***Financial Accounting, 10e* (Libby)**

**Chapter 1 Financial Statements and Business Decisions**

1) A business entity's accounting system creates financial accounting reports which are provided to external decision makers.

Answer: TRUE

Explanation: The accounting system collects financial data and produces reports used by both internal decision makers and external decision makers.

Difficulty: 1 Easy

Topic: Accounting system-Information users

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

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2) Business managers utilize managerial accounting reports to plan and manage the daily operations.

Answer: TRUE

Explanation: Managerial accounting reports are for internal use to assist managers with day-to-day operations. Unlike financial accounting reports, managerial reports are for internal use.

Difficulty: 1 Easy

Topic: Accounting system-Information users

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

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3) Borrowing money is an investing activity.

Answer: FALSE

Explanation: Borrowing money is a form of financing and therefore is a financing activity.

Difficulty: 1 Easy

Topic: Accounting system-Information conveyed

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

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4) The balance sheet includes assets, liabilities, and stockholders' equity as of a point in time.

Answer: TRUE

Explanation: The balance sheet reports the amount of assets, liabilities, and stockholders' equity of an entity at a point in time.

The balance sheet is referred to as a financial position statement; listing assets, liabilities, and equity accounts as of a specific date.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

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5) Revenue is recognized within the income statement during the period in which cash is collected.

Answer: FALSE

Explanation: Revenue is recognized within the income statement during the period in which revenue is earned.

Difficulty: 1 Easy

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

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6) Total assets are $37,500, total liabilities are $20,000 and common stock is $10,000; therefore, retained earnings are $7,500.

Answer: TRUE

Explanation: $37,500 = $20,000 + $10,000 + X; X = $7,500

Difficulty: 2 Medium

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

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7) For the current year, net income of Carol Company is $20,000 and dividends declared are $6,000; therefore, retained earnings have increased $26,000 during the year.

Answer: FALSE

Explanation: Retained earnings = Net income *less* dividends declared. Therefore, retained earnings have increased by $20,000 less $6,000 = $14,000.

Difficulty: 1 Easy

Topic: Financial statements—Stockholders equity

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

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8) The income statement is a measure of an entity's economic performance for a period of time.

Answer: TRUE

Explanation: The income statement reports the performance of a business during the accounting period.

Difficulty: 1 Easy

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

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9) The accounting equation states that Assets = Liabilities + Stockholders' Equity.

Answer: TRUE

Explanation: The accounting equation, also known as the balance sheet equation, states that Assets = Liabilities + Stockholders' Equity.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

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10) A decision maker who wants to understand a company's financial statements must carefully read the notes to the financial statements because these disclosures provide useful supplemental information.

Answer: TRUE

Explanation: The notes provide supplemental information necessary to fully understand the financial statements.

Difficulty: 1 Easy

Topic: Financial statements—Notes

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

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11) The financial statement that shows an entity's economic resources and claims against those resources is the balance sheet.

Answer: TRUE

Explanation: The balance sheet contains assets (economic resources), liabilities (claims against those resources), and stockholders' equity.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

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12) Stockholders' equity on the balance sheet includes common stock and retained earnings.

Answer: TRUE

Explanation: The stockholders' equity section of the balance sheet represents financing provided by owners of the business (common stock) and earnings (retained earnings).

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

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13) The amount of cash paid by a business for dividends would be reported as an operating activity cash flow on the statement of cash flows.

Answer: FALSE

Explanation: Dividends are reported on the statement of stockholders' equity. On the statement of cash flows, dividends are reported as a financing activity.

Difficulty: 1 Easy

Topic: Financial statements—Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

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14) A company's retained earnings balance increased $50,000 last year; therefore, net income last year must have been $50,000.

Answer: FALSE

Explanation: Retained earnings is increased by net income and decreased by dividends. Therefore, we would need to know the dividend amount was zero in this situation to make the above statement true.

Difficulty: 2 Medium

Topic: Financial statements—Stockholders equity

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

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15) Due to the relationships among financial statements, the statement of stockholders' equity links the income statement to the balance sheet.

Answer: TRUE

Explanation: Net income is reported on the statement of stockholders' equity as an increase in retained earnings. The ending retained earnings balance is reported on the balance sheet.

Difficulty: 1 Easy

Topic: Financial statements—Relationships

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

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16) The statement of stockholders' equity explains the change in the retained earnings balance caused by stockholder investments and dividend declarations.

