

Chapter 1 Accounting and the Business Environment

- 1) Profit is the difference between the amount earned from customers for goods sold or services provided by the business and the amount incurred to operate the business.

Answer: TRUE

Diff: 1 Page Ref: 4

Objective: 1.1

- 2) For most businesses, profit is NOT a goal of the organization.

Answer: FALSE

Diff: 1 Page Ref: 4

Objective: 1.1

- 3) An architectural firm is an example of a service organization.

Answer: TRUE

Diff: 1 Page Ref: 4

Objective: 1.1

- 4) A Target department store is an example of a service organization.

Answer: FALSE

Diff: 1 Page Ref: 4

Objective: 1.1

- 5) Merchandise or retail companies sell products that are made by another supplier.

Answer: TRUE

Diff: 2 Page Ref: 4

Objective: 1.1

- 6) Apple and Honda are examples of manufacturing companies.

Answer: TRUE

Diff: 1 Page Ref: 4

Objective: 1.1

- 7) A corporation's owners are called shareholders.

Answer: TRUE

Diff: 2 Page Ref: 4

Objective: 1.1

- 8) A weakness of the corporate form of a business is unlimited liability of owners.

Answer: FALSE

Diff: 2 Page Ref: 4

Objective: 1.1

9) The life of a sole proprietorship is limited to the owner's choice or death.

Answer: TRUE

Diff: 2 Page Ref: 4

Objective: 1.1

10) A corporation is a separate legal entity from its owners.

Answer: TRUE

Diff: 2 Page Ref: 4

Objective: 1.1

11) Organization accountability is the organization's fiduciary responsibility to manage the resources of an organization.

Answer: TRUE

Diff: 2 Page Ref: 5

Objective: 1.2

12) Shareholders are any group who has an interest in an organization.

Answer: FALSE

Diff: 2 Page Ref: 5

Objective: 1.2

13) Investors, employees, suppliers, creditors and government agencies are examples of stakeholders.

Answer: TRUE

Diff: 2 Page Ref: 5

Objective: 1.2

14) Stakeholders use accounting information to make decisions about investing, operating and financing activities.

Answer: TRUE

Diff: 2 Page Ref: 5

Objective: 1.2

15) Financial accounting produces financial information and reports to be used ONLY by managers inside a business.

Answer: FALSE

Diff: 1 Page Ref: 7

Objective: 1.3

16) Management accounting provides financial and nonfinancial information inside the organization to help its managers operate the business.

Answer: TRUE

Diff: 1 Page Ref: 7

Objective: 1.3

- 17) The primary users of financial accounting information are investors, creditors and other users outside the organization.

Answer: TRUE

Diff: 2 Page Ref: 7

Objective: 1.3

- 18) The entity concept separates business transactions from personal transactions.

Answer: TRUE

Diff: 2 Page Ref: 7

Objective: 1.3

- 19) Valuing the cost of a building based on a guess would be a violation of the objectivity principle.

Answer: TRUE

Diff: 2 Page Ref: 7

Objective: 1.3

- 20) A building was purchased for \$200,000 ten years ago and is now worth \$1,000,000. Valuing the building at \$1,000,000 is following the cost principle.

Answer: FALSE

Diff: 2 Page Ref: 7

Objective: 1.3

- 21) The cost principle states that acquired assets and services should be recorded at their historical cost.

Answer: TRUE

Diff: 2 Page Ref: 7

Objective: 1.3

- 22) The going-concern concept assumes that the entity will remain in operation for the foreseeable future.

Answer: TRUE

Diff: 2 Page Ref: 7

Objective: 1.3

- 23) Assets minus Liabilities minus Owner's Equity equals the accounting equation.

Answer: FALSE

Diff: 1 Page Ref: 9

Objective: 1.4

- 24) The accounting equation is: $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$.

Answer: TRUE

Diff: 1 Page Ref: 9

Objective: 1.4

25) Revenues plus Expenses equals Net Income.

Answer: FALSE

Diff: 1 Page Ref: 9

Objective: 1.4

26) Which of the following is TRUE of capital resources?

- A) Provide cash to acquire other resources
- B) Provide the information used in a business
- C) Provide the physical resources of a business
- D) Provide the employees of a business

Answer: A

Diff: 2 Page Ref: 4

Objective: 1.1

27) A local hospital is an example of which of the following?

- A) Manufacturing organization
- B) Service organization
- C) Retail organization
- D) Governmental entity

Answer: B

Diff: 1 Page Ref: 4

Objective: 1.1

28) Wal-Mart is an example of which of the following?

- A) Manufacturing organization
- B) Service organization
- C) Retail organization
- D) Governmental entity

Answer: C

Diff: 1 Page Ref: 4

Objective: 1.1

29) Honda of America is an example of which of the following?

- A) Manufacturing organization
- B) Service organization
- C) Retail organization
- D) Governmental entity

Answer: A

Diff: 1 Page Ref: 4

Objective: 1.1

30) Which of the following organizations typically would use more human resources?

- A) Manufacturing organization
- B) Service organization
- C) Retail organization
- D) Governmental entity

Answer: B

Diff: 2 Page Ref: 4

Objective: 1.1

31) Which of the following organizations typically would use more physical resources?

