|  |
| --- |
| True / False |

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

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
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|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.ACBSP.APC.25 - Managerial Characteristics/TerminologyACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.03 - LegalACCT.AICPA.FN.03 - MeasurementBUSPROG: Ethics |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
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| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.BB.03 - LegalACCT.AICPA.FN.03 - MeasurementBUSPROG: Ethics |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
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| *ANSWER:* | True |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.BB.03 - LegalACCT.AICPA.FN.03 - MeasurementBUSPROG: Ethics |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.BB.06 - Resource ManagementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
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| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.20 - Accounting for CorporationsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Ethics |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
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| *ANSWER:* | True |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *DIFFICULTY:* | ChallengingBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *RATIONALE:* | Assets = Liabilities + Owner's Equity = $300,000 + $300,000 = $600,000​ |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *RATIONALE:* | Assets = Liabilities + Owner's Equity–$30,000 = Liabilities + (–$35,000)Liabilities = +$5,000​ |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *RATIONALE:* | Assets = Liabilities + Owner’s Equity+$190,000 = –$10,000 + Owner’s EquityOwner’s Equity = +$200,000​ |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *RATIONALE:* | Increase in Capital = Net Income for the Year – Withdrawals + Additional Investment by Owner = $50,000 – $20,000 + $10,000 = $40,000 |
| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.15 - Current Assets ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.12 - Receivables ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.16 - Current Liabilities ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | ChallengingBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
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| *ANSWER:* | False |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.ACBSP.APC.04 - Cash vs. AccrualACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 40. Revenue is earned only when money is received.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.ACBSP.APC.04 - Cash vs. AccrualACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.15 - Current Assets ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.ACBSP.APC.24 - Statement of Cash FlowsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 47. The balance sheet represents the accounting equation.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| Multiple Choice |

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| 49. Profit is the difference between

|  |  |  |
| --- | --- | --- |
|   | a.  | assets and liabilities |
|   | b.  | the incoming cash and outgoing cash |
|   | c.  | the assets purchased with cash contributed by the owner and the cash spent to operate the business |
|   | d.  | the amounts received from customers for goods or services and the amounts paid forthe inputs used to provide the goods or services |

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 50. Two common areas of accounting that respectively provide information to internal and external users are

|  |  |  |
| --- | --- | --- |
|   | a.  | forensic accounting and financial accounting |
|   | b.  | managerial accounting and financial accounting |
|   | c.  | managerial accounting and environmental accounting |
|   | d.  | financial accounting and tax accounting systems |

|  |  |
| --- | --- |
| *ANSWER:* | b |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 51. Which of the following **best** describes accounting?

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

|  |  |
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| *ANSWER:* | b |
| *DIFFICULTY:* | ModerateBloom's: Evaluating |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 52. Which type of accountant typically practices as an individual or as a member of a public accounting firm?

|  |  |  |
| --- | --- | --- |
|   | a.  | Certified Public Accountant |
|   | b.  | Certified Payroll Professional |
|   | c.  | Certified Internal Auditor |
|   | d.  | Certified Management Accountant |

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| --- | --- |
| *ANSWER:* | a |
| *DIFFICULTY:* | EasyBloom's: Evaluating |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 53. Financial reports are used by

|  |  |  |
| --- | --- | --- |
|   | a.  | management |
|   | b.  | creditors |
|   | c.  | investors |
|   | d.  | All of these choices |

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 54. Which of the following is a manufacturing business?

|  |  |  |
| --- | --- | --- |
|   | a.  | General Motors |
|   | b.  | Facebook |
|   | c.  | American Airlines |
|   | d.  | Target |

|  |  |
| --- | --- |
| *ANSWER:* | a |
| *DIFFICULTY:* | ModerateBloom's: Evaluating |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 55.  Which of the following is a service business?

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

|  |  |
| --- | --- |
| *ANSWER:* | c |
| *DIFFICULTY:* | EasyBloom's: Evaluating |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Evaluating |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | c |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | b |
| *DIFFICULTY:* | ModerateBloom's: Evaluating |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 60. Managerial accountants would be responsible for providing information regarding

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

|  |  |
| --- | --- |
| *ANSWER:* | c |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.ACBSP.APC.25 - Managerial Characteristics/TerminologyACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | d |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | b |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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

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| *ANSWER:* | d |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.03 - LegalACCT.AICPA.FN.03 - MeasurementBUSPROG: Ethics |

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

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

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| *ANSWER:* | b |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 65. Most businesses in the United States are

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

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| *ANSWER:* | a |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | a |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *LOCAL STANDARDS:* | United States - OH - Default City - ACBSP: APC-03-Business FormsUnited States - OH - Default City - AICPA: FN-Measurement |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryBUSPROG: Analytic |

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

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

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| *ANSWER:* | b |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | d |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.ACBSP.APC.13 - Long-term Assets ReportingACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | b |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | d |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.ACBSP.APC.20 - Accounting for CorporationsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 72. The initials GAAP stand for

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

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| *ANSWER:* | c |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.1-02 - 01 - 02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 73. Within the United States, the dominant body in the primary development of accounting principles is the

|  |  |  |
| --- | --- | --- |
|   | a.  | American Institute of Certified Public Accountants (AICPA) |
|   | b.  | American Accounting Association (AAA) |
|   | c.  | Financial Accounting Standards Board (FASB) |
|   | d.  | Institute of Management Accountants (IMA) |

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| *ANSWER:* | c |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
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| 74. The business entity concept means that

|  |  |  |
| --- | --- | --- |
|   | a.  | the owner is part of the business entity |
|   | b.  | an entity is organized according to state or federal statutes |
|   | c.  | an entity is organized according to the rules set by the FASB |
|   | d.  | the entity is an individual economic unit for which data are recorded, analyzed, and reported |

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| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 75. For accounting purposes, the business entity should be considered separate from its owners if the entity is

|  |  |  |
| --- | --- | --- |
|   | a.  | a corporation |
|   | b.  | a proprietorship |
|   | c.  | a partnership |
|   | d.  | All of these choices |

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| *ANSWER:* | d |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 76. The objectivity concept requires that

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

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| *ANSWER:* | d |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | b |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| --- | --- |
| *ANSWER:* | b |
| *RATIONALE:* | Amount in Buyer's Accounting Records = Amount Paid in Cash + Amount Paid through Note Payable = $15,000 + $20,000 = $35,000 |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | a |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | c |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | b |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 82. Many countries outside the United States use financial accounting standards issued by the

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

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| *ANSWER:* | c |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 83. The unit of measure concept

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

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| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 84. Which of the following is **not** true of accounting principles?

|  |  |  |
| --- | --- | --- |
|   | a.  | Financial accountants follow generally accepted accounting principles (GAAP). |
|   | b.  | Following GAAP allows accounting information users to compare one company to another. |
|   | c.  | A new accounting principle can be adopted with stockholders' approval. |
|   | d.  | The Financial Accounting Standards Board (FASB) has primary responsibility for developing accounting principles. |

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| *ANSWER:* | c |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 85. Assets are

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

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| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 86. Debts owed by a business are referred to as

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|   | a.  | accounts receivable |
|   | b.  | expenses |
|   | c.  | owner’s equity |
|   | d.  | liabilities |

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| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.16 - Current Liabilities ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 87. The accounting equation may be expressed as

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|   | a.  | Assets = Equities − Liabilities |
|   | b.  | Assets + Liabilities = Owner's Equity |
|   | c.  | Assets = Revenues − Liabilities |
|   | d.  | Assets − Liabilities = Owner's Equity |

