

Chapter 1: Uses of Accounting Information and the Financial Statements

TRUE/FALSE

1. The intentional preparation of misleading financial statements is referred to as *fraudulent financial reporting*.

ANS: T PTS: 1 OBJ: LO1 NAT: AACSB correlation: ethics
LOC: Learning Type: Recall KEY: ethical reporting

2. Fraudulent financial reporting can result from the misapplication of accounting principles.

ANS: T PTS: 1 OBJ: LO1 NAT: AACSB correlation: ethics
LOC: Learning Type: Recall KEY: ethical reporting

3. Criminal penalties cannot be imposed on those who prepare fraudulent financial statements.

ANS: F PTS: 1 OBJ: LO1 NAT: AACSB correlation: ethics
LOC: Learning Type: Recall KEY: ethical reporting

4. The Sarbanes-Oxley Act orders the SEC to hold chief executives and CFOs responsible for the accuracy of their company's financial statements.

ANS: T PTS: 1 OBJ: LO1 NAT: AACSB correlation: ethics
LOC: Learning Type: Recall KEY: business ethics| ethical reporting

5. Responsibility for ethical financial reporting rests solely with the accountant.

ANS: F PTS: 1 OBJ: LO1 NAT: AACSB correlation: ethics
LOC: Learning Type: Recall KEY: professional ethics

6. Earned income is a measure of profitability.

ANS: T PTS: 1 OBJ: LO1 NAT: AACSB correlation: ethics
LOC: Learning Type: Recall KEY: profitability

7. Obtaining funds from a bank is an example of an investing activity.

ANS: F PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
LOC: Learning Type: Comprehension KEY: statement of cash flows

8. Paying taxes to the government is an example of an operating activity.

ANS: T PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
LOC: Learning Type: Comprehension KEY: statement of cash flows

9. Management accounting focuses on external decision making.

ANS: F PTS: 1 OBJ: LO1
NAT: AACSB correlation: technology LOC: Learning Type: Recall
KEY: management functions

10. The processing stage of accounting is accomplished by the recording of data.

ANS: F PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
LOC: Learning Type: Recall KEY: bookkeeping

11. The terms *bookkeeping* and *accounting* are synonymous.

ANS: F PTS: 1 OBJ: LO1
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: bookkeeping

12. A company's management information system is a subsystem of its accounting information system.

ANS: F PTS: 1 OBJ: LO1
NAT: AACSB correlation: technology LOC: Learning Type: Recall
KEY: management information system

13. The modern definition of *accounting* focuses on the role of accounting in making economic decisions rather than on how to do accounting.

ANS: T PTS: 1 OBJ: LO1
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: management functions

14. Two major goals of business are to achieve profitability and to achieve liquidity.

ANS: T PTS: 1 OBJ: LO1
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: management functions

15. Liquidity means having enough funds on hand to pay debts when they fall due.

ANS: T PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
LOC: Learning Type: Recall KEY: liquidity and current liabilities

16. Financial accounting information is used primarily by management.

ANS: F PTS: 1 OBJ: LO2
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: management functions

17. Accounting ratios are useful as management performance measures.

ANS: T PTS: 1 OBJ: LO1
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: management functions

18. The purchase of equipment is an example of a financing activity.

ANS: F PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
LOC: Learning Type: Comprehension KEY: statement of cash flows

19. Buying and selling goods and services are examples of operating activities.

ANS: T PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
LOC: Learning Type: Comprehension KEY: statement of cash flows

20. A major function of management is to provide the accountant with relevant and useful information.

ANS: F PTS: 1 OBJ: LO2
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: management functions

21. The evaluation and interpretation of financial statements and related performance measures is called technical analysis.

ANS: F PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
LOC: Learning Type: Comprehension KEY: financial analysis

22. The Federal Reserve Board is an example of an economic planner.

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: diversity LOC: Learning Type: Comprehension
KEY: economic pricing concepts

23. The primary external users of accounting information are investors and management.

ANS: F PTS: 1 OBJ: LO2
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: financial information users

24. The Securities and Exchange Commission is an accounting information user with a direct financial interest.

ANS: F PTS: 1 OBJ: LO2
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: financial information users

25. Taxing authorities are considered accounting information users with an indirect financial interest.

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: financial information users

26. Creditors are those who lend money to others or deliver goods and services before being paid.

ANS: T PTS: 1 OBJ: LO2 NAT: AACSB correlation: analytic
LOC: Learning Type: Recall KEY: liabilities

27. Regulatory agencies are considered information users with a direct financial interest.

ANS: F PTS: 1 OBJ: LO2
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: financial information users

28. Financing a business means obtaining funds so the business can begin and continue operating.

ANS: T PTS: 1 OBJ: LO2 NAT: AACSB correlation: analytic

LOC: Learning Type: Recall

KEY: equity financing

29. Not-for-profit organizations have no obligation to report their financial performance to outside parties.

ANS: F

PTS: 1

OBJ: LO2

NAT: AACSB correlation: diversity

LOC: Learning Type: Recall

KEY: financial information users

30. Only about 10 percent of the U.S. economy is generated by governmental and not-for-profit organizations.

ANS: F

PTS: 1

OBJ: LO2

NAT: AACSB correlation: diversity

LOC: Learning Type: Recall

KEY: professional organizations

31. Accountants consider money the common unit of measure for all business transactions.

ANS: T

PTS: 1

OBJ: LO3

NAT: AACSB correlation: diversity

LOC: Learning Type: Comprehension

KEY: money measure

32. Payment to a creditor is an example of a nonexchange business transaction.

ANS: F

PTS: 1

OBJ: LO3

NAT: AACSB correlation: diversity

LOC: Learning Type: Comprehension

KEY: liabilities

33. For accounting purposes, a business and its owners are considered separate entities.

ANS: T

PTS: 1

OBJ: LO3

NAT: AACSB correlation: diversity

LOC: Learning Type: Recall

KEY: concept of separate entity

34. Knowledge of the exchange rate is necessary to apply the money measure concept in case of international transactions.

ANS: T

PTS: 1

OBJ: LO3

NAT: AACSB correlation: diversity

LOC: Learning Type: Comprehension

KEY: money measure

35. For reporting purposes, the personal assets and debts of a business owner should be combined with the assets and debts of the business.

