

Chapter 1--Introduction to Accounting and Business 15 copy

Student: _____

1. The main objective of a not-for-profit business is not to make a profit.

True False

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

True False

3. A corporation is a business that is legally separate and distinct from its owners.

True False

4. Senior executives cannot be criminally prosecuted for the wrong doings they commit on behalf of the companies where they work.

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

13. An example of a general-purpose financial statement would be a report about projected price increases related to transportation costs.

True False

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

True False

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

True False

16. The main objective for all businesses is to maximize unrealized profits.

True False

17. The Sarbanes-Oxley Act prohibits CPAs from providing nonaudit investment banking services.

True False

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

True False

19. Proprietorships are owned by two or more individuals and provide only services to their customers.

True False

20. Only large companies such as Wal-Mart, JCP, General Motors, and the Bank of America can be organized as corporations.

True False

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

True False

22. The unit of measurement concept requires that economic data be recorded in a common unit of measurement.

True False

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

True False

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

True False

25. The cost concept is the basis for entering the exchange price into the accounting records.

True False

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

True False

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

True False

28. The accounting equation can be expressed as $\text{Assets} - \text{Liabilities} = \text{Stockholders' Equity}$.

True False

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

True False

30. Owners' rights to assets rank ahead of creditors' rights to assets.

True False

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

True False

32. 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 stockholder's equity was a \$200,000 increase.

True False

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

True False

34. If a corporation had net income of \$60,000 and \$20,000 in cash dividends were declared and paid then the retained earnings account would increase by \$40,000.

True False

35. An account receivable is a claim against a customer arising from a sale on account.

True False

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

True False

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

True False

38. Cash dividends paid to stockholders decrease assets and increase equity.

True False

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

True False

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

True False

41. Revenue is earned only when money is received.

True False

42. Expenses are assets that are used up during the process of earning revenue.

True False

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

True False

44. The principal financial statements for a corporation are the income statement, the retained earnings statement, the balance sheet, and the budget.

True False

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

True False

46. A retained earnings statement reports all changes in cash for a period of time.

True False

47. 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.

True False

48. All financial statements are identified by the name of the business, the title of the statement, and the date or period of time.

True False

49. The balance sheet represents the accounting equation.

True False

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

True False

51. Profit is the difference between

- A. assets and liabilities
- B. the incoming cash and outgoing cash
- C. the assets purchased with cash invested by stockholders and the cash spent to operate the business
- D. the amounts received from customers for goods or services and the amounts paid for the inputs used to provide the goods or services

52. Who among the following uses financial reports?

- A. management
- B. creditors
- C. investors
- D. all are correct

53. 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

54. 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

55. Which of the following is not a general-purpose financial statement?

- A. balance sheet
- B. income statement
- C. retained earnings statement
- D. cash budget

56. Which of the following is a manufacturing business?

- A. Amazon.com.
- B. Wal-Mart.
- C. Ford Motors.
- D. Delta Airlines

57. Which of the following group of companies are all examples of a merchandising business?

- A. Delta Airlines, Marriott, Gap
- B. Gap, Amazon, NIKE
- C. GameStop, Sony, Dell
- D. GameStop, Best Buy, Gap

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

- A. pet groomer
- B. supermarket
- C. lawn care company
- D. styling salon

59. Which of the following best describes accounting?

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

60. Which of the following groups are considered to be internal users of accounting information?

- A. Employees and customers
- B. Customers and vendors
- C. Employees and managers
- D. Government and banks

61. The following are examples of external users of accounting information except

- A. government
- B. customers
- C. creditors
- D. managers

62. Which of the following is a body established by the Sarbanes-Oxley Act of 2002 for the accounting professionals?

- A. Generally Accepted Accounting Practices for Public Accountants Board
- B. Public Company Accounting Oversight Board
- C. Congressional Accounting Oversight Board
- D. none of these

63. 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.

64. Managerial accountants would be responsible for providing which of the following?

- 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.

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

- A. CIA
- B. CMA
- C. CISA
- D. All are certifications.

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

- A. to provide reports to users about the economic activities and conditions of a business
- B. to personally guarantee loans of the business
- C. to provide information to other users to determine the economic performance and condition of the business
- D. to assess the various informational needs of users and design its accounting system to meet those needs

67. Which of the following are guidelines for behaving ethically?

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

- A. I and II.
- B. II and III.
- C. I and III.
- D. I, II, and III.

68. The Sarbanes-Oxley Act of 2002 prohibits employment of auditors by their clients for what period after their last audit of the client?

- A. indefinitely
- B. one year
- C. two years
- D. none of these

69. 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. Corporation's resources are limited to its individual owners' resources.

70. Countries outside the United States use financial accounting standards issued by the

- A. LLC
- B. SEC
- C. IASB
- D. GAAP

71. Which of the items below is nota business entity?

- A. entrepreneurship
- B. proprietorship
- C. partnership
- D. corporation

72. 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

73. Select the type of business that is most likely to obtain large amounts of resources by issuing stock.

- A. partnership
- B. corporation
- C. proprietorship
- D. none of these

74. Which of the following is true in regard to 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 legal liability advantages to the owners.
- D. All are correct.

75. On April 25, Gregg Repair Service extended an offer of \$115,000 for land that had been priced for sale at \$140,000. On May 3, Gregg Repair Service accepted the seller's counteroffer of \$125,000. On June 20, the land was assessed at a value of \$95,000 for property tax purposes. On August 4, Gregg Repair Service was offered \$150,000 for the land by a national retail chain. At what value should the land be recorded in Gregg Repair Service's records?

- A. \$115,000
- B. \$95,000
- C. \$140,000
- D. \$125,000

76. Most businesses in the United States are

- A. proprietorships
- B. partnerships
- C. corporations
- D. limited liability companies

77. The initials GAAP stand for

- A. General Accounting Procedures
- B. Generally Accepted Plans
- C. Generally Accepted Accounting Principles
- D. Generally Accepted Accounting Practices

78. 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)

79. 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

80. For accounting purposes, the business entity should be considered separate from its owners in which of the following forms of business?

- A. a corporation
- B. a proprietorship
- C. a partnership
- D. all of these

81. The objectivity concept requires that

- A. business transactions must be consistent with the objectives of the entity
- B. the Financial Accounting Standards Board must be fair and unbiased in its deliberations over new accounting standards
- C. accounting principles must meet the objectives of the Security and Exchange Commission
- D. amounts recorded in the financial statements must be based on independently verifiable evidence

82. Denzel Jones is the major stockholder of Crystal Cleaning Company. Recently, Denzel received \$10,000 of dividends from Crystal Cleaning. After receiving the dividends, he contributed \$6,000, in his name, to Habitat for Humanity. The contribution of \$6,000 should be recorded on the accounting records of which of the following entities?

- A. Crystal Cleaning and Habitat for Humanity
- B. Denzel Jones' personal records and Habitat for Humanity
- C. Denzel Jones' personal records and Crystal Cleaning
- D. Denzel Jones' personal records, Crystal Cleaning, and Habitat for Humanity

83. 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

84. Which one of the following is the authoritative body in the United States having the primary responsibility for developing accounting principles?

- A. FASB
- B. IRS
- C. SEC
- D. AICPA

85. Which of the following concepts relate 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

86. Donner Company is selling a piece of land adjacent to their business. An appraisal reported the market value of the land to be \$220,000. The 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, what is the amount that will be used to record this transaction in the accounting records?

- A. \$177,000
- B. \$212,000
- C. \$220,000
- D. \$232,000

87. The unit of measure concept

- 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

88. 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.

89. Assets are

- A. always lower than liabilities
- B. equal to liabilities less stockholders' equity
- C. the same as expenses because they are acquired with cash
- D. financed by owners and/or creditors

90. Debts owed by a business are referred to as

- A. accounts receivables
- B. assets
- C. stockholder's equity
- D. liabilities

91. The accounting equation may be expressed as

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

92. Which of the following is not an asset?

- A. investment
- B. cash
- C. inventory
- D. stockholder's equity

93. The assets and liabilities of the company are \$128,000 and \$84,000, respectively. Stockholders' equity should equal

- A. \$212,000
- B. \$44,000
- C. \$128,000
- D. \$84,000

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

- A. \$106,000 increase
- B. \$14,000 increase
- C. \$14,000 decrease
- D. \$106,000 decrease

95. Which of the following is not a business transaction?

- A. make a sales offer
- B. sell goods for cash
- C. receive cash for services to be rendered later
- D. pay for supplies

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

- A. increase one asset, decrease another asset
- B. decrease an asset, decrease a liability
- C. increase an asset, increase a liability
- D. increase an asset, increase stockholders' equity

97. Earning revenue

- A. increases assets, increases stockholders' equity
- B. increases assets, decreases stockholders' equity
- C. increases one asset, decreases another asset
- D. decreases assets, increases liabilities

98. The monetary value charged to customers for the performance of services or sales is called a(n)
- A. asset
 - B. net income
 - C. capital
 - D. revenue
99. Revenues are reported when
- A. a contract is signed
 - B. cash is received from the customer
 - C. work is begun on the job
 - D. work is completed on the job
100. 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. none of these

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

- A. prepaid liabilities
- B. revenues
- C. prepaid expenses
- D. liabilities

102. 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

103. 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. prepaid expense

104.If total assets decreased by \$88,000 during a period of time and stockholders' 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 is

- A. \$17,000 increase
- B. \$88,000 decrease
- C. \$159,000 increase
- D. \$159,000 decrease

105.Declaring and paying cash dividends

- A. increase expenses
- B. decrease expenses
- C. increase cash
- D. decrease stockholders' equity

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

- A. assets increase; liabilities decrease
- B. assets increase; liabilities increase
- C. assets decrease; liabilities decrease
- D. liabilities decrease; stockholders' equity increases

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

- A. assets decrease; stockholders' equity decreases
- B. assets increase; liabilities increase
- C. liabilities increase; stockholders' equity increases
- D. liabilities increase; stockholders' equity decreases

108. 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; stockholders' equity increases

109. 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 \$62,000; stockholders' equity increases \$62,000
- B. assets increase \$32,000; stockholders' equity increases \$32,000
- C. assets increase \$62,000; liabilities decrease \$30,000; stockholders' equity increases \$32,000
- D. assets increase \$30,000; no change for liabilities; stockholders' equity increases \$62,000

110.Allen Marks is the sole stockholder of Great Marks Company. As at December 31, 2013, Great Marks Company has assets of \$940,000 and liabilities of \$300,000. During 2014, Allen Marks purchased an additional \$73,000 of capital stock and received \$33,000 in cash dividends from the business. What is the amount of net income of Great Marks Company during 2014, assuming that as of December 31, 2014, assets were \$995,000, and liabilities were \$270,000?