- A) Manufacturing organization
- B) Service organization
- C) Retail organization
- D) Governmental entity

Answer: A

Diff: 2 Page Ref: 4

Objective: 1.1

32) Which of the following is an advantage of the corporate form of business?

- A) Double taxation
- B) Government regulation
- C) Limited liability
- D) Limited resources

Answer: C

Diff: 2 Page Ref: 4

Objective: 1.1

33) Which of the following organizations has a life limited by the choice or death of the owners?

- A) Corporations
- B) Partnerships
- C) Sole Proprietors
- D) Both B and C

Answer: D

Diff: 2 Page Ref: 4

Objective: 1.1

34) Which statement best describes an organization's accountability?

- A) Legal liability to creditors
- B) Ethical responsibility to the public, employees and other stakeholders
- C) Obligation to pay local, state and federal taxes
- D) Fiduciary responsibility to manage the resources of an organization

Answer: D

Diff: 2 Page Ref: 5

Objective: 1.2

35) Which of the following are stakeholders of an organization?

- A) Suppliers
- B) Investors
- C) Management
- D) All of the above

Answer: D

Diff: 2 Page Ref: 5

Objective: 1.2

36) Stakeholders use financial information to make decisions about which of the following?

- A) Financing activities
- B) Investing activities
- C) Operating activities
- D) All of the above

Answer: D

Diff: 2 Page Ref: 5

Objective: 1.2

37) An organization is accountable to government and regulatory agencies for which of the following?:

- A) Paying taxes and obeying laws.
- B) Using resources to generate profit.
- C) Paying cash for resources in a timely manner.
- D) Providing quality goods and services.

Answer: A

Diff: 2 Page Ref: 5

Objective: 1.2

38) Financial accounting provides financial statements and financial information that are intended to be used by whom?:

- A) Management inside the company
- B) External users such as potential investors
- C) Employees of the company
- D) The Board of Directors

Answer: B

Diff: 2 Page Ref: 5

Objective: 1.2

39) A budgeted income statement is an example of which of the following?

- A) Financial accounting
- B) Managerial accounting
- C) Tax accounting
- D) Auditing

Answer: B

Diff: 2 Page Ref: 5

Objective: 1.2

40) Financial accounting and financial statements of public companies are prepared based on which of the following?

- A) Internal revenue service rules
- B) Generally accepted accounting principles
- C) Generally accepted auditing standards
- D) State and local laws

Answer: B

Diff: 2 Page Ref: 5

Objective: 1.2

41) Which of the following is the purpose of financial accounting information?

- A) Help managers plan and control business operations.
- B) Comply with SEC and IRS rules.
- C) Help investors, creditors, and others make decisions.
- D) To provide biased information to the markets for trading.

Answer: C

Diff: 2 Page Ref: 5

Objective: 1.2

42) For information to be useful, it must be which of the following?

- A) Relevant
- B) Reliable
- C) Comparable
- D) All of the above

Answer: D

Diff: 2 Page Ref: 7

Objective: 1.3

43) Axxel Rose owns a guitar shop as a sole proprietorship. Axxel includes personal items such as his car, motorcycle, and home computer in the financial records of the business. Axxel is violating which principle?

- A) Reliability
- B) Going concern
- C) Cost
- D) Entity

Answer: D

Diff: 2 Page Ref: 7

Objective: 1.3

44) Axxel Rose owns a guitar shop as a sole proprietorship. Axxel adjusts the value of the building he owns to market value each year. Axxel is violating which principle?

- A) Reliability
- B) Going concern
- C) Cost
- D) Entity

Answer: C

Diff: 2 Page Ref: 7

Objective: 1.3

45) Axxel Rose owns a guitar shop as a sole proprietorship. Axxel records sales based on face-to-face and phone conversations with potential customers who have said they may purchase a guitar. Axxel is violating which principle?

- A) Reliability
- B) Going concern
- C) Cost
- D) Entity

Answer: A

Diff: 2 Page Ref: 7

Objective: 1.3

46) Axxel Rose owns a guitar shop as a sole proprietorship. The business has not made a profit in the last 5 years and is significantly behind in paying its bills. The creditors are filing a lawsuit to force Axxel into bankruptcy. Axxel has NOT disclosed this in the annual report (financial information). Axxel is violating which principle?

- A) Reliability
- B) Going concern
- C) Cost
- D) Entity

Answer: B

Diff: 2 Page Ref: 7

Objective: 1.3

47) Honda preparing its financial statements in Yen (Honda is based in Japan) and General Motors preparing its statements in dollars is an example of which principle?

- A) Reliability
- B) Stable monetary unit
- C) Cost
- D) Entity

Answer: B

Diff: 2 Page Ref: 7

Objective: 1.3

48) Accountants ignoring inflation when preparing financial statements is an example of which principle?

- A) Reliability
- B) Stable monetary unit
- C) Cost
- D) Entity

Answer: B

Diff: 2 Page Ref: 7

Objective: 1.3

49) Which of the following is considered an asset?