ANS: F

PTS: 1

OBJ: LO3

NAT: AACSB correlation: diversity

LOC: Learning Type: Recall

KEY: concept of separate entity

36. Exchange rates for currency change daily according to the supply and demand for each currency.

ANS: T

PTS: 1

OBJ: LO3

NAT: AACSB correlation: diversity

LOC: Learning Type: Comprehension

KEY: economic pricing concepts

37. The day-by-day accumulation of interest is considered a transaction involving an exchange of value.

ANS: F PTS: 1 OBJ: LO3 NAT: AACSB correlation: analytic
LOC: Learning Type: Comprehension KEY: analyzing business transactions

38. Partnerships in the United States generate more business (in terms of receipts) than sole proprietorships and corporations put together.

ANS: F PTS: 1 OBJ: LO4
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: partnerships

39. A corporation is an economic unit that is legally separate from its owners.

ANS: T PTS: 1 OBJ: LO4
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: corporations

40. Corporations represent the largest number of businesses in the United States.

ANS: F PTS: 1 OBJ: LO4
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: corporations

41. The liability of corporate stockholders is limited to the amount of their investment.

ANS: T PTS: 1 OBJ: LO4
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: corporations

42. The stockholders of a corporation elect the board of directors.

ANS: T PTS: 1 OBJ: LO4
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: corporations

43. In general, any partner can obligate the partnership to another party.

ANS: T PTS: 1 OBJ: LO4
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: partnerships

44. A partnership is dissolved when any partner leaves the business or dies.

ANS: T PTS: 1 OBJ: LO4
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: dissolution of a partnership

45. The personal resources of any partner can be called upon to pay the obligations of the partnership.

ANS: T PTS: 1 OBJ: LO4
NAT: AACSB correlation: diversity LOC: Learning Type: Recall
KEY: partnerships

46. When a corporate stockholder sells his or her shares of stock, the corporation is technically dissolved.

47. Financial position may be assessed by referring to a balance sheet.

48. *Creditors' equities* is another term for *liabilities*.

49. One way of stating the accounting equation is: Assets + Liabilities = Owner's Equity.

50. The economic resources invested in a business by the owner are represented by owner's equity.

51. Equipment is an asset that is considered nonmonetary in nature.

52. *Net income* is another term for *revenues*.

53. *Cash* is another term for *owner's equity*.

54. A net loss results when owner's withdrawals exceed net income.

55. Revenues have the effect of increasing owner's capital.

ANS: T PTS: 1 OBJ: LO5

NAT: AACSB correlation: reflective LOC: Learning Type: Comprehension
KEY: owner's equity

56. Owner withdrawals are an example of an expense.

ANS: F PTS: 1 OBJ: LO5
NAT: AACSB correlation: reflective LOC: Learning Type: Comprehension
KEY: owner's equity

57. The obligation to provide services to another entity is a type of liability.

ANS: T PTS: 1 OBJ: LO5
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: categories of current liabilities

58. If a company has suffered only net losses since its inception, the owner's equity account will always have a negative balance.

ANS: F PTS: 1 OBJ: LO5
NAT: AACSB correlation: reflective LOC: Learning Type: Comprehension
KEY: owner's equity

59. Net assets equal assets plus liabilities.

ANS: F PTS: 1 OBJ: LO5
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: assets

60. Owner's equity equals assets minus liabilities.

ANS: T PTS: 1 OBJ: LO5
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: owner's equity

61. Inventory is an example of a monetary asset.

ANS: F PTS: 1 OBJ: LO5
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: assets

62. Owner's equity equals cumulative net income or loss plus owner investments minus cumulative withdrawals.

ANS: T PTS: 1 OBJ: LO5
NAT: AACSB correlation: reflective LOC: Learning Type: Comprehension
KEY: owner's equity

63. The statement of owner's equity discloses the owner's withdrawals made during the period.

ANS: T PTS: 1 OBJ: LO6
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: statement of owner's equity

64. The heading for a balance sheet might include the line "As of December 31, 20xx."

ANS: T PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
LOC: Learning Type: Recall KEY: balance sheet

65. The income statement is also known as the statement of financial position.

ANS: F PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
LOC: Learning Type: Recall KEY: income statement

66. The statement of cash flows discloses significant events related to the operating, investing, and financing activities of a business.

ANS: T PTS: 1 OBJ: LO6
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: statement of cash flows

67. The statement of owner's equity relates the income statement to the balance sheet by showing how the owner's Capital account changed during the accounting period.

ANS: T PTS: 1 OBJ: LO6
NAT: AACSB correlation: reflective LOC: Learning Type: Comprehension
KEY: statement of owner's equity

68. The purchase of land with cash would be disclosed on the statement of cash flows.

ANS: T PTS: 1 OBJ: LO6
NAT: AACSB correlation: reflective LOC: Learning Type: Comprehension
KEY: statement of cash flows

69. The accounting fees earned by an accounting firm would appear on its balance sheet.

ANS: F PTS: 1 OBJ: LO6
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: balance sheet

70. A proper heading for the income statement could include "For the Year Ended December 31, 20xx."

ANS: T PTS: 1 OBJ: LO6
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: income statement

71. The account 'Wages Payable' would appear on the income statement.

ANS: F PTS: 1 OBJ: LO6
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: income statement

72. An increase in revenue will result in an increase in owner's equity.

ANS: T PTS: 1 OBJ: LO5 NAT: AACSB correlation: analytic
LOC: Learning Type: Recall KEY: analyzing business transactions| owner's equity

73. The account 'Supplies' will appear as an expense on the income statement.

ANS: F PTS: 1 OBJ: LO6
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: income statement

74. Generally accepted accounting principles encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time.

ANS: T PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: conventions for interpretation of financial information

75. The International Accounting Standards Board is the primary and most important determinant of generally accepted accounting principles.

ANS: F PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: industry norms

76. Companies whose securities are sold to the general public must adhere to standards established by the Securities and Exchange Commission.

ANS: T PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: corporations

77. The Internal Revenue Service is responsible for issuing accounting standards for state and local governments.

ANS: F PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: independent CPA report

78. Independence is the avoidance of all relationships that impair or appear to impair the objectivity of the accountant.

ANS: T PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: independent CPA report

79. Both public accountants and management accountants are required to adhere to a code of professional conduct.

ANS: T PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: professional ethics

80. Objectivity means carrying out one's professional responsibilities with competence and diligence.

ANS: F PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: professional ethics

81. Due care means carrying out one's professional responsibilities honestly and impartially.

ANS: F PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: professional ethics

82. The Public Company Accounting Oversight Board (PCAOB) was created to determine the standards that auditors must follow.