Answer: FALSE

Explanation: Beginning retained earnings + net income − dividends = ending retained earnings; stockholder investments in common stock are not part of the statement.

Difficulty: 1 Easy

Topic: Financial statements—Stockholders equity

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

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17) The Financial Accounting Standards Board (FASB) has been given the authority by the Securities and Exchange Commission (SEC) to develop generally accepted accounting principles.

Answer: TRUE

Explanation: Previously the Securities and Exchange Commission worked with organizations of professional accountants to develop generally accepted accounting principles; today this is a responsibility of the Financial Accounting Standards Board.

Difficulty: 1 Easy

Topic: Accounting communication process-GAAP

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

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18) If a U.S. domestic company does business in a foreign country, the Securities and Exchange Commission (SEC) requires the use of International Financial Reporting Standards (IFRS) for the company's financial reporting in the U.S.

Answer: FALSE

Explanation: The SEC is considering the appropriateness of International Financial Reporting Standards (IFRS) for U.S. domestic companies. IFRS is not used for U.S. companies reporting in the U.S.

Difficulty: 2 Medium

Topic: Accounting communication process—IFRS

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Understand

AACSB: Diversity

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19) In the United States, generally accepted accounting principles are published in the FASB Accounting Standards Codification.

Answer: TRUE

Explanation: The official literature of GAAP is found in the FASB Accounting Standards Codification®.

Difficulty: 1 Easy

Topic: Accounting communication process-GAAP

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

20) The primary responsibility for the content of the financial statements lies with the external auditor.

Answer: FALSE

Explanation: Primary responsibility for the information in the financial statements lies with management.

Difficulty: 1 Easy

Topic: Accounting communication process-Accuracy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

21) An audit is an examination of the financial statements to ensure that they represent what they claim and to make sure that they are in compliance with generally accepted accounting principles.

Answer: TRUE

Explanation: This is the definition of an audit.

Difficulty: 1 Easy

Topic: Accounting communication process-Accuracy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

22) The auditor can be held liable for malpractice in situations where the investors suffered losses while relying on the financial statements.

Answer: TRUE

Explanation: If it is determined that the independent CPA committed malpractice, the CPA may be held liable for losses suffered by investors who relied on the financial statements.

Difficulty: 1 Easy

Topic: Accounting communication process-Accuracy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

23) One of the advantages of a corporation when compared to a partnership is the limited liability of the owners.

Answer: TRUE

Explanation: In a partnership each partner has unlimited liability; in a corporation the stockholders have limited liability.

Difficulty: 1 Easy

Topic: Types of business entities—Supp A

Learning Objective: 01-Supplement A Types of Business Entities

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

24) Which of the following describes the primary objective of the balance sheet?

A) To measure the net income of a business up to a particular point in time.

B) To report the difference between cash inflows and cash outflows for the period.

C) To report the financial position of the reporting entity at a particular point in time.

D) To report the market value of assets, liabilities, and stockholders' equity at a particular point in time.

Answer: C

Explanation: The balance sheet reports the amount of assets, liabilities, and stockholders' equity (financial position) of an accounting entity at a particular point in time. These positions are reported at historical cost, not market value.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

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25) During the current fiscal year, a company had revenues of $400,000, cost of goods sold of $280,000, and an income tax rate of 30 percent on income before income taxes. What was the company's current year net income?

A) $120,000

B) $36,000

C) $84,000

D) $400,000

Answer: C

Explanation: ($400,000 − $280,000) = Income before income taxes, $120,000.

Income tax expense = 30% × $120,000 = $36,000.

Net income = $120,000 − $36,000 = $84,000.

Difficulty: 3 Hard

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

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26) Atlantic Corporation reported the following amounts at the end of the first year of operations

|  |  |  |  |
| --- | --- | --- | --- |
| Common stock | $ | 200,000 |  |
| Sales revenue | $ | 800,000 |  |
| Total assets | $ | 600,000 |  |
| Dividends declared | $ | 40,000 |  |
| Total liabilities | $ | 320,000 |  |

What are the retained earnings of Atlantic at the end of the year, and what amount of expenses were incurred during the year?

A) Retained earnings are $80,000 and expenses incurred totaled $680,000.

B) Retained earnings are $80,000 and expenses incurred totaled $720,000.