- A) Accounts payable
- B) Common stock
- C) Owner investments
- D) Cash

Answer: D

Diff: 2 Page Ref: 9

Objective: 1.4

50) Liabilities are which of the following?

- A) Future economic benefits of a company
- B) Owners claims to assets
- C) Amounts owed to others
- D) Earnings retained in the business

Answer: C

Diff: 2 Page Ref: 9

Objective: 1.4

51) Which of the following accounts is considered a liability?

- A) Accounts payable
- B) Common stock
- C) Owner investments
- D) Cash

Answer: A

Diff: 2 Page Ref: 9

Objective: 1.4

52) Which of the following is the accounting equation?

- A) $\text{Assets} - \text{liabilities} = \text{owner's equity}$
- B) $\text{Assets} + \text{liabilities} = \text{owner's equity}$
- C) $\text{Assets} = \text{liabilities} + \text{owner's equity}$
- D) $\text{Assets} + \text{liabilities} = \text{net income}$

Answer: C

Diff: 2 Page Ref: 9

Objective: 1.4

53) If the assets of a business are \$210,000 and the liabilities are \$60,000, how much is the owner's equity?

- A) \$150,000
- B) \$160,000
- C) \$170,000
- D) \$180,000

Answer: A

Diff: 2 Page Ref: 9

Objective: 1.4

54) If the assets of a business are \$210,000 and the owner's equity is \$100,000, how much are liabilities?

- A) \$100,000
- B) \$110,000
- C) \$140,000
- D) \$210,000

Answer: B

Diff: 2 Page Ref: 9

Objective: 1.4

55) If the assets of a business are \$410,000 and the liabilities are \$200,000, how much is the owner's equity?

- A) \$150,000
- B) \$160,000
- C) \$210,000
- D) \$610,000

Answer: C

Diff: 2 Page Ref: 9

Objective: 1.4

56) If the liabilities of a business are \$210,000 and the owner's equity is \$100,000, how much are the assets?

- A) \$100,000
- B) \$110,000
- C) \$140,000
- D) \$310,000

Answer: D

Diff: 2 Page Ref: 9

Objective: 1.4

57) The owner of the business invests \$500,000 of cash. How does this impact the accounting equation?

- | <u>Assets</u> | <u>Liabilities</u> | <u>Owner's Equity</u> |
|---------------|--------------------|-----------------------|
| A) Increase | Increase | Increase |
| B) Increase | Decrease | No effect |
| C) Decrease | Increase | Increase |
| D) Increase | No effect | Increase |

Answer: D

Diff: 2 Page Ref: 9

Objective: 1.4

58) A business provides \$100,000 of services for cash. How does this impact the accounting equation?

<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
A) Increase	Increase	Increase
B) Increase	Decrease	No effect
C) Decrease	Increase	Increase
D) Increase	No effect	Increase

Answer: D

Diff: 2 Page Ref: 9

Objective: 1.4

59) A business owes \$20,000 for a utilities bill. How does this impact the accounting equation?

<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
A) Increase	Increase	Increase
B) Increase	Decrease	No effect
C) No effect	Increase	Decrease
D) Increase	No effect	Increase

Answer: C

Diff: 2 Page Ref: 9

Objective: 1.4

60) A business purchases \$100,000 of computer equipment in cash. How does this impact the accounting equation?

<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
A) No effect	No effect	No effect
B) Increase	Decrease	No effect
C) Decrease	Increase	Increase
D) Increase	No effect	Increase

Answer: A

Diff: 2 Page Ref: 9

Objective: 1.4

61) A business borrows \$1,000,000 from a local bank. How does this impact the accounting equation?

<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
A) Increase	Increase	Increase
B) Increase	Increase	No effect
C) Decrease	Increase	Increase
D) Increase	No effect	Increase

Answer: B

Diff: 2 Page Ref: 9

Objective: 1.4

62) A business purchases \$5,000 of supplies on credit. How does this impact the accounting equation?

<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
A) Increase	Increase	No effect
B) Increase	Decrease	No effect
C) Decrease	Increase	Increase
D) Increase	No effect	Increase

Answer: A

Diff: 2 Page Ref: 9

Objective: 1.4

63) Which of the following is an example of a liability?

- A) Accounts payable
- B) Notes payable
- C) Salaries payable
- D) All of the above

Answer: D

Diff: 1 Page Ref: 9

Objective: 1.4

64) Which of the following is an example of an asset?

- A) Accounts receivable
- B) Notes payable
- C) Salaries payable
- D) Owner's capital

Answer: A

Diff: 1 Page Ref: 9

Objective: 1.4

65) Which of the following is a written promise to pay?

- A) Accounts payable
- B) Accounts receivable
- C) Notes payable
- D) Salaries payable

Answer: C

Diff: 1 Page Ref: 9

Objective: 1.4

66) Which of the following is an oral promise to pay?

- A) Accounts payable
- B) Notes payable
- C) Salaries payable
- D) All of the above

Answer: A

Diff: 1 Page Ref: 9

Objective: 1.4

67) An owner's withdrawal of cash would have which of the following effects on the accounting equation?