ANS: T PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: professional ethics

83. The board of directors appoints the audit committee, which in turn performs an independent audit of the company's records.

ANS: F PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: professional ethics

84. Corporate governance is the oversight of a company's management performance and ethics by its board of directors.

ANS: T PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: professional ethics

MULTIPLE CHOICE

1. The intentional preparation of misleading financial statements, known as fraudulent financial reporting, can result from all of the following *except*
- the misapplication of accounting principles.
 - the manipulation of inventory records.
 - fictitious sales or orders.
 - recording a revenue that has been earned but not yet received.

ANS: D PTS: 1 OBJ: LO1 NAT: AACSB correlation: ethics
LOC: Learning Type: Recall KEY: ethical reporting

2. All of the following statements are true about the Sarbanes-Oxley Act *except*
- it applies to publicly traded companies.
 - it shields chief executives from criminal penalties.
 - it orders the SEC to draw up certain rules.
 - its primary goal is to regulate financial reporting and the accounting profession.

ANS: B PTS: 1 OBJ: LO1 NAT: AACSB correlation: ethics
LOC: Learning Type: Recall KEY: business ethics

3. The purchase of land is an example of a(n)
- investing activity.
 - operating activity.
 - capital activity.
 - financing activity.

ANS: A PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
LOC: Learning Type: Comprehension KEY: statement of cash flows

4. The correct order of the three stages of accounting is
- communication, processing, and measurement.
 - measurement, communication, and processing.
 - processing, measurement, and communication.
 - measurement, processing, and communication.

ANS: D PTS: 1 OBJ: LO1

NAT: AACSB correlation: communication

LOC: Learning Type: Recall

KEY: measurement issues

5. Which of the following is an example of an operating activity?
- Obtaining capital from owners
 - Selling goods and services to customers
 - Purchasing equipment
 - Selling land

ANS: B PTS: 1 OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: statement of cash flows

6. Which of the following is an example of an investing activity?
- Purchasing a building
 - Obtaining a bank loan
 - Paying taxes to the government
 - Producing goods and services

ANS: A PTS: 1 OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: statement of cash flows

7. Which of the following is an example of a financing activity?
- Employing workers
 - Selling equipment
 - Paying off a loan
 - Purchasing land

ANS: C PTS: 1 OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: statement of cash flows

8. The communication stage of accounting is accomplished by
- storing data.
 - reporting to decision makers.
 - processing data.
 - recording data.

ANS: B PTS: 1 OBJ: LO1

NAT: AACSB correlation: communication

LOC: Learning Type: Recall

KEY: management issues

9. Which of the following is the most appropriate and modern definition of *accounting*?
- Electronic collection, organization, and communication of vast amounts of information
 - The interconnected network of subsystems necessary to operate a business
 - A means of recording transactions and keeping records

- d. The measurement, processing, and communication of financial information about an identifiable economic entity

ANS: D PTS: 1 OBJ: LO1

NAT: AACSB correlation: communication

LOC: Learning Type: Recall

KEY: measurement issues

10. The measurement stage of accounting is accomplished by

- a. recording data.
- b. reporting to decision makers.
- c. processing data.
- d. storing data.

ANS: A PTS: 1 OBJ: LO1

NAT: AACSB correlation: communication

LOC: Learning Type: Recall

KEY: measurement issues

11. A company's ability to attract and hold investment capital ultimately depends on its

- a. budgeting.
- b. planning.
- c. liquidity.
- d. profitability.

ANS: D PTS: 1 OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: profitability

12. The group of users of accounting information charged with achieving the goals of the business is its

- a. auditors.
- b. creditors.
- c. management.
- d. investors.

ANS: C PTS: 1 OBJ: LO2

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: management functions

13. A primary user of accounting information with a direct financial interest in the business is a

- a. regulatory agency.
- b. creditor.
- c. taxing authority.
- d. labor union.

ANS: B PTS: 1 OBJ: LO2

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: financial information users

14. Which of the following groups uses accounting information primarily to help protect the public?

- a. Management
- b. Regulatory agencies
- c. Taxing authorities
- d. Economic planners

ANS: B PTS: 1 OBJ: LO2

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: financial information users

15. One user of accounting information with an indirect financial interest in a business is
- a creditor.
 - a financial adviser.
 - management.
 - an investor.

ANS: B PTS: 1 OBJ: LO2
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: financial information users

16. Companies listed on the stock exchanges must file financial statements with the
- Financial Accounting Standards Board.
 - American Institute of Certified Public Accountants.
 - Securities and Exchange Commission.
 - Internal Revenue Service.

ANS: C PTS: 1 OBJ: LO2
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: financial information users

17. Which of the following is an agency of the U.S. government?
- IASB
 - SEC
 - FASB
 - AICPA

ANS: B PTS: 1 OBJ: LO2
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: financial information users

18. Those who lend money or deliver goods and services before being paid are called
- investors.
 - debtors.
 - underwriters.
 - creditors.

ANS: D PTS: 1 OBJ: LO2
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: liabilities

19. Which of the following transactions does not involve an exchange of value?
- Payment of a debt
 - Purchase of a building on credit
 - Borrowing money
 - Loss from theft

ANS: D PTS: 1 OBJ: LO3
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: business transactions

20. An accounting measurement is concerned with all *except* which of the following?
- Money measure
 - Financial position
 - Separate entity

d. Business transaction

ANS: B PTS: 1 OBJ: LO3
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: measurement issues

21. The separate entity concept requires that
- the personal assets and liabilities of an owner not be shown on the business's financial statements.
 - transactions that involve an exchange of value be kept separate from those that do not.
 - tax records be kept separate from financial reporting records.
 - a separate set of books be established for each segment of a business.

ANS: A PTS: 1 OBJ: LO3
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: concept of separate entity

22. The topic of foreign exchange rates relates most closely to the concept of
- separate entity.
 - money measure.
 - nonexchange transactions.
 - business transactions.

ANS: B PTS: 1 OBJ: LO3
NAT: AACSB correlation: reflective LOC: Learning Type: Comprehension
KEY: measurement issues

23. All of the following are considered nonexchange transactions *except*
- the day-by-day accumulation of interest.
 - the wear and tear on machinery.
 - the sale of goods and services.
 - losses from fire, flood, and theft.