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| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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|   | a.  | investments |
|   | b.  | cash |
|   | c.  | inventory |
|   | d.  | owner’s equity |

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| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| --- | --- |
| *ANSWER:* | b |
| *RATIONALE:* | Assets *=* Liabilities + Owner's Equity$128,000 *=* $84,000 + Owner's EquityOwner's Equity = $44,000​ |
| *DIFFICULTY:* | EasyBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | b |
| *RATIONALE:* | Assets = Liabilities + Owner's Equity = –$46,000 + $60,000 = $14,000Change in Assets = +$14,000 |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | a |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | b |
| *RATIONALE:* | Assets = Liabilities + Owner's EquityAsset (Cash) decreases by $7,000Liability (Accounts Payable) decreases by $7,000 |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 93. Earning revenue

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

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| *ANSWER:* | a |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 94. The monetary value charged to customers for the performance of services sold is called a(n)

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| --- | --- | --- |
|   | a.  | asset |
|   | b.  | net income |
|   | c.  | capital |
|   | d.  | revenue |

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| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 95. Revenues are reported when

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| --- | --- | --- |
|   | a.  | a contract is signed |
|   | b.  | cash is received from the customer |
|   | c.  | work is begun on the job |
|   | d.  | work is completed on the job |

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| *ANSWER:* | d |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 96. Expenses are recorded when

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

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| *ANSWER:* | c |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 97. Goods purchased on account for future use in the business, such as supplies, are called

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| --- | --- | --- |
|   | a.  | prepaid liabilities |
|   | b.  | revenues |
|   | c.  | prepaid expenses |
|   | d.  | liabilities |

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| *ANSWER:* | c |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 98. The asset created by a business when it makes a sale on account is termed

|  |  |  |
| --- | --- | --- |
|   | a.  | accounts payable |
|   | b.  | prepaid expense |
|   | c.  | unearned revenue |
|   | d.  | accounts receivable |

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| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.12 - Receivables ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 99. The debt created by a business when it makes a purchase on account is referred to as an

|  |  |  |
| --- | --- | --- |
|   | a.  | account payable |
|   | b.  | account receivable |
|   | c.  | asset |
|   | d.  | expense payable |

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| *ANSWER:* | a |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.16 - Current Liabilities ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *RATIONALE:* | Assets *=* Liabilities + Owner's Equity–$88,000 = Liabilities + $71,000Liabilities = –$159,000​ |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 101. Owner's withdrawals

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

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| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | c |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | d |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | c |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *STATE STANDARDS:* | United States - OH - ICPA: FN-Measurement |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| --- | --- |
| *ANSWER:* | b |
| *RATIONALE:* | Net Change in Assets = Increase in Cash – Decrease in Land = $62,000 – $30,000 = +$32,000Change in Owner's Equity = +$32,000 |
| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.13 - Long-term Assets ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 106. Which of the following accounts is a liability?

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

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| *ANSWER:* | a |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.16 - Current Liabilities ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| --- | --- |
| *ANSWER:* | a |
| *RATIONALE:* | Assets = Liabilities + Owner's EquityOwner's Equity (Year 1) = $940,000 – $300,000 = $640,000Owner's Equity (Year 2) = $995,000 – $270,000 = $725,000Increase in Owner's Equity = Owner's Equity (Year 2) – Owner's Equity (Year 1) = $725,000 – $640,000 = $85,000Net Income during Year 2 = Increase in Owner's Equity – Additional Investment + Withdrawals= $85,000 – $73,000 + $33,000 = $45,000 |
| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.15 - Current Assets ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 109. Transactions affecting owner's equity include

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

|  |  |
| --- | --- |
| *ANSWER:* | b |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | b |
| *RATIONALE:* | Assets = Liabilities + Owner's EquityAssets (Cash) increase by $15,000Owner's equity increases by $15,000​ |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *RATIONALE:* | Assets = Liabilities + Owner's EquityAssets (Cash) decrease by $2,000Liabilities (Notes Payable) decrease by $2,000 |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.16 - Current Liabilities ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | b |
| *RATIONALE:* | Assets = Liabilities + Owner's EquityAssets (Cash) decrease by $750Owner's equity decreases by $750​ |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
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| *ANSWER:* | d |
| *DIFFICULTY:* | ChallengingBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 114. Which of the following is a business transaction?

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

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| *ANSWER:* | a |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| --- | --- |
| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | c |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | a |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 119. Liabilities are reported on the

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

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.ACBSP.APC.16 - Current Liabilities ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 120. Cash investments made by the owner to the business are reported on the statement of cash flows in the

|  |  |  |
| --- | --- | --- |
|   | a.  | financing activities section |
|   | b.  | investing activities section |
|   | c.  | operating activities section |
|   | d.  | supplemental statement |

|  |  |
| --- | --- |
| *ANSWER:* | a |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.ACBSP.APC.24 - Statement of Cash FlowsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 121. The year-end balance of the owner's capital account appears in

|  |  |  |
| --- | --- | --- |
|   | a.  | both the statement of owner's equity and the income statement |
|   | b.  | only the statement of owner's equity |
|   | c.  | both the statement of owner's equity and the balance sheet |
|   | d.  | both the statement of owner's equity and the statement of cash flows |

|  |  |
| --- | --- |
| *ANSWER:* | c |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 122. A financial statement user would determine if a company was profitable or not during a specific period of time by reviewing the

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

|  |  |
| --- | --- |
| *ANSWER:* | a |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | b |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.ACBSP.APC.24 - Statement of Cash FlowsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | c |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| --- | --- |
| *ANSWER:* | c |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-06 - 01-06 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.23 - Financial Statement AnalysisACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 126. Given the following data:  Dec. 31,Year 2       Dec. 31,Year 1Total liabilities            $128,250                 $120,000Total owner’s equity      95,000                    80,000Compute the ratio of liabilities to owner’s equity for each year.  Round to two decimal places.

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

|  |  |
| --- | --- |
| *ANSWER:* | b |
| *RATIONALE:* | Ratio of Liabilities to Owner’s Equity = Total Liabilities/Total Owner's Equity​Dec. 31, Year 2                  Dec. 31, Year 1$128,250/$95,000             $120,000/$80,0001.35                                   1.50  |
| *DIFFICULTY:* | ChallengingBloom's Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-06 - 01-06 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.23 - Financial Statement AnalysisACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| --- |
| Matching |

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

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

|  |  |
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| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 127. A tax preparation firm

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| *ANSWER:* | a |

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| 128. A law firm

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| --- | --- |
| *ANSWER:* | a |

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|  |  |  |
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| 129. A health club and spa

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| --- | --- |
| *ANSWER:* | a |

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|  |  |  |
| --- | --- | --- |
| 130. An automobile dealer

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| --- | --- |
| *ANSWER:* | c |

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|  |  |  |
| --- | --- | --- |
| 131. A book publisher

|  |  |
| --- | --- |
| *ANSWER:* | b |

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|  |  |  |
| --- | --- | --- |
| 132. A hospital

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 133. A supermarket

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 134. A modular homebuilder

|  |  |
| --- | --- |
| *ANSWER:* | b |

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|  |  |  |
| --- | --- | --- |
| 135. A men’s clothing store

|  |  |
| --- | --- |
| *ANSWER:* | c |

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|  |  |  |
| --- | --- | --- |
| 136. A dressmaking company

|  |  |
| --- | --- |
| *ANSWER:* | b |

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

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

|  |  |
| --- | --- |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |
| --- | --- |
| *ANSWER:* | a |

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|  |  |  |
| --- | --- | --- |
| 138. Generates 90% of business revenues