- A. \$ 45,000
- B. \$ 50,000
- C. \$106,000
- D. \$370,000

111.Transactions affecting stockholders' equity include

- A. shares of capital stock issued to stockholders and payment of liabilities
- B. shares of capital stock issued to stockholders, dividends declared and paid to stockholders, revenues, and expenses
- C. shares of capital stock issued to stockholders, revenues, expenses, and collection of accounts receivable
- D. dividends declared and paid to stockholders, revenues, expenses, and purchases of supplies on account

112.Clifford Moore purchased \$15,000 of Star Tech stock for cash. Star Tech would

- A. increase Assets (Cash) and increase Liabilities (Accounts Payable)
- B. increase Assets (Cash) and increase Stockholders' Equity (Capital Stock)
- C. Increase Assets (Accounts Receivable) and decrease Liabilities (Accounts Payable)
- D. Increase Assets (Cash) and increase Assets (Accounts Receivable)

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

- A. Increase Liabilities (Notes Payable) and decrease Assets (Cash)
- B. Decrease Assets (Cash) and decrease Stockholders' Equity (Note Payable Expense)
- C. Decrease Assets (Cash) and decrease Assets (Notes Receivable)
- D. Decrease Assets (Cash) and decrease Liabilities (Notes Payable)

114. Ramos Repair Company paid \$750 in dividends to its stockholders. How does this transaction affect Ramos Repair Company's accounting equation?

- A. Increase Assets (Accounts Receivable) and decrease Assets (Cash)
- B. Decrease Assets (Cash) and decrease Stockholders' Equity (Dividends)
- C. Decrease Assets (Cash) and decrease Liabilities (Accounts Payable)
- D. Increase Assets (Cash) and decrease Stockholders' Equity (Dividends)

115. Which of the following is not a business transaction?

- A. Erin Adams receives stock in exchange for depositing \$15,000 in a bank account in the name of Erin's Lawn Service.
- B. Erin's Lawn Service provided services to customers earning fees of \$600.
- C. Erin Adams purchased hedge trimmers for her lawn service, agreeing to pay the supplier next month.
- D. Erin Adams pays her monthly personal credit card bill.

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. retained earnings statement
- C. income statement
- D. balance sheet

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

- A. income statement
- B. retained earnings statement
- C. statement of cash flows
- D. balance sheet

118. Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. The retained earnings statement (RE), 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, RE, B
- B. B, I, RE
- C. RE, I, B
- D. B, RE, I

119. Liabilities are reported on the

- A. income statement
- B. retained earnings statement
- C. statement of cash flows
- D. balance sheet

120. Cash investments made by stockholders in exchange for capital stock in a 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

121. The year-end balance of the retained earnings account appears in

- A. both the retained earnings statement and the income statement
- B. only the retained earnings statement
- C. both the retained earnings statement and the balance sheet
- D. both the retained earnings statement and the statement of cash flows

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

- A. the income statement
- B. the balance sheet
- C. the statement of cash flows
- D. the retained earnings statement

123.If stockholders wanted to know how money flowed into and out of the company, what financial statement would they use?

- A. income statement
- B. statement of cash flows
- C. balance sheet
- D. none of these

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

- A. alphabetical order
- B. order of largest to smallest dollar amounts
- C. in the order that they will be converted into cash or used in operations
- D. any order

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

- A. A ratio of 1 indicates that liabilities equal stockholders' equity.
- B. The ratio is calculated as total liabilities divided by total stockholders' 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 is, the better able a business is to withstand poor business conditions and pay creditors.

126. Given the following data:

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Total liabilities	\$128,250	\$120,000
Total stockholders' equity	95,000	80,000

Compute the ratio of liabilities to stockholders' 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

127. 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.

128. 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.

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

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

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

132. 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?

133. Donner Company is selling a piece of land adjacent to their business. An appraisal reported the market value of the land to be \$120,000. The 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 was sold for \$122,000. Under the cost concept, what is the amount that will be used to record this transaction in the accounting records?

134. Explain the meaning of the business entity concept.

135.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 sale of capital stock to Donnie Darnell.

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

136.Explain the meaning of:

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

137. At the end of its accounting period, December 31, 2010, Miller's Arcade has assets of \$450,000 and liabilities of \$125,000. Using the accounting equation, determine the following amounts:

- (a) Stockholders' equity as of December 31, 2010.
- (b) Stockholders' equity as of December 31, 2011, assuming that assets increased by \$65,000 and liabilities increased by \$35,000 during 2011.

138. Determine the missing amount "X" for each of the following:

Assets	Liabilities	Stockholders' Equity
a. \$78,500	\$37,600	X
b. X	\$53,280	\$145,000
c. \$49,500	X	\$34,000

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

140. The following selected transactions were completed by Daniels Company during May:

1. Capital stock was issued for \$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 dividends, \$2,500.
6. Received the utility bill, \$160, to be paid next month.

Indicate the effect of each transaction on the accounting equation:

- 1) By Account type - (A)assets, (L)liabilities, (SE)Stockholders' Equity, (R)revenue, and (E)expense
- 2) Name of account for the entry
- 3) The amount of the transaction
- 4) Whether it is an increase or decrease to the account

Note: Each transaction has two entries.

Entry					Entry			
	Acct. Type (1)	Name of Acct. (2)	Amount (3)	Increase or Decrease (4)	Acct. Type (1)	Name of Acct. (2)	Amount (3)	Increase or Decrease (4)
1.								
2.								
3.								
4.								
5.								
6.								

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

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

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

142. 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?

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

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

	Assets	Liabilities	Stockholders' Equity
a. Shiny Kar paid \$5,000 in cash dividends to stockholders.			
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 \$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.			

145. 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?

146. At December 31, 2011, 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. Total Stockholders' Equity as of December 31, 2011.
- b. Total Stockholders' Equity as of December 31, 2012, assuming that assets increased by \$12,000 and liabilities increased by \$15,000 in 2012.
- c. Total Stockholders' Equity as of December 31, 2012, assuming that assets decreased by \$8,000 and liabilities increased by \$14,000 during 2012.

147. 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?

148. On July 1 of the current year, the assets and liabilities of Wong Company 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 stockholders' equity as of July 1 of the current year?

149. Indicate how the following transactions affect the accounting equation:

- (a) The purchase of supplies on account.
- (b) The purchase of supplies for cash.
- (c) Cash dividends paid to stockholders.
- (d) Revenues received in cash.
- (e) Revenues received on account.

150. Discuss the characteristics of a LLC (Limited liability company).

151. At the end of its accounting period, December 31, 2011, Hsu's Financial Services has assets of \$575,000 and stockholders' 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, 2011.
- b. Hsu's liabilities as of December 31, 2012, assuming that assets increased by \$56,000 and stockholders' equity decreased by \$32,000.
- c. Net income or net loss during 2012, assuming that as of December 31, 2012, assets were \$592,000, liabilities were \$450,000, and there were no additional capital stock sales or dividends paid in 2012.

152.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) stockholders' equity?

b. Assume that the seller owes \$52,000 on a loan 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) stockholders' equity?

153. Indicate whether each of the following represents an asset, liability, or stockholder's equity item.

- (a) accounts payable
- (b) wages expense
- (c) capital stock
- (d) accounts receivable
- (e) dividends
- (f) land

154. The 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, The Austin Land Company paid off the loan. Explain the effect of the sale and the payoff of the loan on the accounting equation.

155. Given the following:

Beginning retained earnings	\$ 58,000
Ending retained earnings	\$ 30,000
Dividends declared and paid	\$ 25,000

Calculate net income or net loss.

156. The accountant for Franklin Company prepared the following list of account balances from the company's records for the year ended December 31, 2011:

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	64,000	Capital Stock	7,000
Accounts Payable	22,000	Retained Earnings	23,000
Salaries & Wages Expense	40,000	Prepaid Rent	2,000
Dividends	5,000	Income Taxes Expense	13,000
Salaries & Wages Payable	15,000	Rent Expense	20,000

Determine the total assets at the end of 2011 for Franklin Company.

157. The accountant for Franklin Company prepared the following list of account balances from the company's records for the year ended December 31, 2011:

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	64,000	Capital Stock	7,000
Accounts Payable	22,000	Retained Earnings	23,000
Salaries & Wages Expense	40,000	Prepaid Rent	2,000
Dividends	5,000	Income Taxes Expense	13,000
Salaries & Wages Payable	15,000	Rent Expense	20,000

Determine the total liabilities at the end of 2011 for Franklin Company.

158. The accountant for Franklin Company prepared the following list of account balances from the company's records for the year ended December 31, 2011:

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	64,000	Capital Stock	7,000
Accounts Payable	22,000	Retained Earnings	23,000
Salaries & Wages Expense	40,000	Prepaid Rent	2,000
Dividends	5,000	Income Taxes Expense	13,000
Salaries & Wages Payable	15,000	Rent Expense	20,000

Based on this information, is Franklin Company profitable? Explain your answer by including net income or loss.

159. Amos Moving Services' account balances at March 31, 2014, the end of the current year, are listed below. The Retained Earnings balance was \$180,000 at April 1, 2013, the beginning of the current 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	Dividends	16,570
Building	157,630	Capital Stock	25,000

Based on the data provided for Amos Moving Services, prepare an income statement for the current year ended March 31, 2014.

160. Amos Moving Services' account balances at March 31, 2014, the end of the current year, are listed below. The Retained Earnings balance was \$180,000 at April 1, 2013, the beginning of the current 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	Dividends	16,570
Building	157,630	Capital Stock	25,000

Based on the data provided for Amos Moving Services, prepare a retained earnings statement for the year ended March 31, 2014.

161. Amos Moving Services' account balances at March 31, 2014, the end of the current year, are listed below. The Retained Earnings balance was \$180,000 at April 1, 2013, the beginning of the current 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	Dividends	16,570
Building	157,630	Capital Stock	25,000

Based on the data provided for Amos Moving Services, prepare a balance sheet for the current year ended March 31, 2014.

162.A summary of cash flows for Alex Design Services for the year ended December 31, 2012, is shown below.

Cash receipts:

Cash received from customers	\$83,990
Cash received from additional sale of capital stock	25,000

Cash payments:

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

The cash balance as of January 1, 2012	\$40,600
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Prepare a statement of cash flows for Alex Design Services for the year ended December 31, 2012.

163. The total assets and the total liabilities of a business at the beginning and at the end of the year appear below. During the year, the company paid \$55,000 in cash dividends and issued an additional \$33,000 of capital stock.

	<u>Assets</u>	<u>Liabilities</u>
Beginning of year	\$305,000	\$200,000
End of year	365,000	230,000

Calculate the net income for the year.

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

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

166. Match the following accounts to the financial statement where they can be found. (Hint: Some of the accounts can be found in more than one financial statement.)