ANS: C PTS: 1 OBJ: LO3
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: business transactions

24. Which of the following transactions involves an exchange of value?
- Accumulation of interest
 - Sale of services
 - Flood loss
 - Wear and tear on equipment

ANS: B PTS: 1 OBJ: LO3
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: business transactions

25. Which of the following is legally a separate entity from its owner(s)?
- Sole proprietorship only
 - Sole proprietorship and partnership only
 - Corporation only
 - Partnership only

ANS: C PTS: 1 OBJ: LO4
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: concept of separate entity

26. Most business enterprises in the United States are

- a. government units.
- b. partnerships.
- c. sole proprietorships.
- d. corporations.

ANS: C

PTS: 1

OBJ: LO4

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: sole proprietorships

27. Which of the following forms of organization are considered to be separate entities by *accountants*?

- a. Partnerships only
- b. Sole proprietorships only
- c. Corporations only
- d. Sole proprietorships, partnerships, and corporations

ANS: D

PTS: 1

OBJ: LO4

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: concept of separate entity

28. Transfer of ownership will *not* affect the continuity of a

- a. corporation.
- b. sole proprietorship.
- c. partnership.
- d. corporation or partnership.

ANS: A

PTS: 1

OBJ: LO4

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: corporations

29. All of the following statements about partnerships are true, *except*

- a. partners must share profits and losses equally.
- b. a change in ownership will dissolve the partnership.
- c. any partner can enter into a binding agreement with a third party.
- d. all partners have unlimited liability.

ANS: A

PTS: 1

OBJ: LO4

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: partnerships

30. All of the following statements about corporations are true, *except*

- a. they are chartered by the state.
- b. ownership is represented by shares of stock.
- c. the sale of stock does not dissolve the business.
- d. the stockholders have direct control of the business.

ANS: D

PTS: 1

OBJ: LO4

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: corporations

31. Which of the following is the correct accounting equation?

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

d. $\text{Assets} + \text{Liabilities} = \text{Owner's Equity}$

ANS: A

PTS: 1

OBJ: LO5

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: effects of transactions on accounting equation

32. The best definition of *assets* is the:

- a. cash owned by the company.
- b. resources belonging to a company having future benefit to the company.
- c. collection of resources belonging to the company and the claims on these resources.
- d. owner's investment in the business.

ANS: B

PTS: 1

OBJ: LO5

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: assets

33. Which of the following items has *no* effect on owner's equity?

- a. Land purchased
- b. Revenue
- c. Expense
- d. Withdrawals

ANS: A

PTS: 1

OBJ: LO5

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: owner's equity

34. Which of the following accounts is *not* considered an asset?

- a. Accounts Receivable
- b. Inventory
- c. Accounts Payable
- d. Trademark

ANS: C

PTS: 1

OBJ: LO5

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: assets

35. An example of a monetary asset is

- a. Accounts Receivable.
- b. Copyright.
- c. Retained Earnings.
- d. Land.

ANS: A

PTS: 1

OBJ: LO5

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: assets

36. A liability would *not* include an obligation to

- a. transfer assets.
- b. hire an employee.
- c. pay cash.
- d. provide services.

ANS: B

PTS: 1

OBJ: LO5

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: liabilities

37. Which of the following assets could be described as nonphysical?

- a. Buildings
- b. Cash
- c. Patents
- d. Equipment

ANS: C

PTS: 1

OBJ: LO5

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: assets

38. Which of the following financial statements is concerned with the enterprise at a point in time?

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

ANS: D

PTS: 1

OBJ: LO6

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: balance sheet

39. Flores Realty Company had the following balance sheet accounts and balances:

Accounts Payable	\$6,000	Earl Flores, Capital	?
Accounts Receivable	1,000	Equipment	\$7,000
Building	8,000	Land	7,000
Cash	3,000		

What is the balance of the Building account?

- a. \$5,500
- b. \$26,500
- c. \$22,500
- d. \$8,500

ANS: D

PTS: 1

OBJ: LO6

NAT: AACSB correlation: analytic

LOC: Learning Type: Analysis

KEY: analyzing business transactions

40. Flores Realty Company had the following balance sheet accounts and balances:

Accounts Payable	\$6,000	Earl Flores, Capital	?
Accounts Receivable	1,000	Equipment	\$7,000
Building	8,000	Land	7,000
Cash	3,000		

What is the total of liabilities and owner's equity?

- a. \$13,000
- b. \$31,000
- c. \$28,000
- d. \$23,000

ANS: B

PTS: 1

OBJ: LO6

NAT: AACSB correlation: analytic

LOC: Learning Type: Analysis

KEY: analyzing business transactions

41. Flores Realty Company had the following balance sheet accounts and balances:

Accounts Payable	\$6,000	Earl Flores, Capital	?
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Accounts Receivable	1,000	Equipment	\$7,000
Building	8,000	Land	7,000
Cash	3,000		

If the equipment were sold for \$7,000, what would be the total of owner's equity?

- a. \$23,400
- b. \$12,400
- c. \$11,400
- d. \$29,400

ANS: A PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
 LOC: Learning Type: Analysis KEY: analyzing business transactions

42. Flores Realty Company had the following balance sheet accounts and balances:

Accounts Payable	\$6,000	Earl Flores, Capital	?
Accounts Receivable	1,000	Equipment	\$7,000
Building	8,000	Land	7,000
Cash	3,000		

If, \$3,000 of Accounts Payable were paid in cash, what would be the balance of the Earl Flores, Capital account?

- a. \$26,000
- b. \$21,000
- c. \$32,000
- d. \$34,000

ANS: A PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
 LOC: Learning Type: Analysis KEY: analyzing business transactions

43. Flores Realty Company had the following balance sheet accounts and balances:

Accounts Payable	\$6,000	Earl Flores, Capital	?
Accounts Receivable	1,000	Equipment	\$7,000
Building	8,000	Land	7,000
Cash	3,000		

If, \$3,000 of Accounts Payable were paid in cash, what would be the total of liabilities and owner's equity?

- a. \$14,000
- b. \$23,000
- c. \$18,000
- d. \$19,000

ANS: B PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
 LOC: Learning Type: Analysis KEY: analyzing business transactions

44. Use this information to answer the following question.
 Here is the balance sheet for Abbot Box Company:

Abbot Box Company Balance Sheet December 31, 2010	
Assets	Liabilities

Cash	\$ 8,000	Accounts payable	\$16,000
Accounts receivable	1,000		
Land	14,000	Owner's Equity	
Building	44,000	Jill Abbot, Capital	<u>64,000</u>
Equipment	<u>13,000</u>		
		Total liabilities and	
Total assets	<u>\$80,000</u>	owner's equity	<u>\$80,000</u>

If the balance in the Cash account were used to pay part of Accounts Payable, then total liabilities and owner's equity would

- decrease by \$8,000.
- increase by \$8,000.
- increase by \$16,000.
- decrease by \$16,000.