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 139. Owned by two or more individuals

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- |
| 140. Organized as a separate legal taxable entity

|  |  |
| --- | --- |
| *ANSWER:* | c |

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|  |  |  |
| --- | --- | --- |
| 141. Easy and cheap to organize

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 142. Often used as an alternative to a partnership

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |
| --- | --- | --- |
| 143. Used by large business

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 144. Has the ability to obtain large amounts of resources

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| *ANSWER:* | c |

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| 145. Offers tax and legal liability advantages for owners

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| *ANSWER:* | d |

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

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

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| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 146. Received cash for services provided

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| --- | --- |
| *ANSWER:* | c |

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| 147. Received utility bill to be paid next month

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| --- | --- |
| *ANSWER:* | b |

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| 148. Investment of land by owner

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| --- | --- |
| *ANSWER:* | c |

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| 149. Paid part of an amount owed to a creditor

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| *ANSWER:* | e |

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

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| *ANSWER:* | d |

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| 151. Received payment from a customer on account

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| *ANSWER:* | d |

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| 152. Cash withdrawal by owner

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| *ANSWER:* | f |

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| 153. Provided a service to a customer on account

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| *ANSWER:* | c |

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| 154. Purchased supplies on credit

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| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- |
| 155. Paid wages

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| *ANSWER:* | f |

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| 156. Cash investment by owner

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| --- | --- |
| *ANSWER:* | c |

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| 157. Borrowed money from a bank

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| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- |
| 158. Purchased equipment for cash

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| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- |
| 159. Received cash for providing services to customers

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| --- | --- |
| *ANSWER:* | c |

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| 160. Used up supplies that were already on hand

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| --- | --- |
| *ANSWER:* | f |

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

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| a.  | Income statement |
| b.  | Balance sheet |
| c.  | Statement of owner’s equity |
| d.  | Statement of  cash flows |

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| --- | --- |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.ACBSP.APC.24 - Statement of Cash FlowsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 161. Reports as of a specific date

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| --- | --- |
| *ANSWER:* | b |

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| 162. The first statement prepared

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| *ANSWER:* | a |

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| 163. Has three sections: operating, investing and financing

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| *ANSWER:* | d |

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| 164. Reports only revenues and expenses

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| --- | --- |
| *ANSWER:* | a |

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| 165. The second statement prepared

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| *ANSWER:* | c |

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| 166. A formal presentation of the accounting equation

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| *ANSWER:* | b |

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

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| *ANSWER:* | c |

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| Subjective Short Answer |

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

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| *ANSWER:* | Internal users of accounting information include managers and employees. The area of accounting that provides internal users with information is called managerial accounting or management accounting. An example of a report that might be used internally is a customer profitability report.​External users of accounting information include customers, creditors, banks, and government entities. These users are not directly involved in managing or operating the business. The area of accounting that provides external users with information is called financial accounting. General-purpose financial statements are one type of financial accounting report that is distributed to external users. |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| *ANSWER:* | The three factors are: (1) individual character, (2) firm culture, and (3) lack of laws and enforcement. Honesty, integrity, and fairness in the face of pressure to hide the truth are important characteristics of an ethical businessperson. The behavior and attitude of senior management set the firm’s culture. In firms like Enron, senior managers created a culture of greed and indifference to the truth. That culture flowed down to lower-level managers, who took shortcuts and lied to cover financial frauds. The lack of laws and enforcement has been blamed as a contributing factor to financial reporting abuses. As a result, new laws such as the Sarbanes-Oxley Act (SOX) established a new oversight body for the accounting profession, known as the Public Company Accounting Oversight Board (PCAOB), and established standards to enhance corporate accountability, financial disclosures, and independence. |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.20 - Accounting for CorporationsACCT.AICPA.BB.03 - LegalACCT.AICPA.FN.03 - MeasurementBUSPROG: Ethics |

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

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| *ANSWER:* | 1. Identify users.2. Assess users’ information needs.3. Design the accounting information system to meet users’ needs.4. Record economic data about business activities and events.5. Prepare accounting reports for users. |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | ​

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

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| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.1-01 - 01 - 01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* | ​

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

 |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| *ANSWER:* | The objective of financial accounting is to provide information for the decision-making needs of external users. The objective of managerial accounting is to provide information for internal users. |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-01 - 01-01 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.01 - PurposeACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| *ANSWER:* | Accounting reports would become unstable and unreliable. |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| *ANSWER:* | $95,000 |
| *DIFFICULTY:* | EasyBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| --- | --- |
| *ANSWER:* | $115,000 |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.ACBSP.APC.13 - Long-term Assets ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 177. Explain the meaning of the business entity concept.

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| *ANSWER:* | The business entity concept limits the economic data in an accounting system to data related directly to the activities of the business. In other words, the business is viewed as an entity separate from its owners, creditors, or other businesses. |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 178. Darnell Company purchased $88,000 of computer equipment from Joseph Company.  Darnell Company paid for the equipment using cash that had been obtained from the initial investment by Donnie Darnell.​Which entity or entities (Darnell Company, Joseph Company, and Donnie Darnell) should record the transaction involving the computer equipment on their accounting records?

|  |  |
| --- | --- |
| *ANSWER:* | Darnell Company and Joseph Company |
| *DIFFICULTY:* | ChallengingBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| --- | --- |
| *ANSWER:* | Under the business entity concept, economic data are limited to the direct activities of the business.  The business is viewed as separate from its owner.  Therefore, when Bob buys a personal automobile, it is not listed on the books of Johnson’s Carpet Cleaning Service, unless Bob invests it in the business.  In this case, the loan is a personal debt and not a liability of the company, and the cash is from Bob’s personal account and not the company’s account. |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| *ANSWER:* | A limited liability company (LLC) combines the attributes of a partnership and a corporation. It is often used as an alternative to a partnership because it has tax and legal liability advantages for owners. |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.03 - Business FormsACCT.AICPA.BB.01 - IndustryACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 181. Explain the meaning of:(a) the objectivity concept(b) the unit of measure concept

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| *ANSWER:* | (a)  The objectivity concept requires that the amounts recorded in the accounting records be based on objective evidence. In exchanges between a buyer and a seller, both try to get the best price. Only the final agreed-upon amount is objective enough to be recorded in the accounting records.​(b) The unit of measure concept requires that economic data be recorded in dollars. Money is a common unit of measurement for entering financial data and preparing reports. |
| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-02 - 01-02 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.02 - GAAPACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |  |  |  |  |
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| *ANSWER:* |

|  |  |
| --- | --- |
| (a) | $325,000 ($450,000 − $125,000**)** |
| (b) | $355,000 [($450,000 + $65,000)  − ($125,000 + $35,000)] |

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| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |
| --- | --- |
| *ANSWER:* | Assets = Liabilities + Owner’s Equity4x = x + $45,0003x = $45,000x = $15,000 in liabilities |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* |

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

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| *DIFFICULTY:* | EasyBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
| --- | --- |
| *ANSWER:* | (a)  $40,900 ($78,500 − $37,600)​(b)  $198,280 ($53,280 + $145,000)​(c)  $15,500 ($49,500 − $34,000) |
| *DIFFICULTY:* | EasyBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 186. Use the accounting equation to answer each of the independent questions below.​(a) At the beginning of the year, Norton Company's assets were $75,000 and its owner’s equity was $38,000. During     the year, assets increased by $18,000 and liabilities increased by $4,000.  What was the owner’s equity at the     end of the year?​(b)  At the beginning of the year, Turpin Industries had liabilities of $44,000 and owner’s equity of $66,000.  If assets      increased by $10,000 and liabilities decreased by $5,000, what was the owner’s equity at the end of the year?