A. Balance Sheet

B. Income Statement

C. Statement of Cash Flows

D. Retained Earnings Statement

#	Account
1.	Dividends
2.	Revenues
3.	Supplies
4.	Land
5.	Accounts Payable
6.	Accounts Receivable
7.	Operating Activities
8.	Wages Expense
9.	Net Income
10.	Cash

167. Name and describe the four primary financial statements for a corporation.

168. There are four transactions that affect stockholders' equity.

- (a) What are the two types of transactions that increase stockholders' equity?
- (b) What are the two types of transactions that decrease stockholders' equity?

169.A summary of cash flows for Lopez Wedding Planning for the year ended December 31, 2011 is shown below.

Cash receipts:

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

Cash payments:

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

The cash balance as of January 1, 2011	\$15,580
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Prepare a statement of cash flows for Lopez Wedding Planning for the year ended December 31, 2011.

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

171.The following data were taken from Harrison Company's balance sheet:

	<u>Dec. 31, 2012</u>	<u>Dec. 31, 2011</u>
Total liabilities	\$150,000	\$105,000
Total stockholders' equity	75,000	60,000

- Compute the ratio of liabilities to stockholders' equity.
- Has the creditors' risk increased or decreased from December 31, 2011, to December 31, 2012?

172. Company G has a ratio of liabilities to stockholders' equity of 0.12 and 0.28 for 2010 and 2011, 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?

173. Given the following data:

<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>	
Total liabilities	\$128,250	\$120,000
Total stockholders' equity	95,000	80,000

- Compute the ratio of liabilities to stockholders' equity for each year.
- Has the creditors' risk increased or decreased from December 31, 2013, to December 31, 2014?

174. The assets and liabilities of S&P Day Spa at December 31, 2014 and expenses for the year are listed below. The retained earnings balance was \$68,000 at January 1, 2014. Net income for 2014 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 & Equipment	\$56,000	Dividends	\$38,170
Computers	\$2,130	Capital Stock	\$10,000

Prepare an income statement for the current year ended December 31, 2014.

175. The assets and liabilities of S&P Day Spa at December 31, 2014 and expenses for the year are listed below. The retained earnings balance was \$68,000 at January 1, 2014.

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 & Equipment	\$56,000	Dividends	\$38,170
Computers	\$2,130	Capital Stock	\$10,000

Prepare a retained earnings statement for the current year ended December 31, 2014.

176. The assets and liabilities of S&P Day Spa at December 31, 2014 and expenses for the year are listed below. The retained earnings balance was \$68,000 at January 1, 2014.

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 & Equipment	\$56,000	Dividends	\$38,170
Computers	\$2,130	Capital Stock	\$10,000

Prepare a Balance Sheet at December 31, 2014.

177. For each of the following companies, identify whether it is a service, merchandising, or manufacturing business.

<i>A.</i>	Dillards
<i>B.</i>	Time Warner Cable
<i>C.</i>	General Motors
<i>D.</i>	Netflix
<i>E.</i>	Stanley Steemer
<i>F.</i>	Sony
<i>G.</i>	Best Buy
<i>H.</i>	Banana Republic
<i>I.</i>	H & R Block

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

A.	Payroll Manager
B.	Bank
C.	President's Secretary
D.	Internal Revenue Service
E.	Raw Material Vendors
F.	Social Security Administration
G.	Health Insurance Provider
H.	Managerial Accountant

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

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

180. Identify each of the following as an (1) increase in stockholders' equity, or a (2) decrease in stockholders' equity.

- (a) Fees Earned
- (b) Wages Expense
- (c) Dividends
- (d) Lawn Care Revenue
- (e) Issue Capital Stock
- (f) Supplies Expense

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

	<u>A</u>	<u>L</u>	<u>SE</u>
(a) Received cash from issuing capital stock	_____	_____	_____
(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) Paid cash dividends	_____	_____	_____
(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	_____	_____	_____

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

- (a) Rent Expense
- (b) Land
- (c) Capital Stock
- (d) Fees Earned
- (e) Dividends
- (f) Wages Expense
- (g) Taxes Payable

183. Identify which of the following accounts appear on a balance sheet.

- (a) Cash
- (b) Fees Earned
- (c) Capital Stock
- (d) Wages Payable
- (e) Rent Expense
- (f) Prepaid Advertising
- (g) Land

184. Indicate whether each of the following activities would be reported on the statement of cash flows as an operating activity, an investing activity, a financing activity, or not at all.

- (a) Cash paid for building
- (b) Cash paid to suppliers
- (c) Cash paid for dividends
- (d) Cash received from customers
- (e) Cash received from issuing capital stock
- (f) Cash received from the sale of a building
- (g) Borrowed cash from a bank

185. 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. Additional capital stock of \$15,000 was issued for cash during the year.
- (b) Revenues for the year totaled \$220,500 and expenses totaled \$175,000. Dividends paid during the year were \$40,000. No additional stock was issued.
- (c) Revenues for the year totaled \$149,000 and expenses totaled \$172,000. Capital stock of \$12,000 was issued for cash and dividends of \$16,000 were paid during the year.
- (d) Revenues for Konner Co. totaled \$198,150 and expenses totaled \$174,200. Cash dividends of \$35,000 were paid during the year. No additional stock was issued.

186. The total assets and total liabilities of Paul's Pools, a corporation, at the beginning and at the end of the current fiscal year are as follows:

	<u>Jan. 1</u>	<u>Dec. 31</u>
Total assets	\$280,000	\$475,000
Total liabilities	205,000	130,000

- (a) Determine the amount of net income earned during the year. No capital stock was issued and no dividends were paid during the year.
- (b) Determine the amount of net income during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. Dividends of \$53,000 were paid in cash during the year. No capital stock was issued.
- (c) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. Capital stock of \$35,000 was issued for cash and no dividends were paid.
- (d) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. Capital stock of \$12,000 was issued for cash and \$1,500 of dividends were paid each month during the year.

187. 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

188. On March 1, 2014, Cook's Catering Company Capital Stock balance was \$30,000 and the balance of Retained Earnings was \$120,000. During March, dividends of \$31,000 were declared and paid by the business. Assets, liabilities, revenues, and expenses at March 31, 2014, were 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 retained earnings statement for March, and (c) a balance sheet as of March 31.

189. Simpson Designers began operations on April 1, 2011. The financial statements for Simpson Designers are shown below for the month ended April 30, 2011 (the first month of operations). Determine the missing amounts for letters (a) through (o).

Simpson Designers

Income Statement

For the Month Ended April 30, 2011

Fees earned		\$27,000
Operating expenses:		
Wages expense	\$5,250	
Rent expense	(a)	
Supplies expense	4,600	
Utilities expense	400	
Miscellaneous expense	<u>1,250</u>	
Total operating expenses		<u>(b)</u>
Net income		<u>\$ (c)</u>

Simpson Designers

Retained Earnings Statement

For the Month Ended April 30, 2011

Retained Earnings, April 1, 2011		0
Net income for April	\$ (d)	
Less dividends	<u>6,000</u>	
Increase in retained earnings		<u>(e)</u>
Retained Earnings, April 30, 2011		<u>\$ (f)</u>

Simpson Designers

Balance Sheet

April 30, 2011

Assets

Cash	\$ (g)
Supplies	8,100
Land	<u>(h)</u>
Total assets	<u>\$55,900</u>

Liabilities

Accounts payable	\$ (i)
------------------	--------

Stockholders' Equity

Capital stock	\$ (j)
Retained earnings	<u>(k)</u>
Total stockholders' equity	<u>38,100</u>

Total liabilities and stockholders' equity

\$ (l)

Simpson Designers

Statement of Cash Flows

For the Month Ended April 30, 2011

Cash flows from operating activities:

Cash received from customers \$23,000

Deduct 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 from sale of capital stock \$ (m)

Deduct cash dividends (n)

Net cash flow from financing activities (o)

Net cash flow and April 30, 2011, cash balance \$ (p)

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) _____

(o) _____

(p) _____

190.CPA Associates was organized on January 1, 2011, as a corporation. List the errors that you find in the following financial statements and prepare the corrected statements for the three months ended March 31, 2011.

CPA Associates

Income Statement

For the Three Months Ended March 31, 2011

Fees earned		\$42,000
Operating expenses:		
Salary expense	\$9,735	
Rent expense	5,200	
Advertising expense	3,950	
Utilities expense	3,225	
Miscellaneous expense	4,000	
Answering service expense	2,550	
Supplies expense	<u>4,000</u>	
Total operating expenses		<u>28,000</u>
Net income		<u>\$14,000</u>

CPA Associates

Retained Earnings Statement

March 31, 2011

Retained earnings, January, 1, 2011		\$ 0
Net income for the 3 months	\$ 14,000	
Less dividends	<u>5,000</u>	
Increase in stockholders' equity		<u>11,000</u>
Retained earnings, January, 31, 2011		<u>\$11,000</u>

Balance Sheet

For the Three Months Ended March 31, 2011

Assets

Land	\$13,000
Cash	10,860
Accounts payable	2,670

Stockholders' Equity

Capital stock	\$20,000
Retained earnings	<u>11,000</u>
Total stockholders' equity	\$31,000

Supplies	<u>925</u>
Total assets	<u>\$33,225</u>

Liabilities	
Accounts receivable	<u>2,225</u>
Total liab. & stockholders' equity	<u>\$33,225</u>

191. Given below are the accounts and amounts for Bright Futures Company as of August 31, 2011. All of the revenue and expense amounts are for the month of August.

Telephone Expense	\$ 1,150
Cash	3,000
Accounts Payable	1,540
Dividends	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	20,000
Capital Stock	10,000
Wages Expense	4,800
Utilities Expense	750
Notes Payable	2,400
Retained Earnings	4,320
Office Expense	420

Based on the data provided for Bright Futures Company, prepare in good format an income statement for the month ended August 31, 2011.

192. Given below are the accounts and amounts for Bright Futures Company as of August 31, 2011. All of the revenue and expense amounts are for the month of August.

Telephone Expense	\$ 1,150
Cash	3,000
Accounts Payable	1,540
Dividends	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	20,000
Capital Stock	10,000
Wages Expense	4,800
Utilities Expense	750
Notes Payable	2,400
Retained Earnings	4,320
Office Expense	420

Based on the data provided for Bright Futures Company, prepare in good format a retained earnings statement for the month ended August 31, 2011.

193. Given below are the accounts and amounts for Bright Futures Company as of August 31, 2011. All of the revenue and expense amounts are for the month of August.

Telephone Expense	\$ 1,150
Cash	3,000
Accounts Payable	1,540
Dividends	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	20,000
Capital Stock	10,000
Wages Expense	4,800
Utilities Expense	750
Notes Payable	2,400
Retained Earnings	4,320
Office Expense	420

Based on the data provided for Bright Futures Company, prepare in good format a balance sheet as of August 31, 2011.