ANS: A

PTS: 1

OBJ: LO6

NAT: AACSB correlation: analytic

LOC: Learning Type: Analysis

KEY: analyzing business transactions

45. Use this information to answer the following question.

Here is the balance sheet for Abbot Box Company:

Abbot Box Company Balance Sheet December 31, 2010			
Assets		Liabilities	
Cash	\$ 8,000	Accounts payable	\$16,000
Accounts receivable	1,000		
Land	14,000	Owner's Equity	
Building	44,000	Jill Abbot, Capital	<u>64,000</u>
Equipment	<u>13,000</u>		
		Total liabilities and	
Total assets	<u>\$80,000</u>	owner's equity	<u>\$80,000</u>

If the equipment were sold for \$13,000, then the Jill Abbot, Capital account would

- increase by \$37,000.
- increase by \$13,000.
- decrease by \$13,000.
- stay the same.

ANS: D

PTS: 1

OBJ: LO6

NAT: AACSB correlation: analytic

LOC: Learning Type: Analysis

KEY: analyzing business transactions

46. Use this information to answer the following question.

Here is the balance sheet for Abbot Box Company:

Abbot Box Company Balance Sheet December 31, 2010			
Assets		Liabilities	
Cash	\$ 8,000	Accounts payable	\$16,000

Accounts receivable	1,000		
Land	14,000		
Building	44,000	Jill Abbot, Capital	<u>64,000</u>
Equipment	<u>13,000</u>		
		Total liabilities and	
Total assets	<u>\$80,000</u>	owner's equity	<u>\$80,000</u>

If the balance in the Cash account were used to buy more equipment, then the total assets would

- remain unchanged.
- increase by \$8,000.
- decrease by \$8,000.
- increase by \$21,000.

ANS: A PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
 LOC: Learning Type: Analysis KEY: analyzing business transactions

47. The net income figure appears in all the following financial statements *except* the
- statement of cash flows.
 - income statement.
 - statement of owner's equity.
 - balance sheet.

ANS: D PTS: 1 OBJ: LO6
 NAT: AACSB correlation: reflective LOC: Learning Type: Recall
 KEY: net income

48. The statement of cash flows would disclose the withdrawal of cash by the owner
- in the financing activities section.
 - in the investing activities section.
 - in the operating activities section.
 - nowhere on the statement.

ANS: A PTS: 1 OBJ: LO6
 NAT: AACSB correlation: reflective LOC: Learning Type: Recall
 KEY: statement of cash flows

49. The statement of cash flows would disclose the purchase of a building for cash
- nowhere on the statement.
 - in the operating activities section.
 - in the investing activities section.
 - in the financing activities section.

ANS: C PTS: 1 OBJ: LO6
 NAT: AACSB correlation: reflective LOC: Learning Type: Recall
 KEY: statement of cash flows

50. Which of the following represents the proper order of financial statement preparation?
- Statement of cash flows, balance sheet, income statement, statement of owner's equity
 - Statement of owner's equity, income statement, statement of cash flows, balance sheet
 - Balance sheet, statement of cash flows, statement of owner's equity, income statement
 - Income statement, statement of owner's equity, balance sheet, statement of cash flows

ANS: D PTS: 1 OBJ: LO6
 NAT: AACSB correlation: reflective LOC: Learning Type: Recall
 KEY: statement of cash flows

51. All of the following items would appear on the balance sheet *except*
- a. withdrawals.
 - b. the owner's Capital account.
 - c. Accounts Receivable.
 - d. Patents.

ANS: A PTS: 1 OBJ: LO6
NAT: AACSB correlation: reflective LOC: Learning Type: Comprehension
KEY: balance sheet

52. Which of the following is a regulatory agency?
- a. IASB
 - b. SEC
 - c. FASB
 - d. GASB

ANS: B PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: financial information users

53. The authoritative body currently responsible for establishing accounting practice is the
- a. Internal Revenue Service.
 - b. Financial Accounting Standards Board.
 - c. American Institute of Certified Public Accountants.
 - d. Federal Reserve Board.

ANS: B PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: financial information users

54. Generally accepted accounting principles
- a. are changing continually.
 - b. are sound in theory but rarely used in practice.
 - c. have eliminated all the weaknesses in accounting practice.
 - d. are accounting rules formulated by the Internal Revenue Service.

ANS: A PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: principles of design

55. Standards for state and local governments are established by the
- a. IRS.
 - b. IASB.
 - c. GASB.
 - d. AICPA.

ANS: C PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: financial information users

56. The purpose of an audit is to
- a. determine whether or not a company is a good investment.
 - b. comply with income tax regulations.
 - c. determine whether or not a company is a good credit risk.

d. ascertain that the financial statements follow GAAP.

ANS: D PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: management issues

57. An auditor maintains no direct financial interest in the company he or she is auditing. The principle being followed is
- independence.
 - integrity.
 - objectivity.
 - due care.

ANS: A PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: management issues

58. Carrying out professional responsibilities with competence and diligence is called
- integrity.
 - independence.
 - objectivity.
 - due care.

ANS: D PTS: 1 OBJ: LO7 NAT: AACSB correlation: ethics
LOC: Learning Type: Recall KEY: professional ethics

59. Which of the following is *not* one of the broad principles underlying the accountant's code of professional ethics?
- Objectivity
 - Integrity
 - Loyalty
 - Independence

ANS: C PTS: 1 OBJ: LO7 NAT: AACSB correlation: ethics
LOC: Learning Type: Recall KEY: professional ethics

60. The development of international accounting standards is the primary function of the
- IRS.
 - AICPA.
 - IASB.
 - PCAOB.

ANS: C PTS: 1 OBJ: LO7
NAT: AACSB correlation: reflective LOC: Learning Type: Recall
KEY: financial information users

61. The Public Company Accounting Oversight Board was created by the
- Sarbanes-Oxley Act.
 - GASB.
 - IRS.
 - IASB.

ANS: A PTS: 1 OBJ: LO7 NAT: AACSB correlation: ethics
LOC: Learning Type: Recall KEY: professional ethics

62. The audit committee is responsible for all of the following *except*

- a. engaging the company's independent auditors.
- b. assuring that reliable accounting records are kept.
- c. auditing the company's financial statements.
- d. ascertaining that the company safeguards its resources.