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| --- | --- |
| *ANSWER:* | (a)  $75,000 − $38,000 = $37,000 beginning of year liabilities     ($75,000 + $18,000) − ($37,000 + $4,000) = $52,000 end of year owner’s equity​(b)  $44,000 + $66,000 = $110,000 beginning of year assets     ($110,000 + $10,000) − ($44,000 − $5,000) = $81,000 end of year owner’s equity |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| --- | --- |
| *ANSWER:* | $63,500($27,000 Cash + $12,300 Accounts Receivable + $3,100 Supplies + $35,000 Land − $13,900 Accounts Payable = $63,500) |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 188. Ting Hsu is the owner of Hsu’s Financial Services. At the end of its accounting period, December 31, of Year 1, Hsu’s has assets of $575,000 and owner’s equity of $335,000. Using the accounting equation and considering each case independently, determine the following amounts:​(a)  Hsu’s liabilities as of December 31 of Year 1.(b)  Hsu’s liabilities as of December 31 of Year 2, assuming that assets increased by $56,000 and                             owner’s equity decreased by $32,000.(c)  Net income or net loss during Year 2, assuming that as of December 31, Year 2, assets were $592,000,     liabilities were $450,000, and there were no additional investments or withdrawals.

|  |  |
| --- | --- |
| *ANSWER:* | (a)  $575,000 − $335,000 = $240,000(b)  ($575,000 + $56,000) − ($335,000 − $32,000) = $328,000(c)  $592,000 − $450,000 = $142,000 owner’s equity (Year 2)     $335,000 − $142,000 = $193,000 net loss |
| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* |

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

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| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 190. Martin Blair is the owner and operator of Martin Consultants.  At December 31 of the current year, Martin Consultants has assets of $430,000 and liabilities of $205,000.  Using the accounting equation and considering each case independently, determine the following:​(a) Martin Blair, capital, as of December 31.(b) Martin Blair, capital, as of December 31 of the next year, assuming that assets increased by $12,000    and liabilities increased by $15,000.(c) Martin Blair, capital, as of December 31 of the next year, assuming that assets decreased by $8,000    and liabilities increased by $14,000.

|  |  |
| --- | --- |
| *ANSWER:* | (a)  $430,000 − $205,000 = $225,000(b)  ($430,000 + $12,000) − ($205,000 + $15,000) = $222,000(c)  ($430,000 − $8,000) − ($205,000 + $14,000) = $203,000 |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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

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| --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* |

|  |  |
| --- | --- |
|   | $110,000 |
|   | ($30,000 Cash + $14,000 Accounts Receivable + $64,000 Equipment + $2,000 Prepaid Rent = $110,000) |
|   |

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| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| --- | --- | --- | --- | --- | --- |
| ​*ANSWER:* |

|  |  |
| --- | --- |
|   | $37,000 |
|   | ($12,000 Accounts Payable + $5,000 Income Taxes Payable + $20,000 Notes Payable = $37,000) |

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| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-03 - 01-03 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| *ANSWER:* | ($165,000 Fees Earned + $3,000 Interest Income) − ($40,000 Salaries and Wages Expense + $44,000 Selling Expenses + $18,000 Income Taxes Expense + $20,000 Rent Expense) = $46,000 Net Income​Scott Industries had net income for the period of $46,000.  Since revenues exceeded expenses for the period, the company would be considered profitable. |
| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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

*Note*:  Each transaction has two entries.

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

​*ANSWER:*

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

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| *DIFFICULTY:* | ChallengingBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| *ANSWER:* | Increase assets (Supplies) and increase liabilities (Accounts Payable) |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* |

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

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| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| --- | --- |
| *ANSWER:* | Increase liabilities (Accounts Payable) and decrease owner’s equity (Utilities Expense) |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 198. Simpson Auto Body Repair purchased $20,000 of machinery.  The company paid $8,000 in cash at the time of the purchase and signed a promissory note for the remainder to be paid in four monthly installments.  ​(a) How will the purchase affect the accounting equation?(b) How will the payment of the first monthly installment affect the accounting equation (ignore interest)?

|  |  |
| --- | --- |
| *ANSWER:* | (a)  Increase total assets by a net amount of $12,000 (increase Machinery,      $20,000 and decrease Cash, $8,000) and increase liabilities by $12,000 (Notes      Payable, $12,000)​(b)  Decrease assets by $3,000 (decrease Cash,$3,000) and decrease liabilities by      $3,000 (Notes Payable,$3,000) |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 199. Indicate how the following transactions affect the accounting equation.​(a) The purchase of supplies on account(b) The purchase of supplies for cash(c) A withdrawal by the owner to pay personal expenses(d) Revenues received in cash(e) Sale made on account

|  |  |
| --- | --- |
| *ANSWER:* | (a) Assets increase; liabilities increase(b) No effect(c) Assets decrease; owner's equity decreases(d) Assets increase; owner’s equity increases(e) Assets increase; owner’s equity increases |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 200. (a)  A vacant lot acquired for $83,000 cash is sold for $127,000 in cash. What is the effect of the sale on the     total amount of the seller’s (1) assets, (2) liabilities, and (3) owner’s equity?​(b)  Assume that the seller owes $52,000 for the land. After receiving the $127,000 cash in (a), the seller pays the $52,000 owed. What is the effect of the payment on the total amount of the seller’s (1) assets, (2) liabilities, and (3) owner’s equity?

|  |  |
| --- | --- |
| *ANSWER:* | (a)  (1) Total assets increased $44,000      (2) No change in liabilities      (3) Owner’s equity increased $44,000​(b)  (1) Total assets decreased $52,000      (2) Total liabilities decreased $52,000      (3) No change in owner’s equity |
| *DIFFICULTY:* | EasyBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |
| --- | --- |
| *ANSWER:* | Total assets decrease $20,000 (Cash increases by $45,000;  Land decreases by $65,000)Total liabilities decrease $40,000 (Note payoff to Regions)Owner's equity increases $20,000 (Sales price − Cost of the land) |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.13 - Long-term Assets ReportingACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 202. There are four transactions that affect owner’s equity.  ​(a) What are the two types of transactions that increase owner’s equity?(b) What are the two types of transactions that decrease owner’s equity?

|  |  |
| --- | --- |
| *ANSWER:* | (a) Additional investment by the owner and increase in revenues(b) Withdrawal made by the owner and increase in expenses |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| *ANSWER:* |

|  |  |
| --- | --- |
| (a) | 1 |
| (b) | 2 |
| (c) | 2 |
| (d) | 1 |
| (e) | 1 |
| (f) | 2 |

 |
| *DIFFICULTY:* | EasyBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 204. Given the following:​Beginning capital          $58,000Ending capital                 30,000Owner withdrawal           25,000​Calculate net income or net loss.

