange such as the NYSE. | <u>1</u> |
| 2. Publicly traded corporation | Owners are personally liable for the debts of the company. | <u>4</u> |
| 3. Privately traded corporation | Shares of stock must be purchased directly from current owners. | <u>3</u> |
| 4. Partnership | Can raise more financial capital by selling stock to the greatest number of investors. | <u>1</u> |

AACSB: analytic

AICPA BB: legal

AICPA FN: reporting

Blooms: comprehension

Difficulty: Medium

Learning Objective: 1

Phillips - Chapter 01 #145

Topic Area: Organizational forms

146. Match the lettered terms to the blanks below to complete the relevant formula for each financial statement.

- A. Cash at beginning of year
- B. Net cash flow from operating activities
- C. Balance of retained earnings from previous year
- D. Net cash flow from investing activities
- E. Liabilities
- F. Net cash flow from financing activities
- G. Balance of retained earnings at end of year
- I Net income
- J. Revenue
- K. Assets
- L. Stockholders' equity
- M. Expenses
- N. Cash at end of year
- O. Dividends paid

A letter may be used more than once. Use the blank on the left side of the equal sign for the "bottom line" number that is reported at the end of each financial statement. Rearrange the formula if necessary.

Balance Sheet _____ = _____ + _____

Income Statement _____ = _____ - _____

Statement of Retained Earnings _____ = _____ + _____ - _____

Statement of Cash Flows _____ = _____ ± _____ ± _____ + _____

$J = E + K; H = I - L; G = C + H - N; M = B + D + F + A$

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: application
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #146
Topic Area: Financial statements

147. Each item in the statement of retained earnings can appear on another financial statement. Match the letter of the financial statement with the item in the statement of retained earnings.

- | | | |
|-------------------------------------|--------------------------------------|----------|
| 1. Income statement for 2010 | Retained earnings, January 1, 2010 | <u>2</u> |
| 2. Balance sheet at end of 2009 | Net income for 2010 | <u>1</u> |
| 3. Balance sheet at end of 2010 | Dividends for 2010 | <u>4</u> |
| 4. Statement of cash flows for 2010 | Retained earnings, December 31, 2010 | <u>3</u> |

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #147
Topic Area: Financial statements

148. Match the organization with the description that best reflects it. (There are more descriptions than organizations.)

- | | |
|---|----------------|
| 1. The U.S. agency that certifies foreign accounting firms to practice in the US | SEC <u>3</u> |
| 2. The rules of accounting in the U.S. | GAAP <u>2</u> |
| 3. Created in 1933, this organization regulates activities associated with the stock market such as the reporting of financial data by publicly owned companies | PCAOB <u>4</u> |
| 4. The U.S. board that approves the rules for auditing publicly owned companies | FASB <u>1</u> |

AACSB: analytic
AICPA BB: legal
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 4
Phillips - Chapter 01 #148
Topic Area: Regulatory environment

149. Match the term and the explanation. (There are more explanations than terms.)

- | | |
|--|----------------------------------|
| 1. Day to day events involved in the production and sales of a company's goods or services | investors <u>5</u> |
| 2. The idea that a company should report its financial data in the relevant currency. | audit <u>7</u> |
| 3. The total amount of profits that are kept by the company. | balance sheet <u>8</u> |
| 4. A financial statement that shows a company's revenues and expenses. | operating activity <u>1</u> |
| 5. An example of external users of financial statements | unit of measure concept <u>2</u> |
| 6. Events involving the purchase or sale of long-term assets, like property and equipment | retained earnings <u>3</u> |
| 7. A procedure by which independent evaluators assess the accounting procedures and financial reports of a company | investing activity <u>6</u> |
| 8. A financial statement showing a company's assets, liabilities and stockholders' equity | income statement <u>4</u> |

AACSB: analytic
AICPA BB: resource management
AICPA FN: reporting
Blooms: comprehension
Difficulty: Medium
Learning Objective: 2
Phillips - Chapter 01 #149
Topic Area: Financial information

ch1 Summary

<u>Category</u>	<u># of Questions</u>
AACSB: analytic	48
AACSB: analytic skills	101
AICPA BB: critical thinking	5
AICPA BB: legal	27
AICPA BB: resource management	117
AICPA FN: measurement	28
AICPA FN: reporting	121
Blooms: analysis	13
Blooms: application	36
Blooms: comprehension	80
Blooms: knowledge	20
Difficulty: Easy	64
Difficulty: Hard	6
Difficulty: Medium	79
Learning Objective: 1	12
Learning Objective: 2	119
Learning Objective: 3	8
Learning Objective: 4	14
Phillips - Chapter 01	160
Topic Area: Accounting equation	14
Topic Area: Balance Sheet	13
Topic Area: Business activities	2
Topic Area: Business decision makers	4
Topic Area: Financial information	10
Topic Area: Financial reporting	4
Topic Area: Financial Statement relevance to users	7
Topic Area: Financial statements	41
Topic Area: Financial Statements and their relevance to users	1
Topic Area: Income Statement	12
Topic Area: Net Income	1
Topic Area: Organizational forms	7
Topic Area: Regulatory environment	12
Topic Area: Statement of Cash Flows	20
Topic Area: Statement of Retained Earnings	1