ANS: C PTS: 1 OBJ: LO7
 NAT: AACSB correlation: reflective LOC: Learning Type: Recall
 KEY: management issues

SHORT ANSWER

1. Distinguish between profitability and liquidity.

ANS:

Profitability is the ability to earn enough income to attract and hold investment capital, whereas liquidity means having enough funds on hand to pay debts when they fall due.

PTS: 1 OBJ: LO1 NAT: AACSB correlation: reflective
 LOC: Learning Type: Recall KEY: profitability, liquidity

2. Explain why each of the following persons or groups would be interested in seeing the financial statements of a company. Also state whether each has a direct or indirect financial interest.

- a. Potential investor
- b. Internal Revenue Service
- c. A labor union
- d. Securities and Exchange Commission
- e. Potential creditor
- f. Management
- g. Economic planners

ANS:

- a. To help determine if the prospects for a profitable investment is good relative to other investment opportunities (direct interest)
- b. To help determine the tax that should be levied against the company (indirect interest)
- c. To give the labor union negotiators a basis for negotiating for higher wages and benefits (indirect interest)
- d. To help determine if the investing public is being given accurate and complete information (indirect interest)
- e. To help determine if the creditor should extend credit to the company (direct interest)
- f. To help the company achieve goals such as profitability and liquidity (neither direct nor indirect)
- g. To set economic policies and judge economic programs (indirect interest)

PTS: 1 OBJ: LO2 NAT: AACSB correlation: reflective
 LOC: Learning Type: Comprehension KEY: financial information users

3. List five possible users of a set of financial statements and state what each would be interested in learning from its review.

ANS:

Possible users and their reasons for interest could be:
 Existing creditors who would be concerned about being repaid on time

Possible creditors who are considering extending credit or making loans to the company and being repaid in a timely fashion

Current owners who want to follow and manage their investment

Individuals or corporations considering an investment in the company

College students who would use the statements to learn about financial statement analysis

Managers of the company who would use the statements to evaluate their areas of operations and make decisions to improve them

Government bodies such as the SEC, which would review the financial statements to ensure conformity to laws that protect the general public

Labor unions involved with the company, which would review the statements to evaluate present profitability as part of preparing for contract negotiations

PTS: 1

OBJ: LO2

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: financial information users

4. Why would it be less risky for a wealthy individual to incorporate his or her business rather than to operate it as a sole proprietorship or partnership?

ANS:

With a sole proprietorship or partnership, the owner or owners have unlimited liability. That is, they may be required to use personal assets to satisfy business debts. The liability of a corporate shareholder, however, is limited to his or her investment in the business.

PTS: 1

OBJ: LO4

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: corporations

5. Indicate by letter whether each statement below applies to a sole proprietorship (S), partnership (P), or corporation (C). You may use more than one business organization for an answer.

- a. Separate economic unit
- b. Life limited by death of owner(s)
- c. Separate legal entity
- d. Unlimited liability of owner(s)
- e. Separation of ownership and control
- f. Transfer of ownership does not affect the continuity of business.
- g. Ownership evidenced by stock certificates

ANS:

- a. S, P, C
- b. S, P
- c. C
- d. S, P
- e. C
- f. C
- g. C

PTS: 1

OBJ: LO4

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: corporations| partnerships| sole proprietorships

6. Barrett Company's owner's equity equals one-fourth of the company's total assets. The company's liabilities are \$309,000. What is the amount of the company's owner's equity?

ANS:

Assets = Liabilities + Equity

$$A = \frac{3}{4} A + \frac{1}{4} A$$

$$A = \$309,000 \div 0.75 = \$412,000$$

$$\text{Equity} = \$412,000 - \$309,000 = \$103,000$$

PTS: 1 OBJ: LO5 NAT: AACSB correlation: analytic
 LOC: Learning Type: Analysis KEY: owner's equity| ratio analysis

7. Kalis Company's owner's equity equals one-third of the company's total assets. The company's liabilities are \$120,000. What is the amount of the company's owner's equity?

ANS:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

$$A = \frac{2}{3} A + \frac{1}{3} A$$

$$A = \$120,000 \times \frac{3}{2} = \$180,000$$

$$\text{Equity} = \$180,000 - \$120,000 = \$60,000$$

PTS: 1 OBJ: LO5 NAT: AACSB correlation: analytic
 LOC: Learning Type: Analysis KEY: owner's equity| ratio analysis

8. Dougan Company's owner's equity equals one-half of the company's total assets. The company's liabilities are \$140,000. What is the amount of the company's owner's equity?

ANS:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

$$A = \frac{1}{2} A + \frac{1}{2} A$$

$$A = \$140,000 \times 2 = \$280,000$$

$$\text{Equity} = \$280,000 - \$140,000 = \$140,000$$

PTS: 1 OBJ: LO5 NAT: AACSB correlation: analytic
 LOC: Learning Type: Analysis KEY: owner's equity| ratio analysis

9. Following are the total assets and liabilities at the beginning and end of the year for Maren Company:

	Assets	Liabilities
Beginning of the year	\$ 70,000	\$45,000
End of the year	108,000	40,000

Determine the net income or loss for the year in each of the following situations:

- a. The owner made no investments in the business and no withdrawals were made during the year.
 b. The owner made an investment of \$20,000 and withdrew \$12,000 during the year.

ANS:

$$a. [(\$108,000 - \$40,000) - (\$70,000 - \$45,000)] = \$43,000$$

$$b. [(\$108,000 - \$40,000) - (\$70,000 - \$45,000) - \$20,000 + \$12,000] = \$35,000$$

PTS: 1 OBJ: LO5 NAT: AACSB correlation: analytic
 LOC: Learning Type: Application KEY: net income

10. At the beginning of the year, Peters Company's assets were \$150,000 and its owner's equity was \$100,000. During the year, assets decreased \$30,000 and liabilities increased \$15,000. What was the owner's equity at the end of the year?

ANS:

$$[(\$150,000 - \$30,000) - (\$50,000 + \$15,000)] = \$55,000$$

PTS: 1 OBJ: LO5 NAT: AACSB correlation: analytic
 LOC: Learning Type: Analysis KEY: owner's equity

11. At the beginning of the year, Fourman Company's assets were \$270,000 and its owner's equity was \$201,000. During the year, assets decreased by \$35,000 and liabilities increased by \$10,000. What was owner's equity at the end of the year?