- A) Increase assets
- B) Increase owner's equity
- C) Decrease owner's equity
- D) Increase liabilities

Answer: C

Diff: 2 Page Ref: 9

Objective: 1.4

68) Revenues would have which of the following effects on the accounting equation?

- A) Increase assets
- B) Increase owner's equity
- C) Decrease owner's equity
- D) Increase liabilities

Answer: B

Diff: 2 Page Ref: 9

Objective: 1.4

69) Expenses would have which of the following effects on the accounting equation?

- A) Increase assets
- B) Increase owner's equity
- C) Decrease owner's equity
- D) Increase liabilities

Answer: C

Diff: 2 Page Ref: 9

Objective: 1.4

70) Which of the following financial statements show the profit or loss of a business?

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

Answer: C

Diff: 2 Page Ref: 16

Objective: 1.5

71) Which of the following financial statements show the accounting equation?

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

Answer: B

Diff: 2 Page Ref: 16

Objective: 1.5

72) Which of the following financial statements show cash receipts and cash payments?

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

Answer: A

Diff: 2 Page Ref: 16

Objective: 1.5

73) Which of the following financial statements show the owner's equity for a period of time?

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

Answer: D

Diff: 2 Page Ref: 16

Objective: 1.5

74) Which of the following financial statements is dated as a specific date, such as 12-31-07?

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

Answer: B

Diff: 2 Page Ref: 16

Objective: 1.5

75) The correct order for preparing the financial statements is which of the following?

- 1. Cash Flows Statement
- 2. Income Statement
- 3. Balance Sheet
- 4. Statement of Owner's Equity

- A) 1, 2, 3, 4
- B) 2, 3, 4, 1
- C) 2, 4, 3, 1
- D) 4, 3, 2, 1

Answer: C

Diff: 2 Page Ref: 16

Objective: 1.5

76) Ending owner's capital for the period would be shown on which of the following?:

- A) Balance sheet
- B) Income statement
- C) Statement of owner's equity
- D) Both A and C

Answer: D

Diff: 2 Page Ref: 16

Objective: 1.5

77) Which of the following is TRUE if expenses are greater than revenue?

- A) The company has positive cash flows.
- B) The company has net income for the period.
- C) The company has a net loss for the period.
- D) Assets are greater than liabilities for the company.

Answer: C

Diff: 2 Page Ref: 16

Objective: 1.5

78) A net loss for a period will have which of the following effects?

- A) Will decrease owner's equity
- B) Will increase owner's equity
- C) Will decrease assets
- D) Will increase assets

Answer: A

Diff: 2 Page Ref: 16

Objective: 1.5

79) The Securities and Exchange Commission requires public companies to have their financial statements _____ by independent accountants.

- A) Reviewed
- B) Evaluated
- C) Audited
- D) Examined

Answer: C

Diff: 2 Page Ref: 16

Objective: 1.5

80) Some companies and the accounting profession encourage ethical behavior in accordance with which of the following?

- A) Laws
- B) Codes of conduct
- C) Financial statements
- D) Officers

Answer: B

Diff: 2 Page Ref: 16

Objective: 1.5

81) Assets and liabilities are generally recorded at what value?

- A) Market
- B) Appraised
- C) Cost
- D) Higher of cost or market

Answer: C

Diff: 2 Page Ref: 7

Objective: 1.3

Case 1.1

Imus Company has the following balances at year end (12-31-08):

Cash	\$55,000
Accounts Receivable	\$70,000
Supplies	\$ 3,000
Accounts Payable	\$ 4,000
Owner's Capital, 1/1	\$114,000
Revenues	\$200,000
Expenses	\$190,000

82) Referring to Case 1.1, Imus has a net income of:

- A) \$10,000.
- B) \$20,000.
- C) \$50,000.
- D) \$128,000.

Answer: A

Diff: 2 Page Ref: 16

Objective: 1.5

83) Referring to Case 1.1, Imus has total assets of:

- A) \$10,000.
- B) \$20,000.
- C) \$50,000.
- D) \$128,000.

Answer: D

Diff: 2 Page Ref: 16

Objective: 1.5

84) Referring to Case 1.1, Imus has total liabilities of:

- A) \$4,000.
- B) \$10,000.
- C) \$50,000.
- D) \$128,000.

Answer: A

Diff: 2 Page Ref: 16

Objective: 1.5

85) Referring to Case 1.1, Imus's ending (12-31-08) owner's capital is:

- A) \$10,000.
- B) \$20,000.
- C) \$124,000.
- D) \$128,000.

Answer: C

Diff: 2 Page Ref: 16

Objective: 1.5

Case 1.2

Patrick Company has the following balances at year end (12-31-09):

Cash	\$15,000
Inventory	\$70,000
Supplies	\$13,000
Accounts Payable	\$14,000
Note Payable	\$50,000
Owner's Capital, 1/1	\$14,000
Revenues	\$200,000
Expenses	\$180,000

86) Referring to Case 1.2, Patrick has a net income of:

- A) \$10,000.
- B) \$20,000.
- C) \$50,000.
- D) \$128,000.

Answer: B

Diff: 2 Page Ref: 16

Objective: 1.5

87) Referring to Case 1.2, Patrick has total assets of:

- A) \$10,000.
- B) \$20,000.
- C) \$50,000.
- D) \$98,000.