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| *ANSWER:* |

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| --- | --- |
| Ending capital         | $30,000 |
| Beginning capital   |   58,000 |
| Decrease in capital | $28,000 |
| Less withdrawals |   25,000 |
| Net loss | $  3,000 |

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| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* |

|  |  |  |  |
| --- | --- | --- | --- |
|   | A | L | OE |
| (a) | + |   | + |
| (b) | + | + |   |
| (c) | − |   | − |
| (d) | + |   | + |
| (e) | − | − |   |
| (f) | +,− |   |   |
| (g) | − | − |   |
| (h) | + |   | + |
| (i) | − |   | − |
| (j) | +,− |   |   |
| (k) | − |   | − |
| (l) | − |   | − |
| (m) |   | + | − |
| (n) | − |   | − |
| (o) | +,− |   |   |

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| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

​Prepare an income statement for Flagger Company in good form.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* | ​

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

 |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-04 - 01-04 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* | ​

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| --- |
| Thompson Computer ServicesIncome StatementFor the Year Ended March 31 |
| Fees earned |   |   | $73,450 |
| Expenses: |   |   |   |
|   | Wages expense | $23,550 |   |
|   | Office expense | 1,240 |   |
|   | Miscellaneous expense |          1,030 |   |
|   | Total expenses |   |   25,820 |
| Net income |   |   | $47,630 |

 |
| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| *ANSWER:* | ​

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| --- |
| Thompson Computer ServicesStatement of Owner’s EquityFor the Year Ended March 31 |
| Thompson, capital, April 1 |   |  $180,000 |
| Additional investment by owner during year | $ 25,000 |   |
| Net income for the year |   47,630 |   |
| Withdrawals |   (16,570) |   |
| Increase in owner’s equity | ​ |    56,060 |
| Thompson, capital, March 31 |   | $236,060 |

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| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| *ANSWER:* | ​

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| --- |
| Thompson Computer ServicesBalance SheetMarch 31 |
| **Assets** |   | **Liabilities** |   |
| Cash | $ 21,420 |   Accounts payable | $   2,000 |
| Accounts receivable | 10,340 |  |   |
| Supplies | 1,670 |   |   |
| Land | 47,000 | **Owner’s Equity** |   |
| Building |  157,630 |  Thompson capital |  236,060 |
| ​Total assets | ​$238,060 | Total liabilities and owner’s equity | ​$238,060 |

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| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |
| --- | --- |
| Cash receipts: |   |
|      Cash received from customers | $83,990 |
|      Cash received from additional investment by owner | 25,000 |

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|  |  |
| --- | --- |
| Cash payments: |   |
|      Cash paid for expenses | $27,000 |
|      Cash paid for land | 47,000 |
|      Cash paid for supplies | 410 |
|      Drawing | 5,000 |
|   |   |
| Cash balance as of January 1 | $40,600 |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* | ​

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

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| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.ACBSP.APC.24 - Statement of Cash FlowsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

|  |  |
| --- | --- |
| *ANSWER:* | The income statement reports the revenues and expenses for a period of time. The result is either a net income or a net loss. |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| --- | --- |
| *ANSWER:* | operating activities, investing activities, and financing activities |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.ACBSP.APC.24 - Statement of Cash FlowsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 213. *Match the following items to the financial statement where they can be found. (*Hint*: Some of the items can be found on more than one financial statement.)*A. Balance sheetB. Income statementC. Statement of cash flowsD. Statement of owner’s equity

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* |

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

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| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| *ANSWER:* | 1. Income statement: A summary of the revenue and expenses *for a specific    period of time*, such as a month or a year.​2. Statement of owner’s equity:  A summary of the changes in the owner’s    equity that have occurred *during a specific period of time* such as a    month or a year.​3. Balance sheet: A list of the assets, liabilities, and owner’s equity *as of a    specific date*, usually at the close of the last day of a month or a year.​4. Statement of cash flows: A summary of the cash receipts and cash payments    for a *specific period of time*, such as a month or a year. |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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| --- | --- |
| Cash payments: |   |
|      Cash paid for operating expenses | $12,120 |
|      Cash paid for equipment | 18,070 |
|      Cash paid for party supplies | 9,480 |
|      Drawing | 12,000 |
|   |   |
| Cash balance as of January 1 | $15,580 |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* | ​

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

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| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.24 - Statement of Cash FlowsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* | ​

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| Rocky's Day SpaIncome StatementFor the Year Ended December 31 |
| Fees earned |   |   | $98,435 |
| Expenses: |   |   |   |
|   | Wages expense | $26,580 |   |
|   | Spa operating expense | 23,760 |   |
|   | Office expense |    2,470 |   |
|   | Total expenses |   |   52,810 |
| Net income |   |   | $45,625 |

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| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

​Prepare a balance sheet for the year ended December 31.​

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* | ​

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| Rocky's Day SpaBalance SheetDecember 31 |
| **Assets** |   | **Liabilities** |   |
| Cash | $13,980 |      Accounts payable | $ 4,375 |
| Accounts receivable | 8,490 |   |   |
| Spa supplies | 9,230 |   |   |
| Computers | 2,130 | **Owner’s Equity** |   |
| Spa furniture and equipment |   56,000 |      Owner's capital |   85,455 |
| Total assets |   $89,830 |      Total liabilities and       owner’s equity | $89,830 |

 |
| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* | ​

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| --- |
| Rocky's Day SpaStatement of Owner’s EquityFor the Year Ended December 31 |
| Owner's capital, January 1 |   | $68,000 |
| Additional investment by owner during year | $ 10,000 |   |
| Net income for the year |   45,625 |   |
| Withdrawals |   (38,170) |   |
| Increase in owner’s equity | ​ |   17,455 |
| Owner's capital, December 31 |   | $85,455 |

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| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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| *ANSWER:* | The cash reported on the balance sheet is also reported as the end-of-period cash on the statement of cash flows. |
| *DIFFICULTY:* | ModerateBloom's: Understanding |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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

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

|  |  |
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| *ANSWER:* | (a), (d), (f) |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 221. Identify which of the following items would appear on a balance sheet.

|  |  |
| --- | --- |
| (a) | Cash |
| (b) | Fees earned |
| (c) | Joe Brown, capital |
| (d) | Wages payable |
| (e) | Rent expense |
| (f) | Prepaid advertising |
| (g) | Land |

|  |  |
| --- | --- |
| *ANSWER:* | (a), (c), (d), (f), (g) |
| *DIFFICULTY:* | EasyBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 222. Indicate whether each of the following activities would be reported on the statement of cash flows as an operating activity, an investing activity, or a financing activity, or if it does not appear on the cash flow statement.

|  |  |
| --- | --- |
| (a) | Cash paid for building |
| (b) | Cash paid to suppliers |
| (c) | Cash paid for owner's withdrawal |
| (d) | Cash received from customers |
| (e) | Cash received from the owner's investment |
| (f) | Cash received from the sale of a building |
| (g) | Borrowed cash from a bank |

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| *ANSWER:* |

|  |  |
| --- | --- |
| (a) | Investing |
| (b) | Operating |
| (c) | Financing |
| (d) | Operating |
| (e) | Financing |
| (f) | Investing |
| (g) | Financing |

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| *DIFFICULTY:* | ModerateBloom's: Remembering |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.ACBSP.APC.24 - Statement of Cash FlowsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 223. For each of the following, determine the amount of net income or net loss for the year.