194. Trendsetter Travel Services began business on January 1, 2014. Balances at December 31, 2014, are listed below.

Accounts Payable	\$12,000	Capital Stock	\$10,000
Accounts Receivable	14,000	Supplies	1,000
Cash	18,000	Taxes Expense	1,300
Computer Equipment	21,000	Dividends	8,000
Fees Earned	78,000	Wages Expense	25,000
Rent Expense	10,000	Supplies Expense	1,700

Prepare an income statement, retained earnings statement, and a balance sheet for Trendsetter Travel Services.

195. Flagger Company began operations on January 1, 2011. The accountant prepared the following list of account balances from the company's records for the first year ended December 31, 2011:

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	42,000	Capital Stock	36,000
Accounts Payable	12,000	Interest Income	3,000
Salaries & 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.

196. 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. paid cash dividends, \$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. (Hint: Use the following reconciliation.)

Cash, June 1	\$25,000
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Plus: cash receipts for June	_____
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Minus: cash payments for June	_____
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Cash, June 30	_____
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Chapter 1--Introduction to Accounting and Business 15 copy

Key

1. The main objective of a not-for-profit business is not to make a profit.

FALSE

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

TRUE

3. A corporation is a business that is legally separate and distinct from its owners.

TRUE

4. Senior executives cannot be criminally prosecuted for the wrong doings they commit on behalf of the companies where they work.

FALSE

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

FALSE

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

FALSE

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

TRUE

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

FALSE

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

TRUE

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

FALSE

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

TRUE

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

TRUE

13. An example of a general-purpose financial statement would be a report about projected price increases related to transportation costs.

FALSE

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

TRUE

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

TRUE

16. The main objective for all businesses is to maximize unrealized profits.

FALSE

17. The Sarbanes-Oxley Act prohibits CPAs from providing nonaudit investment banking services.

TRUE

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

FALSE

19. Proprietorships are owned by two or more individuals and provide only services to their customers.

FALSE

20. Only large companies such as Wal-Mart, JCP, General Motors, and the Bank of America can be organized as corporations.

FALSE

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

TRUE

22. The unit of measurement concept requires that economic data be recorded in a common unit of measurement.

TRUE

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

FALSE

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

FALSE

25. The cost concept is the basis for entering the exchange price into the accounting records.

TRUE

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

TRUE

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

FALSE

28. The accounting equation can be expressed as $\text{Assets} - \text{Liabilities} = \text{Stockholders' Equity}$.

TRUE

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

TRUE

30. Owners' rights to assets rank ahead of creditors' rights to assets.

FALSE

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

FALSE

32. 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 stockholder's equity was a \$200,000 increase.

TRUE

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

FALSE

34. If a corporation had net income of \$60,000 and \$20,000 in cash dividends were declared and paid then the retained earnings account would increase by \$40,000.

TRUE

35. An account receivable is a claim against a customer arising from a sale on account.

TRUE

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

FALSE

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

FALSE

38. Cash dividends paid to stockholders decrease assets and increase equity.

FALSE

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

FALSE

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

FALSE

41. Revenue is earned only when money is received.

FALSE

42. Expenses are assets that are used up during the process of earning revenue.

TRUE

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

FALSE

44. The principal financial statements for a corporation are the income statement, the retained earnings statement, the balance sheet, and the budget.

FALSE

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

FALSE

46. A retained earnings statement reports all changes in cash for a period of time.

FALSE

47. 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.

FALSE

48. All financial statements are identified by the name of the business, the title of the statement, and the date or period of time.

TRUE

49. The balance sheet represents the accounting equation.

TRUE

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

FALSE

51. Profit is the difference between

A. assets and liabilities

B. the incoming cash and outgoing cash

C. the assets purchased with cash invested by stockholders and the cash spent to operate the business

D. the amounts received from customers for goods or services and the amounts paid for the inputs used to provide the goods or services

52. Who among the following uses financial reports?

A. management

B. creditors

C. investors

D. all are correct

53. 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
54. 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
55. Which of the following is not a general-purpose financial statement?
- A. balance sheet
 - B. income statement
 - C. retained earnings statement
 - D. cash budget

56. Which of the following is a manufacturing business?

A. Amazon.com.

B. Wal-Mart.

C. Ford Motors.

D. Delta Airlines

57. Which of the following group of companies are all examples of a merchandising business?

A. Delta Airlines, Marriott, Gap

B. Gap, Amazon, NIKE

C. GameStop, Sony, Dell

D. GameStop, Best Buy, Gap

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

A. pet groomer

B. supermarket

C. lawn care company

D. styling salon

59. Which of the following best describes accounting?
- A. It records economic data but does not communicate the data to users according to any specific rules.
 - B. It is an information system that provides reports to users regarding economic activities and condition of a business.
 - C. It is of no use by individuals outside of the business.
 - D. It is used only for filling out tax returns and for financial statements for various type of governmental reporting requirements.
60. Which of the following groups are considered to be internal users of accounting information?
- A. Employees and customers
 - B. Customers and vendors
 - C. Employees and managers
 - D. Government and banks
61. The following are examples of external users of accounting information except
- A. government
 - B. customers
 - C. creditors
 - D. managers

62. Which of the following is a body established by the Sarbanes-Oxley Act of 2002 for the accounting professionals?
- A. Generally Accepted Accounting Practices for Public Accountants Board
 - B.** Public Company Accounting Oversight Board
 - C. Congressional Accounting Oversight Board
 - D. none of these
63. 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.
64. Managerial accountants would be responsible for providing which of the following?
- 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.

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

A. CIA

B. CMA

C. CISA

D. All are certifications.

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

A. to provide reports to users about the economic activities and conditions of a business

B. to personally guarantee loans of the business

C. to provide information to other users to determine the economic performance and condition of the business

D. to assess the various informational needs of users and design its accounting system to meet those needs

67. Which of the following are guidelines for behaving ethically?

I. Identify the consequences of a decision and its effect on others.

II. Consider your obligations and responsibilities to those affected by the decision.

III. Identify your decision based on personal standards of honesty and fairness.

A. I and II.

B. II and III.

C. I and III.

D. I, II, and III.

68. The Sarbanes-Oxley Act of 2002 prohibits employment of auditors by their clients for what period after their last audit of the client?
- A. indefinitely
 - B.** one year
 - C. two years
 - D. none of these
69. 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.** Corporation's resources are limited to its individual owners' resources.
70. Countries outside the United States use financial accounting standards issued by the
- A. LLC
 - B. SEC
 - C.** IASB
 - D. GAAP

71. Which of the items below is nota business entity?

A. entrepreneurship

B. proprietorship

C. partnership

D. corporation

72. 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

73. Select the type of business that is most likely to obtain large amounts of resources by issuing stock.

A. partnership

B. corporation

C. proprietorship

D. none of these

74. Which of the following is true in regard to 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 legal liability advantages to the owners.
 - D. All are correct.
75. On April 25, Gregg Repair Service extended an offer of \$115,000 for land that had been priced for sale at \$140,000. On May 3, Gregg Repair Service accepted the seller's counteroffer of \$125,000. On June 20, the land was assessed at a value of \$95,000 for property tax purposes. On August 4, Gregg Repair Service was offered \$150,000 for the land by a national retail chain. At what value should the land be recorded in Gregg Repair Service's records?
- A. \$115,000
 - B. \$95,000
 - C. \$140,000
 - D. \$125,000
76. Most businesses in the United States are
- A. proprietorships
 - B. partnerships
 - C. corporations
 - D. limited liability companies

77. The initials GAAP stand for
- A. General Accounting Procedures
 - B. Generally Accepted Plans
 - C. Generally Accepted Accounting Principles
 - D. Generally Accepted Accounting Practices
78. 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)
79. 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

80. For accounting purposes, the business entity should be considered separate from its owners in which of the following forms of business?
- A. a corporation
 - B. a proprietorship
 - C. a partnership
 - D. all of these
81. The objectivity concept requires that
- A. business transactions must be consistent with the objectives of the entity
 - B. the Financial Accounting Standards Board must be fair and unbiased in its deliberations over new accounting standards
 - C. accounting principles must meet the objectives of the Security and Exchange Commission
 - D. amounts recorded in the financial statements must be based on independently verifiable evidence
82. Denzel Jones is the major stockholder of Crystal Cleaning Company. Recently, Denzel received \$10,000 of dividends from Crystal Cleaning. After receiving the dividends, he contributed \$6,000, in his name, to Habitat for Humanity. The contribution of \$6,000 should be recorded on the accounting records of which of the following entities?
- A. Crystal Cleaning and Habitat for Humanity
 - B. Denzel Jones' personal records and Habitat for Humanity
 - C. Denzel Jones' personal records and Crystal Cleaning
 - D. Denzel Jones' personal records, Crystal Cleaning, and Habitat for Humanity

83. 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
84. Which one of the following is the authoritative body in the United States having the primary responsibility for developing accounting principles?
- A. FASB
 - B. IRS
 - C. SEC
 - D. AICPA
85. Which of the following concepts relate 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

86. Donner Company is selling a piece of land adjacent to their business. An appraisal reported the market value of the land to be \$220,000. The 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, what is the amount that will be used to record this transaction in the accounting records?
- A. \$177,000
 - B. \$212,000
 - C. \$220,000
 - D. \$232,000
87. The unit of measure concept
- 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
88. 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.

89. Assets are

- A. always lower than liabilities
- B. equal to liabilities less stockholders' equity
- C. the same as expenses because they are acquired with cash
- D. financed by owners and/or creditors

90. Debts owed by a business are referred to as

- A. accounts receivables
- B. assets
- C. stockholder's equity
- D. liabilities

91. The accounting equation may be expressed as

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

92. Which of the following is not an asset?

A. investment

B. cash

C. inventory

D. stockholder's equity

93. The assets and liabilities of the company are \$128,000 and \$84,000, respectively. Stockholders' equity should equal

A. \$212,000

B. \$44,000

C. \$128,000

D. \$84,000

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

A. \$106,000 increase

B. \$14,000 increase

C. \$14,000 decrease

D. \$106,000 decrease

95. Which of the following is not a business transaction?

- A. make a sales offer
- B. sell goods for cash
- C. receive cash for services to be rendered later
- D. pay for supplies

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

- A. increase one asset, decrease another asset
- B. decrease an asset, decrease a liability
- C. increase an asset, increase a liability
- D. increase an asset, increase stockholders' equity

97. Earning revenue

- A. increases assets, increases stockholders' equity
- B. increases assets, decreases stockholders' equity
- C. increases one asset, decreases another asset
- D. decreases assets, increases liabilities

98. The monetary value charged to customers for the performance of services or sales is called a(n)

- A. asset
- B. net income
- C. capital
- D. revenue

99. Revenues are reported when

- A. a contract is signed
- B. cash is received from the customer
- C. work is begun on the job
- D. work is completed on the job

100. 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. none of these

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

- A. prepaid liabilities
- B. revenues
- C. prepaid expenses
- D. liabilities

102. 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

103. 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. prepaid expense

104. If total assets decreased by \$88,000 during a period of time and stockholders' 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 is
- A. \$17,000 increase
 - B. \$88,000 decrease
 - C. \$159,000 increase
 - D. \$159,000 decrease
105. Declaring and paying cash dividends
- A. increase expenses
 - B. decrease expenses
 - C. increase cash
 - D. decrease stockholders' equity
106. How does paying a liability in cash affect the accounting equation?
- A. assets increase; liabilities decrease
 - B. assets increase; liabilities increase
 - C. assets decrease; liabilities decrease
 - D. liabilities decrease; stockholders' equity increases

107. How does receiving a bill to be paid next month for services received affect the accounting equation?
- A. assets decrease; stockholders' equity decreases
 - B. assets increase; liabilities increase
 - C. liabilities increase; stockholders' equity increases
 - D. liabilities increase; stockholders' equity decreases
108. 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; stockholders' equity increases
109. 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 \$62,000; stockholders' equity increases \$62,000
 - B. assets increase \$32,000; stockholders' equity increases \$32,000
 - C. assets increase \$62,000; liabilities decrease \$30,000; stockholders' equity increases \$32,000
 - D. assets increase \$30,000; no change for liabilities; stockholders' equity increases \$62,000

110. Allen Marks is the sole stockholder of Great Marks Company. As at December 31, 2013, Great Marks Company has assets of \$940,000 and liabilities of \$300,000. During 2014, Allen Marks purchased an additional \$73,000 of capital stock and received \$33,000 in cash dividends from the business. What is the amount of net income of Great Marks Company during 2014, assuming that as of December 31, 2014, assets were \$995,000, and liabilities were \$270,000?