C) Retained earnings are $280,000 and expenses incurred totaled $480,000.

D) Retained earnings are $280,000 and expenses incurred totaled $520,000.

Answer: A

Explanation: Stockholders' equity = $280,000 (Total assets $600,000 − Total liabilities $320,000).

Stockholders' equity ($280,000) = Common stock ($200,000) + Retained earnings ($80,000).

Retained earnings ($80,000) = Net income − Dividends declared ($40,000).

Net income = $120,000.

Sales Revenue ($800,000) − Expenses = Net income ($120,000).

Expenses = $680,000.

Difficulty: 3 Hard

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

27) Which of the following best describes the balance sheet?

A) It includes a listing of assets at their market values.

B) It includes a listing of assets, liabilities, and stockholders' equity at their market values.

C) It provides information pertaining to a company's economic resources and the sources of financing for those resources.

D) It provides information pertaining to a company's liabilities for a period of time.

Answer: C

Explanation: The balance sheet reports the economic resources (assets), and the liabilities and stockholders' equity (financing sources) at their historical costs.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

28) Which of the following statements is correct?

A) Assets on the balance sheet include retained earnings.

B) Retained earnings includes common stock.

C) The balance sheet equation states that assets equal liabilities.

D) A corporation's net income does not necessarily equal its net cash flow from operations.

Answer: D

Explanation: Revenue is recorded as it is earned, not necessarily when the cash from the sales is collected. Expenses are recorded when incurred in generating revenue regardless of when cash is expended.

Difficulty: 2 Medium

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

29) Which of the following correctly describes the various financial statements?

A) An income statement covers a period of time.

B) The cash flow statement is a financial statement at a specific point in time.

C) The balance sheet is a financial statement that covers a period of time.

D) The statement of stockholders' equity is a financial statement at a specific point in time.

Answer: A

Explanation: The income statement reports the performance of a business during the accounting period.

Difficulty: 1 Easy

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

30) Which of the following accounts would **not** be reported on the balance sheet?

A) Retained earnings.

B) Inventory.

C) Accounts payable.

D) Dividends.

Answer: D

Explanation: Dividends are reported on the statement of stockholders' equity.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

31) Which of the following would **not** be found on the statement of cash flows?

A) Cost flow from manufacturing activities.

B) Cash flow from operating activities.

C) Cash flow from investing activities.

D) Cash flow from financing activities.

Answer: A

Explanation: The statement of cash flows includes cash flows from operating, investing, and financing activities.

Difficulty: 1 Easy

Topic: Financial statements—Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

32) Which of the following accounts is **not** a liability on the balance sheet?

A) Retained earnings.

B) Notes payable.

C) Accounts payable.

D) Interest payable.

Answer: A

Explanation: Retained earnings is reported on the balance sheet as a component of stockholders' equity.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

33) What financial statement would you look at to determine the dividends declared by a business?

A) Income statement.

B) Statement of stockholders' equity.

C) Statement of cash flows.

D) Balance sheet.

Answer: B

Explanation: Beginning retained earnings + net income − dividends = ending retained earnings.

Difficulty: 1 Easy

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

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34) Which financial statement would you utilize to determine whether a company will be able to pay liabilities which are due in 30 days?

A) Income statement.

B) Balance sheet.

C) Statement of stockholders' equity.

D) Statement of cash flows.

Answer: B

Explanation: The balance sheet includes the current assets and current liabilities account balances.

Difficulty: 1 Easy

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

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35) Which of the following is considered to be an expense on the income statement?

A) Accounts payable.

B) Notes payable.

C) Wages payable.

D) Cost of goods sold.

Answer: D

Explanation: Income statements begin with sales less cost of goods sold.

Difficulty: 1 Easy

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

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36) Which of the following best describes assets?

A) They are equal to liabilities minus stockholders' equity.

B) They are considered to be the economic resources of the business.

C) They are all reported on the balance sheet at their current market value.

D) They equal financing provided by creditors.

Answer: B

Explanation: Assets are considered to be the economic resources of a business. Cash, accounts receivable, and inventories (inventory) are all considered to be economic resources.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

37) Which of the following accounts would be reported as assets on the balance sheet?

A) Cash, accounts payable, and notes payable.

B) Cash, retained earnings, and accounts receivable.

C) Cash, accounts receivable, and inventories.