Answer: D

Diff: 2 Page Ref: 16

Objective: 1.5

88) Referring to Case 1.2, Patrick has total liabilities of:

- A) \$4,000.
- B) \$10,000.
- C) \$64,000.
- D) \$128,000.

Answer: C

Diff: 2 Page Ref: 16

Objective: 1.5

89) Referring to Case 1.2, Patrick's ending (12-31-09) owner's capital is:

- A) \$10,000.
- B) \$20,000.
- C) \$34,000.
- D) \$128,000.

Answer: C

Diff: 2 Page Ref: 16

Objective: 1.5

90) Generally accepted accounting principles (GAAP) are created by the:

- A) Securities and Exchange Commission (SEC).
- B) Financial Accounting Standards Board (FASB).
- C) Institute of Management Accountants (IMA).
- D) American Institute of Certified Public Accountants (AICPA).

Answer: B

Diff: 2 Page Ref: 7

Objective: 1.3

91) Which type of business organization is owned by its stockholders?

- A) Proprietorship
- B) Partnership
- C) Corporation
- D) All the above are owned by stockholders

Answer: C

Diff: 1 Page Ref: 4

Objective: 1.1

92) Which type of business organization is owned by a single owner?

- A) Corporation
- B) Partnership
- C) Sole proprietorship
- D) S Corporation

Answer: C

Diff: 1 Page Ref: 4

Objective: 1.1

93) Which type of business organization has an infinite life?

- A) Corporation
- B) Partnership
- C) Sole proprietorship
- D) Limited partnership

Answer: A

Diff: 2 Page Ref: 5

Objective: 1.1

94) Accounting information should be able to be confirmed by an independent observer. For instance, a sale of a product should have documentation such as a sales order and sales invoice. This makes the information:

- A) observable.
- B) verifiable.
- C) accessible.
- D) none of the above.

Answer: B

Diff: 2 Page Ref: 7

Objective: 1.3

95) The payment and recognition of salaries expense will have which of the following effects?

- A) Increase cash
- B) Decrease cash
- C) Increase liabilities
- D) Increase owner's equity

Answer: B

Diff: 2 Page Ref: 9

Objective: 1.4

96) The payment and recognition of salaries expense will have which of the following effects?

- A) Increase assets
- B) Decrease expenses
- C) Increase liabilities
- D) Decrease owner's equity

Answer: D

Diff: 2 Page Ref: 9

Objective: 1.4

97) The payment of an account payable will have which of the following effects?

- A) Increase assets
- B) Decrease expenses
- C) Decrease liabilities
- D) Decrease owner's equity

Answer: C

Diff: 2 Page Ref: 9

Objective: 1.4

98) The payment of an account payable will have which of the following effects?

- A) Decrease assets
- B) Decrease expenses
- C) Decrease liabilities
- D) Increase owner's equity

Answer: A

Diff: 2 Page Ref: 9

Objective: 1.4

99) Which of the following concepts assumes the entity will remain in operation for the foreseeable future?

- A) Cost
- B) Entity
- C) Reliable
- D) Going concern

Answer: D

Diff: 1 Page Ref: 7

Objective: 1.3

100) An organization keeps separate accounting records for the three different businesses it owns (restaurant, sporting goods store and consulting firm). This is an example of the _____ concept.

- A) Cost
- B) Entity
- C) Reliable
- D) Going concern

Answer: B

Diff: 1 Page Ref: 7

Objective: 1.3

101) A major goal of a business is to generate a _____.

Answer: Profit

Diff: 1 Page Ref: 4

Objective: 1.1

102) _____ sell products that are made by another supplier.

Answer: Merchandise Companies

Diff: 2 Page Ref: 4

Objective: 1.1

103) A(n) _____ joins two or more individuals as co-owners.

Answer: partnership

Diff: 2 Page Ref: 4

Objective: 1.1

104) Owners of a corporation are called _____.

Answer: shareholders

Diff: 2 Page Ref: 4

Objective: 1.1

105) _____ is the organization's fiduciary responsibility to manage the resources of an organization.

Answer: Organization accountability

Diff: 2 Page Ref: 5

Objective: 1.2

106) _____ provides financial statements that communicate financial information to external stakeholder groups such as owners, creditors, and suppliers.

Answer: Financial accounting

Diff: 1 Page Ref: 5

Objective: 1.2

- 107) _____ provides financial and nonfinancial information inside the organization to help its managers plan, control, and make decisions consistent with the fiduciary role of operating a business.

Answer: Management accounting

Diff: 1 Page Ref: 5

Objective: 1.2

- 108) An accounting _____ is an organization or a section of an organization that stands apart as a separate economic unit.

Answer: Entity

Diff: 2 Page Ref: 7

Objective: 1.3

- 109) The _____ principle states that acquired assets and services should be recorded at their actual cost.

Answer: Cost

Diff: 1 Page Ref: 7

Objective: 1.3

- 110) _____ is the amount of an entity's assets that remain after its liabilities are subtracted.

Answer: Owner's equity

Diff: 2 Page Ref: 7

Objective: 1.3

- 111) Describe financial accounting and by whom it is intended to be used.