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

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| *ANSWER:* |

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| --- | --- |
| (a) | $35,800 net income ($71,300 − $35,500) |
| (b) | $45,500 net income ($220,500 − $175,000) |
| (c) | $23,000 net loss ($149,000 − $172,000) |
| (d) | $23,950 net income ($198,150 − $174,200) |

 |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 224. The total assets and total liabilities of Paul’s Pools, a proprietorship, at the beginning and at the end of the current fiscal year are as follows:

|  |  |  |
| --- | --- | --- |
|   | January 1 | December 31 |
| Total assets | $280,000 | $475,000 |
| Total liabilities | 205,000 | 130,000 |

|  |  |
| --- | --- |
| (a) | Determine the amount of net income earned during the year.  The owner did not invest any additional assets in the business during the year and made no withdrawals. |
| (b) | Determine the amount of net income during the year.  The assets and liabilities at the beginning and end of the year are unchanged from the amounts presented above.  However, the owner withdrew $53,000 in cash during the year (no additional investments). |
| (c) | Determine the amount of net income earned during the year.  The assets and liabilities at the beginning and end of the year are unchanged from the amounts presented above.  However, the owner invested an additional $35,000 in cash in the business in June of the current fiscal year (no withdrawals). |
| (d) | Determine the amount of net income earned during the year.  The assets and liabilities at the beginning and end of the year are unchanged from the amounts presented above.  However, the owner invested an additional $12,000 in cash in August of the current fiscal year and made 12 monthly cash withdrawals of $1,500 each during the year. |

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| *ANSWER:* |

|  |  |  |
| --- | --- | --- |
| (a) | Owner's equity at end of year ($475,000 − $130,000) | $345,000 |
|   | Owner's equity at beginning of year ($280,000 − $205,000) | ​   75,000 |
|   | Net income | $270,000 |

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| (b) | Increase in owner's equity as in (a) | $270,000 |
|   | Add withdrawals |    53,000 |
|   | Net income | $323,000 |

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| (c) | Increase in owner's equity as in (a) | $270,000 |
|   | Deduct additional investment |    35,000 |
|   | Net income | $235,000 |

|  |  |  |
| --- | --- | --- |
| (d) | Increase in owner's equity as in (a) | $270,000 |
|   | Add withdrawals ($1,500 × 12) |    18,000 |
|   |   | $288,000 |
|   | Deduct additional investment |    12,000 |
|   | Net income | $276,000 |

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| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.06 - Recording TransactionsACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 225. Selected transaction data of a business for September are summarized below.  Determine the following amounts for September:  (a) total revenue, (b) total expenses, (c) net income.

|  |  |
| --- | --- |
| Service sales charged to customers on account during September | $33,000 |
| Cash received from cash customers for services performed in September | 28,000 |
| Cash received from customers on account during September: |   |
|      Services performed and charged to customers prior to September | 13,000 |
|      Services performed and charged to customers during September | 18,000 |
| Expenses incurred prior to September and paid during September | 6,500 |
| Expenses incurred and paid in September | 36,250 |
| Expenses incurred in September but not paid in September | 5,000 |
| Expenses for supplies used and insurance (not included above)   applicable to September | 2,000 |

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| *ANSWER:* |

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

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| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 226. On March 1, the amount of Richard Cook's capital in Richard’s Catering Company was $150,000.  During March, he withdrew $31,000 from the business.  The amounts of the various assets, liabilities, revenues, and expenses are as follows:

|  |  |
| --- | --- |
| Accounts payable | $10,250 |
| Accounts receivable | 45,950 |
| Cash | 23,840 |
| Fees earned | 64,950 |
| Insurance expense | 1,275 |
| Land | 85,400 |
| Miscellaneous expense | 1,210 |
| Prepaid insurance | 3,000 |
| Rent expense | 9,000 |
| Salary expense | 20,300 |
| Supplies | 900 |
| Supplies expense | 525 |
| Utilities expense | 2,800 |

​Present, in good form, (a) an income statement for March, (b) a statement of owner's equity for March, and (c) a balance sheet as of March 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* |

|  |  |
| --- | --- |
| (a) |   |
| Richard’s Catering CompanyIncome StatementFor the Month Ended March 31 |
| Fees earned | ​ | $64,950 |
| Expenses: |   |   |
|    Salary expense | $20,300 |   |
|    Rent expense | 9,000 |   |
|    Utilities expense | 2,800 |   |
|    Insurance expense | 1,275 |   |
|    Supplies expense | 525 |   |
|    Miscellaneous expense |    1,210 |   |
|          Total expenses |   |     35,110 |
| Net income |  | $29,840 |

​

|  |
| --- |
| (b) |
| Richard’s Catering CompanyStatement of Owner's EquityFor the Month Ended March 31 |
| Richard Cook, capital, March 1 |   | $150,000 |
| Net income for the month | $29,840 | ​ |
| Withdrawals |    (31,000) |  |
| Decrease in owner's equity |   |      (1,160) |
| Richard Cook, capital, March 31 |   | $148,840 |

​

|  |
| --- |
| (c) |
| Richard’s Catering CompanyBalance SheetMarch 31 |
| **Assets** |   |   | **Liabilities** |   |
| Cash | $  23,840 |   | Accounts payable | $ 10,250 |
| Accounts receivable | 45,950 |   |   |   |
| Prepaid insurance | 3,000 |   | **Owner's Equity** |   |
| Supplies | 900 |   | Richard Cook, capital |   148,840 |
| Land |    85,400 |   | Total liabilities and |   |
| Total assets | $159,090 |   |   owner's equity | $159,090 |

 |
| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 227. Harris Designers began operations on April 1.  The financial statements for Harris Designers are shown below for the month ended April 30, (the first month of operations).  Determine the missing amounts for letters (a) through (o).

|  |
| --- |
| Harris DesignersIncome StatementFor the Month Ended April 30 |
| Fees earned |   | $27,000 |
| Expenses: |   |   |
|    Wages expense | $5,250 |   |
|    Rent expense | (a) |   |
|    Supplies expense | 4,600 |   |
|    Utilities expense | 400 |   |
|    Miscellaneous expense |   1,250 |   |
|         Total expenses |   |        (b) |
| Net income |   | $     (c) |

​

|  |
| --- |
| Harris DesignersStatement of Owner's EquityFor the Month Ended April 30 |
| Lori Harris, capital, April 1 |   | $        0 |
| Investment on April 1 | $35,000 |   |
| Net income for April |        (d) |   |
| Withdrawals |     (6,000) |   |
| Increase in owner's equity |   |         (e) |
| Lori Harris, capital, April 30 |   | $38,100 |

​

|  |
| --- |
| Harris DesignersBalance SheetApril 30 |
| **Assets** |   |   | **Liabilities** |   |
| Cash | $     (f) |   | Accounts payable | $(h) |
| Supplies | 8,100 |   | **Owner's Equity** |   |
| Land |        (g) |   | Lori Harris, capital |    (i) |
|  |  |   | Total liabilities and |   |
| Total assets | $55,900 |   |   owner's equity | $(j) |

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|  |
| --- |
| Harris DesignersStatement of Cash FlowsFor the Month Ended April 30 |
| Cash flows from operating activities: |   |   |
|    Cash received from customers | $23,000 |   |
|    Cash payments for expenses and payments to   creditors | ​   (4,200) |   |
|    Net cash flow from operating activities |   | $18,800 |
| Cash flows from investing activities: |   |   |
|     Cash payments for acquisition of land |   | (17,000) |
| Cash flows from financing activities: |   |   |
|     Cash received as owner's investment | $  (k) |   |
|     Cash withdrawal by owner |  (l) |   |
|     Net cash flow from financing activities |   |         (m) |
| Net increase in cash and April 30 cash balance |   | $      (n) |

​Place your answers in the space provided below.  Hint: Use the interrelationships among the financial statements to solve this problem.

|  |  |
| --- | --- |
| (a) | \_\_\_\_\_\_\_\_\_\_\_ |
| (b) | \_\_\_\_\_\_\_\_\_\_\_ |
| (c) | \_\_\_\_\_\_\_\_\_\_\_ |
| (d) | \_\_\_\_\_\_\_\_\_\_\_ |
| (e) | \_\_\_\_\_\_\_\_\_\_\_ |
| (f) | \_\_\_\_\_\_\_\_\_\_\_ |
| (g) | \_\_\_\_\_\_\_\_\_\_\_ |
| (h) | \_\_\_\_\_\_\_\_\_\_\_ |
| (i) | \_\_\_\_\_\_\_\_\_\_\_ |
| (j) | \_\_\_\_\_\_\_\_\_\_\_ |
| (k) | \_\_\_\_\_\_\_\_\_\_\_ |
| (l) | \_\_\_\_\_\_\_\_\_\_\_ |
| (m) | \_\_\_\_\_\_\_\_\_\_\_ |
| (n) | \_\_\_\_\_\_\_\_\_\_\_ |