D) Inventories, property and equipment, and common stock.

Answer: C

Explanation: Assets include but are not limited to cash, accounts receivable, and inventories. They are considered to be economic resources of a business.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

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38) Which of the following statements describes the balance sheet?

A) It reports a company's revenues and expenses.

B) Assets are generally reported on the balance sheet at the cost incurred to acquire them.

C) Stockholders' equity includes only retained earnings.

D) It reports a company's cash flow from operations.

Answer: B

Explanation: The balance sheet generally reports assets, liabilities, and stockholders' equity at the initial cost incurred to acquire them.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

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39) Which of the following best describes liabilities and stockholders' equity?

A) They are the sources of financing an entity's assets.

B) They are the economic resources owned by a business entity

C) They are reported on the income statement.

D) They both increase when assets increase.

Answer: A

Explanation: Liabilities are a source of financing from creditors. Stockholders' equity is a source of financing from stockholders.

Difficulty: 2 Medium

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

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40) Which of the following equations is the balance sheet equation?

A) Assets + Liabilities = Stockholders' Equity.

B) Assets + Stockholder's Equity = Liabilities.

C) Assets = Liabilities + Stockholders' Equity.

D) Assets = Liabilities + Common Stock.

Answer: C

Explanation: A balance sheet has two sides: the left side is assets and the right side has both liabilities and stockholders' equity. The total balance from each side must equal each other. Thus, Assets = Liabilities + Stockholders' Equity.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

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41) Willie Company's retained earnings increased $20,000 during the current year. What was Willie's current year net income or loss given that Willie declared $25,000 of dividends during this year?

A) Net income was $5,000.

B) Net income was $45,000.

C) Net loss was $45,000.

D) Net loss was $5,000.

Answer: B

Explanation: Net income is equal to $45,000, calculated as the increase in retained earnings, $20,000, plus dividends of $25,000.

Difficulty: 2 Medium

Topic: Financial statements—Stockholders equity

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Knowledge Application

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42) Which of the following are the components of stockholders' equity on the balance sheet?

A) Common stock and liabilities.

B) Common stock and assets.

C) Retained earnings and dividends.

D) Common stock and retained earnings.

Answer: D

Explanation: Stockholders' equity represents investments by owners (common stock) and the amount of earnings reinvested in the business (retained earnings).

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

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43) Which of the following is represented by elements of the statement of stockholders' equity?

A) Common stock reinvested in the business.

B) Revenues plus dividends and expenses.

C) Earnings not distributed to owners.

D) Financing from creditors and stockholders.

Answer: C

Explanation: The statement of stockholders' equity represents the change during a year in the amount of financing provided by owners of the business and earnings not distributed to owners.

Difficulty: 2 Medium

Topic: Financial statements—Stockholders equity

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

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44) Which financial statement would you use to determine a company's earnings performance during an accounting period?

A) Balance sheet.

B) Statement of stockholders' equity.

C) Income statement.

D) Statement of cash flows.

Answer: C

Explanation: The income statement reports the company's financial performance over an accounting period.

Difficulty: 1 Easy

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

45) Which of the following equations best describes the income statement?

A) Assets − Liabilities = Stockholders' Equity.

B) Net income = Revenues + Expenses.

C) Net income = Revenues − Expenses.

D) Retained earnings = Net Income + Dividends.

Answer: C

Explanation: The income statement equation is revenues − expenses = net income.

Difficulty: 1 Easy

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

46) Lena Company has provided the following data for its 2019 operations (ignore income taxes):

2019 revenues were $99,000.

2019 expenses were $47,800.

Dividends declared and paid during 2019 totaled $9,500.

Total assets at December 31, 2019 were $177,000.

Total liabilities at December 31, 2019 were $89,000.

Common stock at December 31, 2019 was $28,000.

Which of the following is correct?

A) 2019 net income was $41,700.

B) Total stockholders' equity at December 31, 2019 was $236,000.

C) Retained earnings at December 31, 2019 were $60,000.

D) Retained earnings at December 31, 2019 were $41,700.

Answer: C

Explanation: Stockholders' equity = $88,000 (Total assets $177,000 − Total liabilities $89,000).

Stockholders' equity ($88,000) = Common stock ($28,000) + Retained earnings.

Retained earnings = $60,000.

Difficulty: 3 Hard

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

47) Lorenta Company has provided the following data (ignore income taxes):

2019 revenues were $117,300.