Answer: Financial accounting is the preparation of the four basic financial statements and other financial information that is intended to be used by users that are external to the organization.

Diff: 2 Page Ref: 5

Objective: 1.2

- 112) Give two advantages and two disadvantages of forming a business as a corporation.

Answer: Advantages

Limited liability

Resources \$\$\$ and management

Infinite life

Disadvantages

Double taxation

Separation of mgmt and ownership

Government regulation

Diff: 2 Page Ref: 4

Objective: 1.1

- 113) Explain the entity concept and how it should be applied by an organization.

Answer: An accounting entity is an organization or a section of an organization that stands apart as a separate economic unit. In accounting, boundaries are drawn around each entity so as not to confuse its affairs with those of other entities. Therefore, personal transactions and business transactions need to be accounted for separately.

Diff: 2 Page Ref: 7

Objective: 1.3

114) Stymies Auto Service has the following balances for the year ended 12-31-09.

Insurance expense	\$ 4,000	Salary expense	\$42,000
Service revenue	101,000	Accounts payable	8,000
Accounts receivable	7,000	Ownercapital, December 31, 2008	13,000
Supplies expense	1,000	Supplies	2,000
Cash	16,000	Withdrawals by owner	36,000
Fuel expense	6,000		
Rent expense	8,000		

Required:

Prepare the Income Statement for Stymies Auto Service.

Answer:

Stymies Auto Sales	
Income Statement	
Year Ended 12-31-09	
Service Revenue	\$101,000
<u>Expenses</u>	
Salary	\$42,000
Rent	8,000
Fuel	6,000
Insurance	4,000
Supplies	<u>1,000</u>
Total Expenses	<u>61,000</u>
Net Income	<u><u>\$ 40,000</u></u>

Diff: 2 Page Ref: 16
Objective: 1.5

115) Stymies Auto Service has the following balances for the year ended 12-31-09.

Insurance expense	\$ 4,000	Salary expense	\$42,000
Service revenue	101,000	Accounts payable	8,000
Accounts receivable	7,000	Owner, capital, December 31, 20X8	13,000
Supplies expense	1,000	Supplies	2,000
Cash	16,000	Withdrawals by owner	36,000
Fuel expense	6,000		
Rent expense	8,000		

Required:

Prepare the Statement of Owner's Equity for Stymies Auto Service.

Answer:

Stymies Auto Sales
Statement of Owner's Equity
Year Ended 12-31-09

Beginning Owner's Capital	\$ 13,000
Plus: Net Income	40,000
Minus: Owner's Withdrawals	<u>(36,000)</u>
Ending Owner's Capital	<u><u>\$17,000</u></u>

Diff: 2 Page Ref: 16

Objective: 1.5

116) Compute the missing amounts in the accounting equation for each entity:

	Assets	Liabilities	Owner's Equity
Buckeye Gymnastics	A	\$61,800	\$21,000
Lowes	\$72,000	B	\$34,000
Home Depot	\$102,700	\$79,800	C
Krogers	\$145,000	\$34,500	D
Sportsmart	E	\$230,000	\$170,000

Answer:

	Assets	Liabilities	Owner's Equity
Buckeye Gymnastics	\$82,800	\$61,800	\$21,000
Lowes	\$72,000	\$38,000	\$34,000
Home Depot	\$102,700	\$79,800	\$22,900
Krogers	\$145,000	\$34,500	\$110,500
Sportsmart	\$400,000	\$230,000	\$170,000

Diff: 1 Page Ref: 9

Objective: 1.4

117) Determine how the following transactions will impact the accounting equation for Bill's bowling equipment.

1. Bill invested \$150,000 cash in the business.
2. Paid \$100,000 cash for equipment.
3. Borrowed \$150,000 in cash from the bank.
4. Purchase \$12,000 of supplies on account.
5. Received \$23,000 cash from clients for service revenue earned.
6. Sold \$20,000 of bowling equipment to customers on account.
7. Paid \$3000 on the account payable created in transaction 4.
8. Paid cash expenses: utilities, \$3,000.
9. Paid cash expenses: salaries, \$11,000.
10. Paid cash expenses: building rent, \$4,000.

TYPE OF
OWNER'S
EQUITY

ASSETS				=		LIABILITIES		OWNER'S
TRANSACTION								EQUITY
Accounts				Accounts		Notes	Bills,	
Cash	Receivable	+ Supplies	+ Equipment	Payable	+ Payable	+	Capital	
_____							_____	
_____			_____				_____	
_____			_____			_____	_____	
_____		_____	_____	_____	_____		_____	
_____		_____	_____	_____	_____		_____	
_____	_____	_____	_____	_____	_____		_____	
_____	_____	_____	_____	_____	_____		_____	
_____	_____	_____	_____	_____	_____		_____	
_____	_____	_____	_____	_____	_____		_____	
_____	_____	_____	_____	_____	_____		_____	
_____	_____	_____	_____	_____	_____		_____	
=====	=====	=====	=====	=====	=====		=====	

Answer:

ASSETS				=	LIABILITIES			OWNER'S EQUITY	TYPE OF OWNER'S EQUITY TRANS.
Accounts					Accounts	Notes	Bills,		
Cash	Receivable +	Supplies +	Equipment		Payable +	Payable +	Capital		
(1) + 150,000							+ 150,000		Owner investment
Bal. 150,000							150,000		
(2) - 100,000			+ 100,000						
Bal. 50,000			100,000				150,000		
(3) + 150,000						+ 150,000			
Bal. 200,000			100,000			150,000	150,000		
(4)		+ 12,000			+ 12,000				
Bal. 200,000		12,000	100,000		12,000	150,000	150,000		
(5) + 23,000							+ 23,000		Service revenue
Bal. 223,000		12,000	100,000		12,000	150,000	173,000		
(6)	+ 20,000						+ 20,000		Service revenue
Bal. 223,000	20,000	12,000	100,000		12,000	150,000	193,000		
(7) - 3,000					- 3,000				
Bal. 220,000	20,000	12,000	100,000		9,000	150,000	193,000		
(8) - 3,000							- 3,000		Utilities expense
Bal. 217,000	20,000	12,000	100,000		9,000	150,000	190,000		
(9) - 11,000							- 11,000		Salaries expense
Bal. 206,000	20,000	12,000	100,000		9,000	150,000	179,000		
(10) - 4,000							- 4,000		Building rent exp.
Bal. 202,000	20,000	12,000	100,000		9,000	150,000	175,000		

Diff: 3 Page Ref: 9
Objective: 1.4

118) Little Debbie, a proprietorship, supplies snack foods. The business experienced the following events. State whether each event (1) increased, (2) decreased, or (3) had no effect on the total assets of the business. Also, identify any specific asset affected.

- a. Little Debbie received a cash investment from the owner.
- b. Cash purchase of land for a building site.
- c. Paid cash on accounts payable.
- d. Purchased machinery and equipment for a manufacturing plant; signed a promissory note in payment.
- e. Performed service for a customer on account.
- f. The owner withdrew cash from the business for personal use.
- g. Received cash from a customer on account receivable.
- h. The owner used personal funds to purchase a swimming pool for his home.
- i. Sold land for a price equal to the cost of the land; received cash.
- j. Borrowed money from the bank.

Answer:

- a. Little Debbie received a cash investment from the owner. Increase Cash.
- b. Cash purchase of land for a building site. Increase Land, Decrease Cash.
- c. Paid cash on accounts payable. Decrease Cash.
- d. Purchased machinery and equipment for a manufacturing plant; signed a promissory note in payment. Increase Machinery and Equipment.
- e. Performed service for a customer on account. Increase Accounts Receivable.
- f. The owner withdrew cash from the business for personal use. Decrease Cash.
- g. Received cash from a customer on account receivable. Increase Cash, Decrease Accounts Receivable.
- h. The owner used personal funds to purchase a pool table for his vacation home. No effect.
- i. Sold land and received cash. Increase Cash, Decrease Land.
- j. Borrowed money from the bank. Increase cash.

Diff: 2 *Page Ref: 9*

Objective: 1.4

- 119) Determine the how the following transactions will effect the accounting equation.
1. Johnny Legend invested \$50,000 in a sole proprietorship to open a new business.
 2. Equipment was purchased for \$750 cash.
 3. Equipment was purchased for \$100,000 by signing a note payable.
 4. Johnny Legend sold \$800 of products on account.
 5. Johnny Legend withdrew \$2,000 from the business.
 6. Cash sales totaled \$2,200.
 7. A \$10,000 payment was made on the notes payable.
 8. A customer paid \$150 on an account.

Answer:

Assets				=	Liabilities		+	Owner's Equity	
Cash	Accounts Receivable	Equipment		=	Accounts Payable	Notes Payable		Owner Capital	
1. + 50,000								+ 50,000	
2. - 750		+ 750							
3.		+ 100,000				+ 100,000			
4.	+800							+ 800	
5. - 2,000								- 2,000	
6. + 2,200								+ 2,200	
7. - 10,000						- 10,000			
8. + 150	- 150								

Diff: 2 Page Ref: 9

Objective: 1.4

- 120) The following information is for King and King, attorneys at law.

Service revenue	\$9,100	Office equipment	\$15,500
Accounts receivable	6,900	Supplies	600
Accounts payable	2,500	Notes payable	8,000
King, capital	?	Rent expense	500
Salary expense	2,000	Cash	2,000

Required: Prepare a balance sheet for King and King as of 12-31-07.

Answer:

King and King Balance Sheet 12-31-07			
<u>Assets</u>		<u>Liabilities</u>	
Cash	\$2,000	Accounts Payable	\$2,500
A/R	6,900	Notes Payable	\$8,000
Supplies	600	Total Liabilities	10, 500
Office Equipment	<u>15,500</u>	<u>Owner's Equity</u>	
		King, capital	<u>\$14,500</u>
Total Assets	<u>\$25,000</u>	Total Liab and O.E	<u>\$25,000</u>

Diff: 2 Page Ref: 16

Objective: 1.5

121) The following information is for King and King, attorneys at law.