- A. \$ 45,000
- B. \$ 50,000
- C. \$106,000
- D. \$370,000

111. Transactions affecting stockholders' equity include

- A. shares of capital stock issued to stockholders and payment of liabilities
- B. shares of capital stock issued to stockholders, dividends declared and paid to stockholders, revenues, and expenses
- C. shares of capital stock issued to stockholders, revenues, expenses, and collection of accounts receivable
- D. dividends declared and paid to stockholders, revenues, expenses, and purchases of supplies on account

112. Clifford Moore purchased \$15,000 of Star Tech stock for cash. Star Tech would
- A. increase Assets (Cash) and increase Liabilities (Accounts Payable)
 - B. increase Assets (Cash) and increase Stockholders' Equity (Capital Stock)
 - C. Increase Assets (Accounts Receivable) and decrease Liabilities (Accounts Payable)
 - D. Increase Assets (Cash) and increase Assets (Accounts Receivable)
113. Gomez Service Company paid its first installment on a note payable for an amount of \$2,000. How will this transaction affect the accounting equation?
- A. Increase Liabilities (Notes Payable) and decrease Assets (Cash)
 - B. Decrease Assets (Cash) and decrease Stockholders' Equity (Note Payable Expense)
 - C. Decrease Assets (Cash) and decrease Assets (Notes Receivable)
 - D. Decrease Assets (Cash) and decrease Liabilities (Notes Payable)
114. Ramos Repair Company paid \$750 in dividends to its stockholders. How does this transaction affect Ramos Repair Company's accounting equation?
- A. Increase Assets (Accounts Receivable) and decrease Assets (Cash)
 - B. Decrease Assets (Cash) and decrease Stockholders' Equity (Dividends)
 - C. Decrease Assets (Cash) and decrease Liabilities (Accounts Payable)
 - D. Increase Assets (Cash) and decrease Stockholders' Equity (Dividends)

115. Which of the following is not a business transaction?

- A. Erin Adams receives stock in exchange for depositing \$15,000 in a bank account in the name of Erin's Lawn Service.
- B. Erin's Lawn Service provided services to customers earning fees of \$600.
- C. Erin Adams purchased hedge trimmers for her lawn service, agreeing to pay the supplier next month.
- D. Erin Adams pays her monthly personal credit card bill.

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. retained earnings statement
- C. income statement
- D. balance sheet

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

- A. income statement
- B. retained earnings statement
- C. statement of cash flows
- D. balance sheet

118. Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. The retained earnings statement (RE), 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, RE, B

B. B, I, RE

C. RE, I, B

D. B, RE, I

119. Liabilities are reported on the

A. income statement

B. retained earnings statement

C. statement of cash flows

D. balance sheet

120. Cash investments made by stockholders in exchange for capital stock in a 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

121. The year-end balance of the retained earnings account appears in
- A. both the retained earnings statement and the income statement
 - B. only the retained earnings statement
 - C. both the retained earnings statement and the balance sheet
 - D. both the retained earnings statement and the statement of cash flows
122. A financial statement user would determine if a company was profitable or not during a specific period of time by reviewing
- A. the income statement
 - B. the balance sheet
 - C. the statement of cash flows
 - D. the retained earnings statement
123. If stockholders wanted to know how money flowed into and out of the company, what financial statement would they use?
- A. income statement
 - B. statement of cash flows
 - C. balance sheet
 - D. none of these

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

- A. alphabetical order
- B. order of largest to smallest dollar amounts
- C. in the order that they will be converted into cash or used in operations
- D. any order

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

- A. A ratio of 1 indicates that liabilities equal stockholders' equity.
- B. The ratio is calculated as total liabilities divided by total stockholders' 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 is, the better able a business is to withstand poor business conditions and pay creditors.

126. Given the following data:

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Total liabilities	\$128,250	\$120,000
Total stockholders' equity	95,000	80,000

Compute the ratio of liabilities to stockholders' 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

127. 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.

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 the government. These users are not directly involved in managing or operating the business. Financial reports about the profitability of a company's operations are important to banks and creditors when deciding to lend money to the company or extend credit.

128. 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.

The three factors are: (1) individual character, (2) firm culture, and (3) laws and enforcement. Honesty, integrity, and fairness in the face of pressure to hide the truth are important characteristics of an ethical business person. The behavior and attitude of senior management sets 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 of 2002 (SOX) established a new oversight body for the accounting profession, known as the Public Company Accounting Oversight Board (PCAOB), which enhanced corporate accountability, financial disclosures, and independence.

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

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.

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

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.

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

If amounts in the accounting records were constantly being revised upward or downward based on offers, appraisals, and opinions, accounting reports could become unstable and unreliable.

132. 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?

\$95,000

133. Donner Company is selling a piece of land adjacent to their business. An appraisal reported the market value of the land to be \$120,000. The 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 was sold for \$122,000. Under the cost concept, what is the amount that will be used to record this transaction in the accounting records?

\$115,000

134. Explain the meaning of the business entity concept.

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

135. 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 sale of capital stock to Donnie Darnell.

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

Darnell Company and Joseph Company

136. Explain the meaning of:

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

(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 reporting financial data and reports.

137. At the end of its accounting period, December 31, 2010, Miller's Arcade has assets of \$450,000 and liabilities of \$125,000. Using the accounting equation, determine the following amounts:

- (a) Stockholders' equity as of December 31, 2010.
- (b) Stockholders' equity as of December 31, 2011, assuming that assets increased by \$65,000 and liabilities increased by \$35,000 during 2011.

(a) $\$450,000 = \$125,000 + \textbf{\$325,000}$

(b) $(\$450,000 + \$65,000) = (\$125,000 + \$35,000) + \textbf{\$355,000}$

138. Determine the missing amount “X” for each of the following:

Assets	Liabilities	Stockholders' Equity
a. \$78,500	\$37,600	X
b. X	\$53,280	\$145,000
c. \$49,500	X	\$34,000

a. $\$78,500 - 37,600 = \$40,900$

b. $\$53,280 + 145,000 = \$198,280$

c. $\$49,500 - 34,000 = \$15,500$

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

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

$$4x = x + \$45,000$$

$$3x = \$45,000$$

$$x = \$15,000 \text{ in liabilities}$$

140. The following selected transactions were completed by Daniels Company during May:

1. Capital stock was issued for \$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 dividends, \$2,500.
6. Received the utility bill, \$160, to be paid next month.

Indicate the effect of each transaction on the accounting equation:

- 1) By Account type - (A)assets, (L)liabilities, (SE)Stockholders' Equity, (R)revenue, and (E)expense
- 2) Name of account for the entry
- 3) The amount of the transaction
- 4) Whether it is an increase or decrease to the account

Note: Each transaction has two entries.

Entry					Entry			
	Acct. Type (1)	Name of Acct. (2)	Amount (3)	Increase or Decrease (4)	Acct. Type (1)	Name of Acct. (2)	Amount (3)	Increase or Decrease (4)
1.								
2.								
3.								
4.								
5.								
6.								

Entry	Entry
-------	-------

	Acct. Type (1)	Name of Acct. (2)	Amount (3)	Increase or Decrease (4)	Acct Type (1)	Name of Acct. (2)	Amount (3)	Increase or Decrease (4)
1.	A	Cash	55,000	Incr.	SE	Capital Stock	55,000	Incr.
2.	A	Cash	7,000	Decr.	L	Accts. Pay.	7,000	Decr.
3.	A	Accts. Rec.	2,565	Incr.	R	Fees Earned	2,565	Incr.
4.	A	Cash	8,450	Incr.	A	Accts. Rec.	8,450	Decr.
5.	A	Cash	2,500	Decr.	SE	Dividends	2,500	Decr.
6.	L	Accts. Pay.	160	Incr.	E	Util. Exp.	160	Incr.

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

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

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

a. $\$75,000 - \$38,000 = \$37,000$ beginning-of-year liabilities

$(\$75,000 + 18,000) - (\$37,000 + 4,000) = \$52,000$ end-of-year stockholders' 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 stockholders' equity

142. 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?

Increase in Assets (Supplies) and increase in Liabilities (Accounts Payable)

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

Under the business entity concept, economic data is limited to the direct activities of the business. The business is viewed as separate from its stockholder. Therefore, when Bob buys a personal automobile, it is not listed on the books of Johnson's Carpet Cleaning Service. 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.

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

	Assets	Liabilities	Stockholders' Equity
a. Shiny Kar paid \$5,000 in cash dividends to stockholders.			
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 \$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.			

	Assets	Liabilities	Stockholders' Equity
a.	-\$5,000	NC	-\$5,000
b.	+\$55,000	NC	+\$55,000
c.	-\$40,000	NC	-\$40,000
d.	NC	NC	NC
e.	-\$450	NC	-\$450
f.	+\$150	+\$150	NC

145. Ramirez 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?

Increase Liabilities (Accounts Payable) and decrease Stockholders' Equity (Utilities Expense)

146. At December 31, 2011, 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. Total Stockholders' Equity as of December 31, 2011.
 - b. Total Stockholders' Equity as of December 31, 2012, assuming that assets increased by \$12,000 and liabilities increased by \$15,000 in 2012.
 - c. Total Stockholders' Equity as of December 31, 2012, assuming that assets decreased by \$8,000 and liabilities increased by \$14,000 during 2012.
-
- a. $\$430,000 - 205,000 = \$225,000$
 - b. $(\$430,000 + 12,000) - (\$205,000 + 15,000) = \$222,000$
 - c. $(\$430,000 - \$8,000) - (\$205,000 + 14,000) = \$203,000$
147. 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?
-
- (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) and decrease Liabilities by \$3,000 (decrease Notes Payable)

148. On July 1 of the current year, the assets and liabilities of Wong Company 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 stockholders' equity as of July 1 of the current year?