ANS:

$$[(\$270,000 - \$35,000) - (\$69,000 + \$10,000)] = \$156,000$$

PTS: 1 OBJ: LO5 NAT: AACSB correlation: analytic
 LOC: Learning Type: Application KEY: owner's equity

12. Which four types of transactions affect owner's equity, and how do they affect it?

ANS:
 Revenues and owner investments increase owner's equity, whereas expenses and withdrawals decrease owner's equity.

PTS: 1 OBJ: LO5 NAT: AACSB correlation: analytic
 LOC: Learning Type: Comprehension KEY: owner's equity

13. Upshaw Company had a balance of \$260,000 in Sue Upshaw, Capital on December 31, 2009. During 2010, the company reported a net income of \$112,000 after taxes, and the owner withdrew \$16,000, while making no additional investments. Prepare the company's statement of owner's equity for the year ended December 31, 2010.

ANS:

Upshaw Company Statement of Owner's Equity For the Year Ended December 31, 2010	
Sue Upshaw, Capital, December 31, 2009	\$260,000
Net income for the year	<u>112,000</u>
Subtotal	\$372,000
Less withdrawals	<u>16,000</u>
Sue Upshaw, Capital, December 31, 2010	<u><u>\$356,000</u></u>

PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
 LOC: Learning Type: Application KEY: statement of owner's equity

14. Lin Wo Company had a balance of \$360,000 in Li Wo, Capital on December 31, 2009. During 2010, the company reported a net income of \$24,000, and the owner withdrew \$18,000 during the year, while making no additional investments. Prepare the company's statement of owner's equity for the year ended December 31, 2010.

ANS:

Lin Wo Company Statement of Owner's Equity

For the Year Ended December 31, 2010	
Li Wo, Capital, December 31, 2009	\$360,000
Net income for the year	<u>24,000</u>
Subtotal	\$384,000
Less withdrawals	<u>18,000</u>
Li Wo, Capital, December 31, 2010	<u>\$366,000</u>

PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
 LOC: Learning Type: Application KEY: statement of owner's equity

15. Indicate by letter whether each item below would appear on the income statement (IS), balance sheet (BS), or statement of owner's equity (OE).

- a. Copyrights
- b. Withdrawals
- c. Wages Expense
- d. Commissions Earned
- e. Buildings
- f. Accounts Payable
- g. Utilities Expense
- h. Owner's Capital, beginning of year
- i. Accounts Receivable
- j. Notes Payable

ANS:

- a. BS f. BS
- b. OE g. IS
- c. IS h. OE
- d. IS i. BS
- e. BS j. BS

PTS: 1 OBJ: LO6 NAT: AACSB correlation: reflective
 LOC: Learning Type: Recall
 KEY: balance sheet| income statement| statement of owner's equity

16. How does the statement of owner's equity relate to the income statement and the balance sheet?

ANS:

The statement of owner's equity provides a link between the income statement and the balance sheet. Specifically, it takes the net income or loss figure from the income statement and uses it (along with investments and withdrawals) to arrive at the owner's capital balance to be presented on the balance sheet.

PTS: 1 OBJ: LO6 NAT: AACSB correlation: reflective
 LOC: Learning Type: Recall
 KEY: balance sheet| income statement| statement of owner's equity

17. Match each organization with its definition by indicating the corresponding letter in the spaces below.

- a. AICPA
- b. FASB
- c. GASB

- d. IASB
- e. IRS
- f. IMA
- g. SEC

1. Responsible for interpreting and enforcing tax laws
2. Establishes standards for state and local governments
3. Developer of international accounting standards
4. Consists mainly of industrial accountants
5. Protector of the investing public
6. Current authoritative body for developing GAAP
7. The accounting profession's main organization of certified public accountants

ANS:

- | | |
|------|------|
| 1. e | 5. g |
| 2. c | 6. b |
| 3. d | 7. a |
| 4. f | |

PTS: 1 OBJ: LO7 NAT: AACSB correlation: reflective
 LOC: Learning Type: Recall KEY: professional organizations

18. What is the responsibility of the independent auditor? Who is responsible for the content of the published financial statements?

ANS:

The responsibility of the independent auditor is to express an opinion about the financial statements of the company being audited. Company's management is responsible for the content of the published financial statements.

PTS: 1 OBJ: LO7 NAT: AACSB correlation: ethics
 LOC: Learning Type: Recall KEY: certified public accountant

19. What is independence, and why is it important for a CPA to maintain it when conducting an audit?

ANS:

Independence means having no financial or other compromising ties with the company under audit. To give the public confidence in their work, CPAs must maintain their independence whenever they conduct an audit.

PTS: 1 OBJ: LO7 NAT: AACSB correlation: ethics
 LOC: Learning Type: Comprehension KEY: certified public accountant

20. Use the following accounts and information to prepare, in good form, an income statement, statement of owner's equity, and balance sheet for Cray Enterprises for the year ended December 31, 2010.

Accounts Payable	\$ 4,800	Land	\$39,000
Accounts Receivable	600	Notes Payable	6,000
Buildings	52,000	Rent Expense	3,600
Cash	26,200	Salaries Expense	8,400
Commissions Earned	19,000	Supplies	400
Don Cray, Capital, Dec. 31, 2009	104,400		

Don Cray, Withdrawals	3,000
Insurance Expense	1,000

ANS:

Cray Enterprises Income Statement For the Year Ended December 31, 2010			
Revenues			
Commissions earned			\$19,000
Expenses			
Insurance expense	\$1,000		
Rent expense	3,600		
Salaries expense	<u>8,400</u>		<u>13,000</u>
Net income			<u>\$ 6,000</u>

Cray Enterprises Statement of Owner's Equity For the Year Ended December 31, 2010	
Don Cray, Capital, December 31, 2009	\$104,400
Net income for the year	<u>6,000</u>
Subtotal	\$110,400
Less withdrawals	<u>3,000</u>
Don Cray, Capital, December 31, 20x8	<u>\$107,400</u>

Cray Enterprises Balance Sheet December 31, 2010			
Assets		Liabilities	
Cash	\$ 26,200	Accounts payable	\$ 4,800
Accounts receivable	600	Notes payable	<u>6,000</u>
Supplies	400	Total liabilities	\$ 10,800
Land	39,000		
Buildings	<u>52,000</u>		
		Owner's Equity	
		Don Cray, Capital	<u>107,400</u>
		Total liabilities and	
Total assets	<u>\$118,200</u>	owner's equity	<u>\$118,200</u>

PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
 LOC: Learning Type: Application KEY: financial statements

21. Use the following accounts and information to prepare, in good form, an income statement, statement of owner's equity, and balance sheet for Hamlin Industries for the month ended July 31, 2009.