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| *ANSWER:* |

|  |  |
| --- | --- |
| (a) | $6,400 |
| (b) | $17,900 |
| (c) | $9,100 |
| (d) | $9,100 |
| (e) | $38,100 |
| (f) | $30,800 |
| (g) | $17,000 |
| (h) | $17,800 |
| (i) | $38,100 |
| (j) | $55,900 |
| (k) | $35,000 |
| (l) | $6,000 |
| (m) | $29,000 |
| (n) | $30,800 |

 |
| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 228. Using the following accounting equation elements and their balances, prepare, in good form, an income statement for Heavenly Futures Company for the month ended August 31.​

|  |  |
| --- | --- |
| Telephone expense | $  1,150 |
| Cash | 3,000 |
| Accounts payable | 1,540 |
| Jason Heavenly, drawing | 800 |
| Fees earned | 15,700 |
| Rent expense | 1,400 |
| Supplies | 140 |
| Accounts receivable | 1,500 |
| Computer equipment | 20,000 |
| Jason Heavenly, capital (August 1) | 14,320 |
| Wages expense | 4,800 |
| Utilities expense | 750 |
| Notes payable | 2,400 |
| Office expense | 420 |

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| *ANSWER:* | ​

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| --- |
| Heavenly Futures CompanyIncome StatementFor the Month Ended August 31 |
| Fees earned | $15,700 |
| Expenses: |   |
|        Wages expense | $4,800 |   |
|         Rent expense | 1,400 |   |
|         Telephone expense | 1,150 |   |
|         Utilities expense | 750 |   |
|         Office expense |     420 |   |
|             Total expenses |    8,520 |
| Net income | $ 7,180 |

 |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 229. Using the following accounting equation elements and their balances, prepare, in good form, a statement of owner’s equity for Bright Futures Company for the month ended August 31.

|  |  |
| --- | --- |
| Telephone expense | $  1,150 |
| Cash | 3,000 |
| Accounts payable | 1,540 |
| Jason Bright, drawing | 800 |
| Fees earned | 15,700 |
| Rent expense | 1,400 |
| Supplies | 140 |
| Accounts receivable | 1,500 |
| Computer equipment | 20,000 |
| Jason Bright, capital (August 1) | 14,320 |
| Wages expense | 4,800 |
| Utilities expense | 750 |
| Notes payable | 2,400 |
| Office expense | 420 |

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| *ANSWER:* | ​

|  |
| --- |
| Bright Futures CompanyStatement of Owner’s EquityFor the Month Ended August 31 |
| Jason Bright, capital, August 1 |   | $14,320 |
| Net income for August |  $7,180 | ​ |
| Withdrawals |       800 |   |
| Increase in owner’s equity |   |    6,380 |
| Jason Bright, capital, August 31 |   | $20,700 |

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| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 230. Eric Wood, CPA, was organized on January 1 as a proprietorship.  List the errors that you find in the following financial statements and prepare the corrected statements for the three months ended March 31.

|  |
| --- |
| Eric Wood, CPAIncome StatementFor the Three Months Ended March 31 |
| Fees earned |   | $42,000 |
| Expenses: |   |   |
|    Salary expense | $9,735 |   |
|    Rent expense | 5,200 |   |
|    Advertising expense | 3,950 |   |
|    Utilities expense | 3,225 |   |
|    Miscellaneous expense | 4,000 |   |
|    Answering service expense | 2,550 |   |
|    Supplies expense |         4,000 |   |
|         Total expenses |   |   28,000 |
| Net income |   | $14,000 |

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|  |
| --- |
| Eric Wood, CPAStatement of Owner's EquityMarch 31 |
| Eric Wood, capital, January 1 |   | $       0 |
| Investment on January 1 | $20,000 |   |
| Net income for the three months |   14,000 |   |
| Withdrawals |  (5,000) |   |
| Increase in owner's equity |   |   31,000 |
| Eric Wood, capital, March 31 |   | $31,000 |

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|  |
| --- |
| Balance SheetFor the Three Months Ended March 31 |
| **Assets** |   | **Owner's Equity** |   |
| Land | $13,000   |   Eric Wood, capital | $31,000 |
| Cash | 10,860   | **Liabilities** |   |
| Accounts payable | 2,670   |   Accounts receivable |    2,225 |
| Supplies |       925   |   Total liabilities and |   |
| Total assets | $33,225   |  owner's equity | $33,225 |
|   |   |   |   |

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| *ANSWER:* | Errors in the Eric Wood, CPA, financial statements include the following:

|  |  |
| --- | --- |
| (1) | Miscellaneous expense is incorrectly listed after utilities expense on the income statement. Miscellaneous expense should be listed as the last expense, regardless of the amount. |
| (2) | The operating expenses are incorrectly added.  Instead of $28,000, the total should be $32,660. |
| (3) | Because operating expenses are incorrectly added, the net income is incorrect. It should be listed as $9,340. |
| (4) | The statement of owner's equity should be for a period of time instead of a specific date.  That is, the statement of owner's equity should be reported "For the Three Months Ended March 31." |
| (5) | Because the net income was incorrect, the increase in owners' equity and the balance in Eric Wood, Capital are incorrect. They should both be shown as $24,340. |
| (6) | The name of the company is missing from the balance sheet heading. |
| (7) | The balance sheet should be as of "March 31," not "For the Three Months Ended March 31." |
| (8) | Cash, not land, should be the first asset listed on the balance sheet. |
| (9) | Accounts payable is incorrectly listed as an asset on the balance sheet.  Accounts payable should be listed as a liability. |
| (10) | Liabilities should be listed on the balance sheet ahead of owner's equity. |
| (11) | Accounts receivable is incorrectly listed as a liability on the balance sheet. Accounts receivable should be listed as an asset. |
| (12) | The assets do not total to $33,225 as shown, making the balance sheet out of balance.  |

Correctly prepared financial statements for Eric Wood, CPA, are shown below.​

|  |
| --- |
| Eric Wood, CPAIncome StatementFor the Three Months Ended March 31 |
| Fees earned |   | $42,000 |
| Expenses: |   |   |
|    Salary expense | $9,735 |   |
|    Rent expense | 5,200 |   |
|    Supplies expense | 4,000 |   |
|    Advertising expense | 3,950 |   |
|    Utilities expense | 3,225 |   |
|    Answering service expense | 2,550 |   |
|    Miscellaneous expense |   4,000 |   |
|        Total expenses |   |   32,660 |
| Net income |   | $  9,340 |

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|  |
| --- |
| Eric Wood, CPAStatement of Owner's EquityFor the Three Months Ended March 31 |
| Eric Wood, capital, January 1 |   | $       0 |  |
| Investment on January 1 | $20,000 |  |  |
| Net income for three months |     9,340 |  |  |
| Withdrawals |  (5,000) |  |  |
| Increase in owner's equity |   |   24,340 |  |
| Eric Wood, capital, March 31 |   | $24,340 |  |
| Eric Wood, CPABalance SheetMarch 31 |
| **Assets** |   |   | **Liabilities** |   |
| Cash | $10,860 |   | Accounts payable | $  2,670 |
| Accounts receivable |  2,225 |   | **Owner's Equity** |  |
| Supplies |  925 |   | Eric Wood, capital |   24,340 |
| Land |   13,000 |   | Total liabilities and |  |
| Total assets | $27,010 |   | owner's equity | $27,010 |