\$63,500

$(\$27,000 \text{ Cash} + \$12,300 \text{ Accounts Receivable} + \$3,100 \text{ Supplies} + \$35,000 \text{ Land}) - \$13,900 \text{ Accounts Payable} = \$63,500$

149. Indicate how the following transactions affect the accounting equation:

- (a) The purchase of supplies on account.
- (b) The purchase of supplies for cash.
- (c) Cash dividends paid to stockholders.
- (d) Revenues received in cash.
- (e) Revenues received on account.

- (a) Assets increase; liabilities increase
- (b) No effect
- (c) Assets decrease; stockholders' equity decrease
- (d) Assets increase; stockholders' equity increase
- (e) Assets increase; stockholders' equity increase

150. Discuss the characteristics of a LLC (Limited liability company).

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.

151. At the end of its accounting period, December 31, 2011, Hsu's Financial Services has assets of \$575,000 and stockholders' 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, 2011.

b. Hsu's liabilities as of December 31, 2012, assuming that assets increased by \$56,000 and stockholders' equity decreased by \$32,000.

c. Net income or net loss during 2012, assuming that as of December 31, 2012, assets were \$592,000, liabilities were \$450,000, and there were no additional capital stock sales or dividends paid in 2012.

a. $\$575,000 - \$335,000 = \$240,000$

b. $(\$575,000 + \$56,000) - (\$335,000 - \$32,000) = \$328,000$

c. $\$592,000 - \$450,000 = \$142,000$

$\$335,000 - \$142,000 = \$193,000$ net loss

152. 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) stockholders' equity?

b. Assume that the seller owes \$52,000 on a loan 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) stockholders' equity?

a.

(1) Total assets increased \$44,000.

(2) No change in liabilities.

(3) Stockholders' equity increased \$44,000.

b.

(1) Total assets decreased \$52,000.

(2) Total liabilities decreased \$52,000.

(3) No change in stockholders' equity.

153. Indicate whether each of the following represents an asset, liability, or stockholder's equity item.

- (a) accounts payable
- (b) wages expense
- (c) capital stock
- (d) accounts receivable
- (e) dividends
- (f) land

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

154. The 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, The Austin Land Company paid off the loan. Explain the effect of the sale and the payoff of the loan on the accounting equation.

Total assets decrease \$20,000 (Cash increases by \$45,000; Land decreases by \$65,000)

Total liabilities decrease \$40,000 (Note payoff to Regions)

Stockholders' equity increases \$20,000 (Sales price - cost of the land)

155. Given the following:
- | | |
|-----------------------------|-----------|
| Beginning retained earnings | \$ 58,000 |
| Ending retained earnings | \$ 30,000 |
| Dividends declared and paid | \$ 25,000 |

Calculate net income or net loss.

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

156. The accountant for Franklin Company prepared the following list of account balances from the company's records for the year ended December 31, 2011:

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	64,000	Capital Stock	7,000
Accounts Payable	22,000	Retained Earnings	23,000
Salaries & Wages Expense	40,000	Prepaid Rent	2,000
Dividends	5,000	Income Taxes Expense	13,000
Salaries & Wages Payable	15,000	Rent Expense	20,000

Determine the total assets at the end of 2011 for Franklin Company.

\$110,000

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

157. The accountant for Franklin Company prepared the following list of account balances from the company's records for the year ended December 31, 2011:

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	64,000	Capital Stock	7,000
Accounts Payable	22,000	Retained Earnings	23,000
Salaries & Wages Expense	40,000	Prepaid Rent	2,000
Dividends	5,000	Income Taxes Expense	13,000
Salaries & Wages Payable	15,000	Rent Expense	20,000

Determine the total liabilities at the end of 2011 for Franklin Company.

\$37,000

(\$22,000 Accounts Payable + \$15,000 Salaries & Wages Payable = \$37,000)

158. The accountant for Franklin Company prepared the following list of account balances from the company's records for the year ended December 31, 2011:

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	64,000	Capital Stock	7,000
Accounts Payable	22,000	Retained Earnings	23,000
Salaries & Wages Expense	40,000	Prepaid Rent	2,000
Dividends	5,000	Income Taxes Expense	13,000
Salaries & Wages Payable	15,000	Rent Expense	20,000

Based on this information, is Franklin Company profitable? Explain your answer by including net income or loss.

$\$165,000 \text{ Fees Earned} - (\$40,000 \text{ Salaries \& Wages Expense} + \$44,000 \text{ Selling Expenses} + \$13,000 \text{ Income Taxes Expense} + \$20,000 \text{ Rent Expense}) = \$48,000 \text{ Net Income}$

Franklin Company had net income for the period of \$48,000. Since revenues exceeded expenses for the period, the company would be considered profitable.

159. Amos Moving Services' account balances at March 31, 2014, the end of the current year, are listed below. The Retained Earnings balance was \$180,000 at April 1, 2013, the beginning of the current 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	Dividends	16,570
Building	157,630	Capital Stock	25,000

Based on the data provided for Amos Moving Services, prepare an income statement for the current year ended March 31, 2014.

Amos Moving Services

Income Statement

For the Year Ended March 31, 2014

Fees Earned			\$73,450
Expenses:			
	Wages Expense	\$23,550	
	Office Expense	1,240	
	Miscellaneous Expense	<u>1,030</u>	
	Total Expenses		<u>25,820</u>
Net Income			<u>\$47,630</u>

160. Amos Moving Services' account balances at March 31, 2014, the end of the current year, are listed below. The Retained Earnings balance was \$180,000 at April 1, 2013, the beginning of the current 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	Dividends	16,570
Building	157,630	Capital Stock	25,000

Based on the data provided for Amos Moving Services, prepare a retained earnings statement for the year ended March 31, 2014.

Amos Moving Services

Retained Earnings Statement

For the Year Ended March 31, 2014

Retained earnings, April 1, 2013		\$180,000
Net income for the year	\$47,630	
Less dividends	<u>16,570</u>	
Increase in retained earnings		<u>31,060</u>
Retained earnings, March 31, 2014		<u>\$211,060</u>

161. Amos Moving Services' account balances at March 31, 2014, the end of the current year, are listed below. The Retained Earnings balance was \$180,000 at April 1, 2013, the beginning of the current 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	Dividends	16,570
Building	157,630	Capital Stock	25,000

Based on the data provided for Amos Moving Services, prepare a balance sheet for the current year ended March 31, 2014.

Amos Moving Services

Balance Sheet

March 31, 2014

Assets

Cash	\$ 21,420
Accounts receivable	10,340
Supplies	1,670
Land	47,000
Building	<u>157,630</u>
Total assets	<u>\$238,060</u>

Liabilities

Accounts payable	\$ 2,000
Stockholders' Equity	
Capital stock	\$ 25,000
Retained earnings	<u>211,060</u>
Total stockholders' equity	<u>236,060</u>
Total liabilities and stockholders' equity	<u>\$238,060</u>

162. A summary of cash flows for Alex Design Services for the year ended December 31, 2012, is shown below.

Cash receipts:

Cash received from customers	\$83,990
Cash received from additional sale of capital stock	25,000

Cash payments:

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

The cash balance as of January 1, 2012	\$40,600
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Prepare a statement of cash flows for Alex Design Services for the year ended December 31, 2012.

Alex Design Services

Statement of Cash Flows

For the Year Ended December 31, 2012

Cash flows from operating activities:

Cash received from customers	\$83,990	
Deduct cash payments for expenses and supplies	<u>(27,410)</u>	
Net cash flows from operating expenses		\$56,580

Cash flows from investing activities:

Cash paid for land	(47,000)
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Cash from financing activities:

Cash received from issuing stock	\$25,000
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Deduct cash dividends	<u>(5,000)</u>	
Net cash flows from financing activities		<u>20,000</u>
Net increase in cash during year		\$29,580
Cash as of January 1, 2012		<u>40,600</u>
Cash as of December 31, 2012		<u>\$70,180</u>

163. The total assets and the total liabilities of a business at the beginning and at the end of the year appear below. During the year, the company paid \$55,000 in cash dividends and issued an additional \$33,000 of capital stock.

	<u>Assets</u>	<u>Liabilities</u>
Beginning of year	\$305,000	\$200,000
End of year	365,000	230,000

Calculate the net income for the year.

\$52,000

	<u>Assets</u>	<u>Liabilities</u>
Beginning of year	\$ 305,000	\$ 200,000
End of year	\$ <u>365,000</u>	\$ <u>230,000</u>
Change	\$ 60,000	\$ 30,000

Based on the changes in assets and liabilities, stockholders' equity increased by \$30,000 for the year. Capital stock issued - dividends paid = \$22,000 decrease in equity, making the net income \$52,000 (\$22,000 + \$30,000).

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

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

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

Operating Activities, Investing Activities, and Financing Activities

166. Match the following accounts to the financial statement where they can be found. (Hint: Some of the accounts can be found in more than one financial statement.)

A. Balance Sheet

B. Income Statement

C. Statement of Cash Flows

D. Retained Earnings Statement

#	Account
1.	Dividends
2.	Revenues
3.	Supplies
4.	Land
5.	Accounts Payable
6.	Accounts Receivable
7.	Operating Activities
8.	Wages Expense
9.	Net Income
10.	Cash

#	Answer	Account
1.	D	Dividends
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.	B, D	Net Income

10.	A, C	Cash

167. Name and describe the four primary financial statements for a corporation.

1. Income Statement: A summary of the revenue and expenses *for a specific period of time*, such as a month or a year.
2. Retained Earnings Statement: A summary of the changes in retained earnings 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 stockholders' 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.

168. There are four transactions that affect stockholders' equity.

- (a) What are the two types of transactions that increase stockholders' equity?
- (b) What are the two types of transactions that decrease stockholders' equity?

- (a) Issue of capital stock and revenues
- (b) Dividends and expenses

169. A summary of cash flows for Lopez Wedding Planning for the year ended December 31, 2011 is shown below.

Cash receipts:

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

Cash payments:

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

The cash balance as of January 1, 2011 \$15,580

Prepare a statement of cash flows for Lopez Wedding Planning for the year ended December 31, 2011.