Accounts Payable	\$ 3,100	Land	\$35,000
Accounts Receivable	1,400	Notes Payable	3,300
Buildings	22,000	Rent Expense	2,400
Cash	15,600	Salaries Expense	10,000
Commissions Earned	12,700	Supplies	400
Hilda Hamlin, Capital, June 30, 2009	77,900		

Withdrawals	8,000
Insurance Expense	2,200

ANS:

Hamlin Industries Income Statement For the Month Ended July 31, 2009			
Revenues			
Commissions earned			\$12,700
Expenses			
Insurance expense	\$2,200		
Rent expense	2,400		
Salaries expense	10,000		14,600
Net income (loss)			<u>\$(1,900)</u>

Hamlin Industries Statement of Owner's Equity For the Month Ended July 31, 2009	
Hilda Hamlin, Capital, June 30, 2009	\$77,900
Net income (loss) for the year	<u>(1,900)</u>
Subtotal	\$76,000
Less withdrawals	<u>8,000</u>
Hilda Hamlin, Capital, July 31, 2009	<u>\$68,000</u>

Hamlin Industries Balance Sheet July 31, 2009			
Assets		Liabilities	
Cash	\$ 15,600	Accounts payable	\$ 3,100
Accounts receivable	1,400	Notes payable	<u>3,300</u>
Supplies	400	Total liabilities	\$ 6,400
Land	35,000		
Buildings	<u>22,000</u>		
		Owner's Equity	
		Hilda Hamlin, Capital	<u>68,000</u>
Total assets	<u>\$74,400</u>	Total liabilities and owner's equity	<u>\$74,400</u>

PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
 LOC: Learning Type: Application KEY: financial statements

22. Use the following information to calculate at, or for the year ended, December 31, 2010, (A) net income,
 (B) owner's capital,
 (C) total liabilities and owner's equity, and
 (D) accounts receivable.

Supplies	\$ 1,000	Cash	\$32,000
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Wages Expense	14,000	Withdrawals	16,000
Accounts Payable	22,000	Notes Payable	4,000
Owner's Capital,		Land	7,000
December 31, 2009	28,000	Owner's Capital,	
Accounts Receivable	?	December 31, 2010	?
Rent Expense	6,000		
Commissions Earned	30,000		

ANS:

- $\$30,000 - \$6,000 - \$14,000 = \$10,000$
- $\$28,000 + \$10,000 - \$16,000 = \$22,000$
- $\$22,000 + \$4,000 + \$22,000 = \$48,000$
- $\$48,000 - \$1,000 - \$32,000 - \$7,000 = \$8,000$

PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
 LOC: Learning Type: Analysis KEY: accounts receivable| net income| owner's equity

23. Use the following information to calculate at, or for the year ended, December 31, 2010, (A) net income,
 (B) owner's capital,
 (C) total assets, and
 (D) cash.

Salaries Expense	\$ 4,000	Commissions Earned	\$20,000
Accounts Payable	7,000	Owner's Capital,	
Withdrawals	6,000	December 31, 2010	?
Accounts Receivable	8,000	Utilities Expense	2,000
Inventories	22,000	Owner's Capital,	
Cash	?	December 31, 2009	26,000
Salaries Payable	1,000		

ANS:

- $\$20,000 - \$4,000 - \$2,000 = \$14,000$
- $\$26,000 + \$14,000 - \$6,000 = \$34,000$
- Total liabilities and Owner's Equity = Total assets = $\$7,000 + \$1,000 + \$34,000 = \$42,000$
- $\$42,000 - \$8,000 - \$22,000 = \$12,000$

PTS: 1 OBJ: LO6 NAT: AACSB correlation: analytic
 LOC: Learning Type: Analysis KEY: assets| cash| net income| owner's equity

24. Mara Bolton, an attorney, bills her clients at a rate of \$100 per hour. At the beginning of July, clients owed her \$8,000, of which she collected \$5,600 during the month. In July, Mara billed clients for 160 hours of work. By the end of July, 60 of these hours were unpaid.

Mara has one employee, Lloyd Medvid, who is paid \$20 per hour. During July, Lloyd worked 170 hours, of which 16 hours will be paid in August. The rest were paid in July along with wages for 8 hours worked the last day of June.

Show calculations as you determine the following for the month of July:

- Amount of revenue earned
- Wages expense incurred
- Cash received from clients

d. Cash paid to Lloyd Medvid

ANS:

a. Revenue earned from clients is \$16,000.

$$160 \text{ hours} \times \$100 = \$16,000$$

b. Wages expense incurred for Lloyd Medvid is \$3,400.

$$170 \text{ hours} \times \$20 = \$3,400$$

c. Cash received from clients is \$15,600.

Received from clients previously billed \$ 5,600

Received from clients billed in July

$$(160 \text{ hours} - 60 \text{ hours}) \times \$100 \quad \underline{10,000}$$

Cash received from clients during July \$15,600

d. Cash paid to Lloyd Medvid is \$3,240.

Paid for June work (8 hours \times \$20) \$ 160

Paid for July work

$$(170 \text{ hours} - 16 \text{ hours}) \times \$20 \quad \underline{3,080}$$

Cash paid to Lloyd Medvid \$ 3,240

PTS: 1

OBJ: LO6

NAT: AACSB correlation: analytic

LOC: Learning Type: Analysis

KEY: business transactions

25. Use the following accounts and balances to prepare a balance sheet for Havrilla Company at December 31, 2010.

Accounts Payable	\$10,000
Cash	4,800
Juan Havrilla, Capital	?
Equipment	13,200
Accounts Receivable	6,400

ANS:

Havrilla Company Balance Sheet December 31, 2010			
Assets		Liabilities	
Cash	\$ 4,800	Accounts payable	\$10,000
Accounts receivable	6,400		
Equipment	<u>13,200</u>		
		Owner's Equity	
		Juan Havrilla, Capital	<u>14,400</u>
Total assets	<u>\$24,400</u>	Total liabilities and owner's equity	<u>\$24,400</u>

PTS: 1

OBJ: LO6

NAT: AACSB correlation: analytic

LOC: Learning Type: Analysis

KEY: balance sheet