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| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 231. Using the following accounting equation elements and their balances, prepare, in good format a balance sheet in report form for Bright Futures Company for the month ended August 31.

|  |  |
| --- | --- |
| Telephone expense | $  1,150 |
| Cash | 3,000 |
| Accounts payable | 1,540 |
| Jason Bright, drawing | 800 |
| Fees earned | 15,700 |
| Rent expense | 1,400 |
| Supplies | 140 |
| Accounts receivable | 1,500 |
| Computer equipment | 20,000 |
| Jason Bright, capital (August 1) | 14,320 |
| Wages expense | 4,800 |
| Utilities expense | 750 |
| Notes payable | 2,400 |
| Office expense | 420 |

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| *ANSWER:* | ​

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| Bright Futures CompanyBalance SheetAugust 31 |
| **Assets** |   |
| Cash | $  3,000 |
| Accounts receivable | 1,500 |
| Supplies | 140 |
| Computer equipment |   20,000 |
| Total assets | $24,640 |
|   |   |
| **Liabilities** |   |
| Accounts payable | $  1,540 |
| Notes payable |     2,400 |
| Total liabilities | $  3,940 |
| **Owner's Equity** |   |
| Jason Bright, capital |   20,700 |
| Total liabilities and owner’s equity  | $24,640 |

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| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-05 - 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 232. The accounting equation elements and their balances of Awesome Travel Services at December 31 are listed below. There were no additional investments or withdrawals by J. Trendsetter during the year.

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| --- | --- | --- | --- | --- |
| Accounts payable | $12,000 |   | J. Trendsetter, capital (January 1) | $10,000 |
| Accounts receivable | 14,000 |   | Supplies | 1,000 |
| Cash | 18,000 |   | Income taxes expense | 1,300 |
| Computer equipment | 21,000 |   | Utilities expense | 8,000 |
| Fees earned | 78,000 |   | Wages expense | 25,000 |
| Rent expense | 10,000 |   | Supplies expense | 1,700 |

​Prepare an income statement, statement of owner’s equity, and a balance sheet as of December 31.​

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| *ANSWER:* |

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| --- |
| Awesome Travel ServicesIncome StatementFor the Year Ended December 31 |
|   | Fees earned |   |   |   | $78,000 |
|   | Expenses: |   |   |   |
|   |   | Wages expense |   | $25,000 |   |
|   |   | Rent expense |   | 10,000 |   |
|   |   | Utilities expense |   | 8,000 |   |
|   |   | Supplies expense |   | 1,700 |   |
|   |   | Income taxes expense |   |   1,300 |   |
|   |   |       Total expenses |   46,000 |
|   | Net income |   |   |   | $32,000 |

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| Awesome Travel ServicesStatement of Owner’s EquityFor the Year Ended December 31 |
| J. Trendsetter, capital, January 1 |   | $10,000 |
| Net income for the year |   |   32,000 |
| J. Trendsetter, capital, December 31 |   | $42,000 |

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| Awesome Travel ServicesBalance SheetDecember 31 |
| **Assets** |   |   | **Liabilities** |   |
| Cash | $18,000 |   | Accounts payable | $12,000 |
| Accounts receivable | 14,000 |   |  | ​ |
| Supplies | 1,000 |   | **Owner’s Equity** |   |
| Computer equipment |  21,000 |   | J. Trendsetter, capital |  42,000 |
| Total assets | $54,000 |   | Total liabilities and  owner’s equity | $54,000 |
|   |   |   |  | ​ |

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| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.1-05 - 01 - 05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial StatementsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 233. Schultz Tax Services, a tax preparation business, had the following transactions during the month of June:​1.  Received cash for providing accounting services, $3,000.2.  Billed customers on account for providing services, $7,000.3.  Paid advertising expense, $800.4.  Received cash from customers on account, $3,800.5.  Owner made a withdrawal, $1,500.6.  Received telephone bill, $220.7.  Paid telephone bill, $220.​​Based on the information given above, calculate the balance of cash at June 30. Use the following reconciliation.​Cash, June 1                                $25,000​Plus cash receipts for June         \_\_\_\_\_\_\_\_\_\_\_\_​Minus cash payments for June   \_\_\_\_\_\_\_\_\_\_\_\_​Cash, June 30                             \_\_\_\_\_\_\_\_\_\_\_\_

|  |  |
| --- | --- |
| *ANSWER:* | ​Cash, June 1                                 $25,000Plus cash receipts for June                6,800Minus cash payments for June          2,520Cash, June 30                                $29,280 |
| *DIFFICULTY:* | ChallengingBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-06 - 01-06 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.24 - Statement of Cash FlowsACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 234. Given the following data:  Dec. 31,Year 2        Dec. 31,Year 1Total liabilities                  $128,250                 $120,000Total owner’s equity           95,000                     80,000(a) Compute the ratio of liabilities to owner’s equity for each year.(b) Has the creditors’ risk increased or decreased from December 31, Year 1, to December 31, Year 2?

|  |  |
| --- | --- |
| *ANSWER:* | (a)Dec. 31, Year 2                 Dec. 31,Year 1Total liabilities                                   $128,250                             $120,000Total owner’s equity                             95,000                                 80,000Ratio of liabilities to owner’s equity        1.35                                     1.50           ($128,250/$95,000)         ($120,000/$80,000)​(b) Decreased |
| *DIFFICULTY:* | ModerateBloom's: Applying |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-06 - 01-06 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.23 - Financial Statement AnalysisACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 235. Company G has a ratio of liabilities to stockholders’ equity of 0.12 and 0.28 for Year 1 and Year 2, respectively. In contrast, Company M has a ratio of liabilities to stockholders’ equity of 1.13 and 1.29 for the same period.​REQUIRED:Based on this information, which company's creditors are more at risk and why? Should the creditors of either company fear the risk of nonpayment?

|  |  |
| --- | --- |
| *ANSWER:* | Company M’s creditors are more at risk than are Company G’s creditors. The lower the ratio of liabilities to stockholders' equity, the better able the company is to withstand poor business conditions and pay its obligations to creditors. Without additional information, it appears that the creditors of either company are well protected against the risk of nonpayment, because the ratios are relatively low for both.  However, the fact that both ratios are increasing over the period should be monitored for downturns in business conditions. |
| *DIFFICULTY:* | ModerateBloom's: Analyzing |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-06 - 01-06 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.23 - Financial Statement AnalysisACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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| 236. The following data were taken from Miller Company’s balance sheet:​Dec. 31, Year 2         Dec. 31, Year 1Total liabilities                         $150,000                     $105,000Total owner’s equity                   75,000                         60,000​(a) Compute the ratio of liabilities to owner’s equity. Round your answer to one decimal place.(b) Has the creditors’ risk increased or decreased from December 31, Year 1, to December 31, Year 2?

|  |  |
| --- | --- |
| *ANSWER:* | (a) 12/31/Year 2: $150,000/$75,000 = 2.0    12/31/Year 1: $105,000/$60,000 = 1.8​(b) Increased |
| *DIFFICULTY:* | ModerateBloom's: Analyzing |
| *LEARNING OBJECTIVES:* | ACCT.WARD.18.01-06 - 01-06 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.23 - Financial Statement AnalysisACCT.AICPA.FN.03 - MeasurementBUSPROG: Analytic |

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