Lopez Wedding Planning

Statement of Cash Flows

For the Year Ended December 31, 2011

Cash flows from operating activities:

Cash received from customers	\$57,360	
Deduct cash payments for expenses and supplies	<u>(21,600)</u>	
Net cash flows from operating expenses		\$35,760

Cash flows from investing activities:

Cash paid for equipment	(18,070)
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Cash from financing activities:

Cash received from bank loan	\$15,000
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Deduct cash dividends	<u>(12,000)</u>	
Net cash flows from financing activities		<u>3,000</u>
Net increase in cash during year		\$20,690
Cash as of January 1, 2011		<u>15,580</u>
Cash as of December 31, 2011		<u>\$36,270</u>

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

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

171. The following data were taken from Harrison Company's balance sheet:

	<u>Dec. 31, 2012</u>	<u>Dec. 31, 2011</u>
Total liabilities	\$150,000	\$105,000
Total stockholders' equity	75,000	60,000

- Compute the ratio of liabilities to stockholders' equity.
- Has the creditors' risk increased or decreased from December 31, 2011, to December 31, 2012?

a. 12/31/2012: $\$150,000 / 75,000 = 2.0$

12/31/2011: $\$105,000 / 60,000 = 1.75$

- b. Increased

172. Company G has a ratio of liabilities to stockholders' equity of 0.12 and 0.28 for 2010 and 2011, 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?

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.

173. Given the following data:

<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>	
Total liabilities	\$128,250	\$120,000
Total stockholders' equity	95,000	80,000

- a. Compute the ratio of liabilities to stockholders' equity for each year.
- b. Has the creditors' risk increased or decreased from December 31, 2013, to December 31, 2014?

a.

<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>		
Total liabilities	\$128,250	\$120,000	
Total stockholders' equity	95,000	80,000	
Ratio of liabilities to stockholders' equity	1.350	1.50	
(\$128,250/\$95,000)	(\$120,000/\$80,000)		

b. Decreased

174. The assets and liabilities of S&P Day Spa at December 31, 2014 and expenses for the year are listed below. The retained earnings balance was \$68,000 at January 1, 2014. Net income for 2014 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 & Equipment	\$56,000	Dividends	\$38,170
Computers	\$2,130	Capital Stock	\$10,000

Prepare an income statement for the current year ended December 31, 2014.

S&P Day Spa

Income Statement

For the Year Ended December 31, 2014

Fees Earned			\$98,435
Expenses:			
	Wages Expense	\$26,580	
	Spa Operating Expense	23,760	
	Office Expense	<u>2,470</u>	
	Total Expenses		<u>52,810</u>
Net Income			<u>\$45,625</u>

175. The assets and liabilities of S&P Day Spa at December 31, 2014 and expenses for the year are listed below. The retained earnings balance was \$68,000 at January 1, 2014.

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 & Equipment	\$56,000	Dividends	\$38,170
Computers	\$2,130	Capital Stock	\$10,000

Prepare a retained earnings statement for the current year ended December 31, 2014.

S&P Day Spa

Retained Earnings Statement

For the Year Ended December 31, 2014

Retained Earnings, January 1, 2014		\$68,000
Net income for the year	45,625	
Less dividends	<u>38,170</u>	
Increase in stockholders' equity		<u>7,455</u>
Retained Earnings, December 31, 2014		<u>\$75,455</u>

176. The assets and liabilities of S&P Day Spa at December 31, 2014 and expenses for the year are listed below. The retained earnings balance was \$68,000 at January 1, 2014.

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 & Equipment	\$56,000	Dividends	\$38,170
Computers	\$2,130	Capital Stock	\$10,000

Prepare a Balance Sheet at December 31, 2014.

S&P Day Spa

Balance Sheet

December 31, 2014

Assets

Cash	\$13,980
Accounts Receivable	8,490
Spa Supplies	9,230
Computers	2,130
Spa Furniture & Equipment	<u>56,000</u>
Total Assets	<u>\$89,830</u>

Liabilities

Accounts Payable	\$ 4,375
Stockholders' Equity	
Capital Stock	10,000
Retained Earnings	<u>75,455</u>
Total stockholders' equity	<u>85,455</u>
Total Liabilities and Stockholders' Equity	<u>\$89,830</u>

177. For each of the following companies, identify whether it is a service, merchandising, or manufacturing business.

<i>A.</i>	Dillards
<i>B.</i>	Time Warner Cable
<i>C.</i>	General Motors
<i>D.</i>	Netflix
<i>E.</i>	Stanley Steemer
<i>F.</i>	Sony
<i>G.</i>	Best Buy
<i>H.</i>	Banana Republic
<i>I.</i>	H & R Block

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

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

<i>A.</i>	Payroll Manager
<i>B.</i>	Bank
<i>C.</i>	President's Secretary
<i>D.</i>	Internal Revenue Service
<i>E.</i>	Raw Material Vendors
<i>F.</i>	Social Security Administration
<i>G.</i>	Health Insurance Provider
<i>H.</i>	Managerial Accountant

<i>A.</i>	Internal
<i>B.</i>	External
<i>C.</i>	Internal
<i>D.</i>	External
<i>E.</i>	External
<i>F.</i>	External
<i>G.</i>	External
<i>H.</i>	Internal

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

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

- (a) \$83,000
- (b) \$8,000
- (c) \$21,000

180. Identify each of the following as an (1) increase in stockholders' equity, or a (2) decrease in stockholders' equity.

- (a) Fees Earned
- (b) Wages Expense
- (c) Dividends
- (d) Lawn Care Revenue
- (e) Issue Capital Stock
- (f) Supplies Expense

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

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

	<u>A</u>	<u>L</u>	<u>SE</u>
(a) Received cash from issuing capital stock	_____	_____	_____
(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) Paid cash dividends	_____	_____	_____
(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	_____	_____	_____

	<u>A</u>	<u>L</u>	<u>SE</u>
(a)	+		+
(b)	+	+	
(c)	-		-
(d)	+		+
(e)	-	-	
(f)	+,-		
(g)	-	-	
(h)	+		+
(i)	-		-

(j)	+, -		
(k)	-		-
(l)	-		-
(m)		+	-
(n)	-		-
(o)	+, -		

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

- (a) Rent Expense
- (b) Land
- (c) Capital Stock
- (d) Fees Earned
- (e) Dividends
- (f) Wages Expense
- (g) Taxes Payable

(a), (d), (f)

183. Identify which of the following accounts appear on a balance sheet.

- (a) Cash
- (b) Fees Earned
- (c) Capital Stock
- (d) Wages Payable
- (e) Rent Expense
- (f) Prepaid Advertising
- (g) Land

(a), (c), (d), (f), (g)

184. Indicate whether each of the following activities would be reported on the statement of cash flows as an operating activity, an investing activity, a financing activity, or not at all.

- (a) Cash paid for building
- (b) Cash paid to suppliers
- (c) Cash paid for dividends
- (d) Cash received from customers
- (e) Cash received from issuing capital stock
- (f) Cash received from the sale of a building
- (g) Borrowed cash from a bank

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

185. 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. Additional capital stock of \$15,000 was issued for cash during the year.
- (b) Revenues for the year totaled \$220,500 and expenses totaled \$175,000. Dividends paid during the year were \$40,000. No additional stock was issued.
- (c) Revenues for the year totaled \$149,000 and expenses totaled \$172,000. Capital stock of \$12,000 was issued for cash and dividends of \$16,000 were paid during the year.
- (d) Revenues for Konner Co. totaled \$198,150 and expenses totaled \$174,200. Cash dividends of \$35,000 were paid during the year. No additional stock was issued.

- (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 ($\$198,150 - \$174,200$)

186. The total assets and total liabilities of Paul's Pools, a corporation, at the beginning and at the end of the current fiscal year are as follows:

	<u>Jan. 1</u>	<u>Dec. 31</u>
Total assets	\$280,000	\$475,000
Total liabilities	205,000	130,000

- (a) Determine the amount of net income earned during the year. No capital stock was issued and no dividends were paid during the year.
- (b) Determine the amount of net income during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. Dividends of \$53,000 were paid in cash during the year. No capital stock was issued.
- (c) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. Capital stock of \$35,000 was issued for cash and no dividends were paid.
- (d) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. Capital stock of \$12,000 was issued for cash and \$1,500 of dividends were paid each month during the year.

(a)	Stockholders' equity at end of year (\$475,000 - \$130,000)	\$345,000
	Stockholders' equity at beginning of year (\$280,000 - \$205,000)	<u>75,000</u>
	Net income	<u>\$270,000</u>

(b)	Increase in stockholders' equity from (a)	\$270,000
	Add dividends	<u>53,000</u>
	Net income	<u>\$323,000</u>

(c)	Increase in stockholders' equity from (a)	\$270,000
-----	---	-----------

Deduct capital stock issued	<u>35,000</u>
Net income	<u>\$235,000</u>
(d) Increase in stockholders' equity from (a)	\$270,000
Add dividends (\$1,500 x 12)	<u>18,000</u>
	\$288,000
Deduct capital stock issued	<u>12,000</u>
Net income	<u>\$276,000</u>

187. 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

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

188. On March 1, 2014, Cook's Catering Company Capital Stock balance was \$30,000 and the balance of Retained Earnings was \$120,000. During March, dividends of \$31,000 were declared and paid by the business. Assets, liabilities, revenues, and expenses at March 31, 2014, were 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 retained earnings statement for March, and (c) a balance sheet as of March 31.

(a)

Cook's Catering Company

Income Statement

For the Month Ended March 31, 2014

Fees earned	<u>\$64,950</u>
Operating expenses:	
Salary expense	\$20,300
Rent expense	9,000
Utilities expense	2,800
Supplies expense	525

Insurance expense	1,275
Miscellaneous expense	<u>1,210</u>
Total operating expenses	<u>\$35,110</u>
Net income	<u>\$29,840</u>

(b)

Cook's Catering Company

Retained Earnings Statement

For the Month Ended March 31, 2014

Retained earnings, March 1, 2014		\$120,000
Net income for the month	\$ 29,840	
Less dividends	<u>31,000</u>	
Decrease in stockholders' equity		<u>1,160</u>
Retained earnings, March 31, 2014		<u>\$118,840</u>

(c)

Cook's Catering Company

Balance Sheet

March 31, 2014

Assets		Liabilities		
Cash	\$ 23,840	Accounts payable	\$ 10,250	
Accounts receivable	45,950	Stockholders' Equity		
Prepaid insurance	3,000	Capital		
		stock	\$ 30,000	
Supplies	900	Retained		
		earnings	<u>118,840</u>	
Land	<u>85,400</u>	Total stockholders' equity	<u>148,840</u>	
Total assets	<u>\$159,090</u>	Total liab. & stockholders' equity	<u>\$159,090</u>	<u>\$154,640</u>

189. Simpson Designers began operations on April 1, 2011. The financial statements for Simpson Designers are shown below for the month ended April 30, 2011 (the first month of operations). Determine the missing amounts for letters (a) through (o).