2019 expenses were $47,800.

Dividends declared and paid during 2019 totaled $9,500.

Total assets at December 31, 2019 were $177,000.

Total liabilities at December 31, 2019 were $89,000.

Common stock at December 31, 2019 was $28,000.

Which of the following is **not** correct?

A) 2019 net income was $69,500.

B) Total stockholders' equity at December 31, 2019 was $88,000.

C) Total liabilities and stockholders' equity at December 31, 2019 was $177,000.

D) Retained earnings on December 31, 2019 were $41,700.

Answer: D

Explanation: Total assets ($177,000) = Total liabilities + stockholders' equity.

Stockholders' equity = Total assets ($177,000) − Total liabilities ($89,000) = $88,000.

Stockholders' equity ($88,000) = Common stock ($28,000) + Retained earnings ($60,000).

Retained earnings ($60,000) = Net income − Dividends declared ($9,500).

Net income = $69,500 = Revenue ($117,300) − Expenses ($47,800).

Difficulty: 3 Hard

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

48) Madrid Company has provided the following data (ignore income taxes):

2019 revenues were $77,500.

2019 net income was $33,900.

Dividends declared and paid during 2019 totaled $5,700.

Total assets at December 31, 2019 were $217,000.

Total stockholders' equity at December 31, 2019 was $123,000.

Retained earnings at December 31, 2019 were $83,000.

Which of the following is **not** correct?

A) 2019 expenses were $43,600.

B) Total liabilities at December 31, 2019 were $94,000.

C) Retained earnings increased $33,900 during 2019.

D) Common stock at December 31, 2019 was $40,000.

Answer: C

Explanation: Total assets ($217,000) = Total liabilities + stockholders' equity.

Total liabilities = Total assets ($217,000) − Stockholders' equity ($123,000) = $94,000.

Stockholders' equity ($123,000) = Common stock + Retained earnings ($83,000).

Solve for Common stock = $40,000.

Net income ($33,900) = Revenues ($77,500) − Expenses.

Solve for Expenses = $43,600.

Retained earnings increased by net income ($33,900) − dividends ($5,700).

Retained earnings increased by $28,200.

Difficulty: 3 Hard

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

49) Madrid Company has provided the following data (ignore income taxes):

2019 revenues were $77,500.

2019 net income was $33,900.

Dividends declared and paid during 2019 totaled $5,700.

Total assets at December 31, 2019 were $217,000.

Total stockholders' equity at December 31, 2019 was $123,000.

Retained earnings at December 31, 2019 were $83,000.

Which of the following is correct?

A) 2019 expenses were $37,900.

B) Total liabilities at December 31, 2019 were $11,000.

C) Retained earnings increased $28,200 during 2019.

D) Common stock at December 31, 2019 was $206,000.

Answer: C

Explanation: Retained earnings increased by net income ($33,900) − dividends ($5,700).

Retained earnings increased by $28,200.

Total assets ($217,000) = Total liabilities + stockholders' equity.

Total liabilities = Total assets ($217,000) − Stockholders' equity ($123,000) = $94,000.

Stockholders' equity ($123,000) = Common stock + Retained earnings ($83,000).

Solve for Common stock = $40,000.

Net income ($33,900) = Revenues ($77,500) − Expenses.

Solve for Expenses = $43,600.

Difficulty: 3 Hard

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

50) Which of the following is the amount of revenue reported on the income statement of a retail company?

A) The cash collected from customers during the current period.

B) Both cash and credit sales for the period.

C) Cash sales for the period and collections from customers.

D) Cash sales and stockholders' investments.

Answer: B

Explanation: Revenue for a retail company includes all sales earned during the accounting period, both cash and credit.

Difficulty: 2 Medium

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

51) On January 1, 2019, Miller Corporation had retained earnings of $8,000,000. During 2019, Miller reported net income of $1,500,000, declared dividends of $500,000, and issued common stock for $1,000,000. What were Miller's retained earnings on December 31, 2019?

A) $7,000,000.

B) $9,500,000.

C) $9,000,000.

D) $7,500,000.

Answer: C

Explanation: Ending retained earnings ($9,000,000) = Beginning retained earnings ($8,000,000) + Net income ($1,500,000) − Dividends ($500,000). The issuance of common stock does not impact retained earnings.