Service revenue	\$49,100	Wage Expense	\$15,500
Accounts receivable	6,900	Supplies Expense	1,000
Accounts payable	2,500	Note payable	8,000
King, capital	?	Rent expense	5,000
Utilities expense	2,000	Cash	2,000

Required: Prepare an Income Statement for King and King for 12-31-07.

Answer:

King and King	
Income Statement	
Year Ended 12-31-07	
Service Revenue	\$49,100
<u>Expenses</u>	
Wage	\$15,500
Rent	5,000
Utilities	2,000
Supplies	<u>1,000</u>
Total Expenses	<u>\$23,500</u>
Net Income	<u><u>\$25,600</u></u>

Diff: 2 Page Ref: 16
Objective: 1.5

122) For each of the following situations, indicate which accounting principle or concept is being violated.

- A) Able Roofing performs roof repairs for customers. The owner of Able Roofing also owns a local video shop. Both businesses accounting records are kept together in one set of books.
- B) Able Roofing purchases a new building for its business location. Able records the building at market value each year.
- C) Able Roofing records sales based on appointments with customers before any work has actually been done.
- D) Able Roofing adjusts its financial statements for inflation each year.

Answer: A — Entity concept
 B — Cost concept
 C — Reliability concept
 D — Stable Monetary-Unit concept

Diff: 2 Page Ref: 7
Objective: 1.3

123) The following information is for Dr. Hutta, orthodontist.

Service revenue	\$199,100	Office equipment	\$85,500
Accounts receivable	45,900	Supplies	1,600
Accounts payable	25,500	Note payable	19,000
Hutta, capital	?	Rent expense	500
Salary expense	42,000	Cash	11,000

Required: Prepare a balance sheet for Dr. Hutta as of 12-31-08.

Answer:

Hutta Co Balance Sheet 12-31-08			
<u>Assets</u>		<u>Liabilities</u>	
Cash	\$11,000	Accounts Payable	\$25,500
A/R	45,900	Notes Payable	\$19,000
Supplies	1,600	Total Liabilities	\$44,500
Office Equipment	<u>85,500</u>	<u>Owner's Equity</u>	
		Hutta, capital	<u>\$99,500</u>
Total Assets	<u>\$144,000</u>	Total Liab and O.E	<u>\$144,000</u>

Diff: 2 Page Ref: 16
Objective: 1.5

124) Wiggam, CPA had the following balances for the year ended 12-31-09.

Insurance expense	\$4,000	Salary expense	\$42,000
Service revenue	111,000	Accounts payable	8,000
Accounts receivable	17,000	Owner capital, December 31, 20X8	33,000
Supplies expense	1,000	Supplies	2,000
Cash	16,000	Withdrawals by owner	26,000
Advertising expense	6,000		
Rent expense	8,000		

Required:

Prepare the Statement of Owner's Equity for Wiggam, CPA.

Answer:

Wiggam, CPA Statement of Owner's Equity Year Ended 12-31-09	
Beginning Owner's Capital	\$33,000
Plus: Net Income	50,000
Minus: Owner's Withdrawals	<u>(26,000)</u>
Ending Owner's Capital	<u>\$57,000</u>

Diff: 2 Page Ref: 16
Objective: 1.5

125) Compute the missing amounts in the accounting equation for each entity:

	Assets	Liabilities	Owner's Equity
Buckeye Corner	A	\$161,800	\$221,000
Super America	\$172,000	B	\$34,000
Home Depot	\$122,700	\$40,800	C
Kohls	\$245,000	\$34,500	D
Nike	E	\$570,000	\$970,000

Answer:	Assets	Liabilities	Owner's Equity
Buckeye Corner	\$382,800	\$161,800	\$221,000
Super America	\$172,000	\$138,000	\$34,000
Home Depot	\$122,700	\$40,800	\$81,900
Kohls	\$245,000	\$34,500	\$210,500
Nike	\$1,540,000	\$570,000	\$970,000

Diff: 1 Page Ref: 9
Objective: 1.4

126) For each of the following situations, indicate which accounting principle or concept is being followed.

- A) Able Roofing performs roof repairs for customers. The owner of Able Roofing also owns a local video shop. Both businesses accounting records are separate in two set of books.
- B) Able Roofing purchases a new building for its business location. Able records the building at historical cost.
- C) Dr Hutta, a local dentist, records sales when services are provided to patients and then sends an invoice to the patient.
- D) Honda, which is based in Japan, prepares its annual report in yen.

Answer: A — Entity concept
 B — Cost concept
 C — Reliability concept
 D — Stable Monetary–Unit concept

Diff: 2 Page Ref: 7
Objective: 1.3

127) Describe the three sections of the cash flows statement and what the statement provides to users.

Answer: The cash flows statement is divided into three sections; the operating, investing and financing sections. The operating section shows cash receipts and cash payments from day to day business activities. The investing section shows cash flows from internal (PP+E) and external (stock and bonds) investments. The financing section shows cash flows from activities such as borrowing or equity financing.

The statement provides users with the overall cash receipts and payments of an organization, whether or not the organization is generating a positive cash flow, and whether cash increased or decreased during the period.

Diff: 2 Page Ref: 16
Objective: 1.5