Simpson Designers

Income Statement

For the Month Ended April 30, 2011

Fees earned		\$27,000
Operating expenses:		
Wages expense	\$5,250	
Rent expense	(a)	
Supplies expense	4,600	
Utilities expense	400	
Miscellaneous expense	<u>1,250</u>	
Total operating expenses		<u>(b)</u>
Net income		<u>\$ (c)</u>

Simpson Designers

Retained Earnings Statement

For the Month Ended April 30, 2011

Retained Earnings, April 1, 2011		0
Net income for April	\$ (d)	
Less dividends	<u>6,000</u>	
Increase in retained earnings		<u>(e)</u>
Retained Earnings, April 30, 2011		<u>\$ (f)</u>

Simpson Designers

Balance Sheet

April 30, 2011

Assets

Cash	\$ (g)
Supplies	8,100
Land	<u>(h)</u>
Total assets	<u>\$55,900</u>

Liabilities

Accounts payable	\$ (i)
------------------	--------

Stockholders' Equity

Capital stock	\$ (j)
Retained earnings	<u>(k)</u>
Total stockholders' equity	<u>38,100</u>

Total liabilities and stockholders' equity \$ (l)

Simpson Designers

Statement of Cash Flows

For the Month Ended April 30, 2011

Cash flows from operating activities:

Cash received from customers \$23,000

Deduct 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 from sale of capital stock \$ (m)

Deduct cash dividends (n)

Net cash flow from financing activities (o)

Net cash flow and April 30, 2011, cash balance \$ (p)

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) _____
- (o) _____

(p) _____

- (a) \$ 6,400
- (b) \$17,900
- (c) \$ 9,100
- (d) \$ 9,100
- (e) \$ 3,100
- (f) \$ 3,100
- (g) \$30,800
- (h) \$17,000
- (i) \$17,800
- (j) \$35,000
- (k) \$ 3,100
- (l) \$55,900
- (m) \$35,000
- (n) \$ 6,000
- (o) \$29,000
- (p) \$30,800

190. CPA Associates was organized on January 1, 2011, as a corporation. List the errors that you find in the following financial statements and prepare the corrected statements for the three months ended March 31, 2011.

CPA Associates

Income Statement

For the Three Months Ended March 31, 2011

Fees earned		\$42,000
Operating expenses:		
Salary expense	\$9,735	
Rent expense	5,200	
Advertising expense	3,950	
Utilities expense	3,225	
Miscellaneous expense	4,000	
Answering service expense	2,550	
Supplies expense	<u>4,000</u>	
Total operating expenses		<u>28,000</u>
Net income		<u>\$14,000</u>

CPA Associates

Retained Earnings Statement

March 31, 2011

Retained earnings, January, 1, 2011		\$ 0
Net income for the 3 months	\$ 14,000	
Less dividends	<u>5,000</u>	
Increase in stockholders' equity		<u>11,000</u>
Retained earnings, January, 31, 2011		<u>\$11,000</u>

Balance Sheet

For the Three Months Ended March 31, 2011

Assets		Stockholders' Equity	
Land	\$13,000	Capital stock	\$20,000
Cash	10,860	Retained earnings	<u>11,000</u>
Accounts payable	2,670	Total stockholders' equity	\$31,000

Supplies	<u>925</u>	Liabilities	
Total assets	<u>\$33,225</u>	Accounts receivable	<u>2,225</u>
		Total liab. & stockholders' equity	<u>\$33,225</u>

Errors in the CPA Associates financial statements include the following:

- (1) Miscellaneous expense is incorrectly listed after utilities expense in 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 retained earnings statement should be for a period of time instead of a specific date. That is, the retained earnings statement should be reported "For the Three Months Ended March 31, 2011."
- (5) The amount of the retained earnings is incorrect. It should be \$4,340.
- (6) The name of the company is missing from the balance sheet heading.
- (7) The balance sheet should be as of "March 31, 2011," not "For the Three Months Ended March 31, 2011."
- (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 stockholders' equity.
- (11) Accounts receivable is incorrectly listed as a liability on the balance sheet. Accounts receivable should be listed as an asset.
- (12) The total assets and the total liabilities and stockholders' equity do not add.

Correctly prepared financial statements for CPA Associates are shown below.

CPA Associates

Income Statement

For the Three Months Ended March 31, 2011

Fees earned	\$42,000
Operating expenses:	
Salary expense	\$9,735
Rent expense	5,200

Advertising expense	3,950	
Utilities expense	3,225	
Answering service expense	2,550	
Supplies expense	4,000	
Miscellaneous expense	<u>4,000</u>	
Total operating expenses		<u>32,660</u>
Net income		<u>\$ 9,340</u>

CPA Associates

Retained Earnings Statement

For the Three Months Ended March 31, 2011

Retained earnings, January 1, 2011		\$ 0
Net income for three months	\$ 9,340	
Less dividends	<u>5,000</u>	
Increase in retained earnings		<u>4,340</u>
Retained earnings, March 31, 2011		<u>\$ 4,340</u>

CPA Associates

Balance Sheet

March 31, 2011

Assets

Cash	\$10,860
Accounts receivable	2,225
Supplies	925
Land	<u>13,000</u>
Total assets	<u>\$27,010</u>

Liabilities

Accounts payable	\$ 2,670
------------------	----------

Stockholders' Equity

Capital stock	\$20,000
Retained earnings	<u>4,340</u>
Total stockholders' equity	<u>24,340</u>
Total liab. & stockholders' equity	<u>\$27,010</u>

191. Given below are the accounts and amounts for Bright Futures Company as of August 31, 2011. All of the revenue and expense amounts are for the month of August.

Telephone Expense	\$ 1,150
Cash	3,000
Accounts Payable	1,540
Dividends	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	20,000
Capital Stock	10,000
Wages Expense	4,800
Utilities Expense	750
Notes Payable	2,400
Retained Earnings	4,320
Office Expense	420

Based on the data provided for Bright Futures Company, prepare in good format an income statement for the month ended August 31, 2011.

Bright Futures Company

Income Statement

For the Month Ended August 31, 2011

Fees earned	\$15,700
Expenses:	
Wages expense	\$4,800
Rent expense	1,400
Telephone expense	1,150
Utilities expense	750

Office expense	<u>420</u>
Total expenses	<u>8,520</u>
Net income	<u>\$ 7,180</u>

192. Given below are the accounts and amounts for Bright Futures Company as of August 31, 2011. All of the revenue and expense amounts are for the month of August.

Telephone Expense	\$ 1,150
Cash	3,000
Accounts Payable	1,540
Dividends	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	20,000
Capital Stock	10,000
Wages Expense	4,800
Utilities Expense	750
Notes Payable	2,400
Retained Earnings	4,320
Office Expense	420

Based on the data provided for Bright Futures Company, prepare in good format a retained earnings statement for the month ended August 31, 2011.

Bright Futures Company

Retained Earnings Statement

For the Month Ended August 31, 2011

Retained earnings, August 1, 2011		\$ 4,320
Net income	\$7,180	
Less dividends	<u>800</u>	
Increase in retained earnings		<u>6,380</u>
Retained earnings, August 31, 2011		<u>\$10,700</u>

193. Given below are the accounts and amounts for Bright Futures Company as of August 31, 2011. All of the revenue and expense amounts are for the month of August.

Telephone Expense	\$ 1,150
Cash	3,000
Accounts Payable	1,540
Dividends	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	20,000
Capital Stock	10,000
Wages Expense	4,800
Utilities Expense	750
Notes Payable	2,400
Retained Earnings	4,320
Office Expense	420

Based on the data provided for Bright Futures Company, prepare in good format a balance sheet as of August 31, 2011.

Bright Futures Company

Balance Sheet

August 31, 2011

Assets

Cash	\$ 3,000
Accounts receivable	1,500
Supplies	140
Computer equipment	<u>20,000</u>
Total assets	<u>\$24,640</u>

Liabilities and Stockholders' Equity

Liabilities:

Accounts payable	\$ 1,540
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Notes payable	<u>2,400</u>
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Total liabilities	\$ 3,940
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Stockholders' equity:

Capital stock	\$10,000
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Retained earnings	<u>10,700</u>
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Total stockholders' equity	<u>20,700</u>
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Total liabilities and stockholders' equity	<u>\$24,640</u>
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194. Trendsetter Travel Services began business on January 1, 2014. Balances at December 31, 2014, are listed below.

Accounts Payable	\$12,000	Capital Stock	\$10,000
Accounts Receivable	14,000	Supplies	1,000
Cash	18,000	Taxes Expense	1,300
Computer Equipment	21,000	Dividends	8,000
Fees Earned	78,000	Wages Expense	25,000
Rent Expense	10,000	Supplies Expense	1,700

Prepare an income statement, retained earnings statement, and a balance sheet for Trendsetter Travel Services.

Trendsetter Travel Services

Income Statement

For the Year Ended December 31, 2014

Fees earned		\$78,000
Operating expenses:		
Wages expense	\$ 25,000	
Rent expense	10,000	
Supplies expense	1,700	
Taxes expense	<u>1,300</u>	
Total operating expenses		<u>38,000</u>
Net income		<u>\$40,000</u>

Trendsetter Travel Services

Retained Earnings Statement

For the Year Ended December 31, 2014

Retained earnings, 1/1/14		\$ 0
Net income for the year	\$40,000	
Less dividends	<u>8,000</u>	

Increase in retained earnings	<u>32,000</u>
Retained earnings, 12/31/14	<u>\$32,000</u>

Trendsetter Travel Services

Balance Sheet

December 31, 2014

Assets

Cash	\$18,000
Accounts receivable	14,000
Computer equipment	21,000
Supplies	<u>1,000</u>

Total assets \$54,000

Liabilities

Accounts payable	\$12,000
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Stockholders' Equity

Capital stock	\$10,000
Retained earnings	<u>32,000</u>

Total stockholders' equity 42,000

Total liabilities and stockholders' equity \$54,000

195. Flagger Company began operations on January 1, 2011. The accountant prepared the following list of account balances from the company's records for the first year ended December 31, 2011:

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	42,000	Capital Stock	36,000
Accounts Payable	12,000	Interest Income	3,000
Salaries & 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.

Flagger Company

Income Statement

For the Year Ended December 31, 2011

Revenues:

Fees earned	\$165,000	
Interest income	<u>3,000</u>	\$168,000

Expenses:

Rent expense	\$ 51,000	
Salaries & wages expense	40,000	
Selling expenses	44,000	
Income taxes expense	<u>18,000</u>	<u>153,000</u>

Net income		<u>\$ 15,000</u>
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196. 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. paid cash dividends, \$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. (Hint: Use the following reconciliation.)

Cash, June 1	\$25,000
Plus: cash receipts for June	_____
Minus: cash payments for June	_____
Cash, June 30	_____

Cash, June 1	\$25,000
Plus: cash receipts for June	6,800
Minus: cash payments for June	<u>2,520</u>
Cash, June 30	\$29,280