Difficulty: 2 Medium

Topic: Financial statements—Stockholders equity

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

52) What are the categories of cash flows that appear on a statement of cash flows?

A) Cash flows from investing, financing, and service activities.

B) Cash flows from operating, production, and internal activities.

C) Cash flows from financing, production, and growth activities.

D) Cash flows from operating, investing, and financing activities.

Answer: D

Explanation: The statement of cash flows has three sections: cash flows from 1) Operating activities 2) Investing activities and 3) Financing activities.

Difficulty: 1 Easy

Topic: Financial statements—Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

53) When would a company report a net loss on the income statement?

A) When revenues are less than the sum of expenses plus dividends during an accounting period.

B) If assets decreased during an accounting period.

C) If liabilities increased during an accounting period.

D) When expenses exceeded revenues for an accounting period.

Answer: D

Explanation: Net income or loss is equal to revenues less expenses. If expenses exceed revenues, a business would report a net loss.

Difficulty: 1 Easy

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

54) Which of the following describes the amount of insurance expense reported on the income statement?

A) The amount of cash paid for insurance in the current period.

B) The amount of cash paid for insurance in the current period less any unpaid insurance at the end of the period.

C) The amount of insurance used up (incurred) in the current period to help generate revenue.

D) The amount of cash paid for insurance that is reported within the statement of cash flows.

Answer: C

Explanation: The income statement reports expenses, as they are incurred, to generate revenue for the accounting period.

Difficulty: 1 Easy

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

55) Which of the following would immediately cause a change in a corporation's retained earnings?

A) Net income or net loss and declaration of dividends.

B) Declaration of dividends and issuance of common stock to new stockholders.

C) Net income and issuance of stock to new stockholders.

D) Declaration of dividends and purchase of new machinery.

Answer: A

Explanation: Beginning retained earnings + net income − dividends = ending retained earnings.

Difficulty: 2 Medium

Topic: Financial statements—Stockholders equity

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

56) Which of the following describes the operating activities section of a cash flow statement?

A) It provides information about how operations have been financed.

B) It provides information pertaining to dividend payments to stockholders.

C) It provides information with respect to a company's ability to generate cash flows that are directly related to earning income.

D) It provides the net increase or decrease in cash during the period.

Answer: C

Explanation: Cash flows from operating activities are cash flows directly related to earning income.

Difficulty: 1 Easy

Topic: Financial statements—Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

57) Within which of the following would you find the inventory method(s) being used by a business entity?

A) Balance sheet.

B) Income statement.

C) Notes to the financial statements.

D) Headings of the financial statements.

Answer: C

Explanation: The notes provide information behind the numbers that allow the user to completely understand the financial statements.

Difficulty: 1 Easy

Topic: Financial statements—Notes

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

58) At the beginning of 2019, a corporation had assets of $270,000 and liabilities of $160,000. During 2019, assets increased $25,000 and liabilities increased $5,000. What was stockholders' equity at December 31, 2019?

A) $140,000.

B) $130,000.

C) $190,000.

D) $80,000.

Answer: B

Explanation: Assets at December 31, 2019 = Beginning assets ($270,000) + Increase in assets during 2019 ($25,000) = $295,000.

Liabilities at December 31, 2019 = Beginning liabilities ($160,000) + Increase in liabilities ($5,000) = $165,000.

Assets ($295,000) = Liabilities ($165,000) + Stockholders' equity.

Solve for Stockholders equity at December 31, 2019 = $130,000.

Difficulty: 2 Medium

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

59) During 2019, Canton Company's assets increased $95,500 and the liabilities decreased $17,300. Canton Company's stockholders' equity at December 31, 2019 was $211,500. What amount was stockholders' equity at January 1, 2019?

A) $98,700.

B) $324,300.

C) $133,300.

D) $289,700.

Answer: A

Explanation: Stockholders' equity = $98,700 at January 1, 2019.

The increase in stockholders' equity = the increase in assets ($95,500) minus the decrease in liabilities (−$17,300) during 2019 = $95,500 + $17,300 = $112,800.

Ending stockholders' equity ($211,500) − the increase in stockholders' equity ($112,800) = beginning stockholders' equity = $98,700.

Difficulty: 3 Hard

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

60) How are creditor and investor claims reported on a balance sheet?

A) The claims of creditors are liabilities and those of investors are assets.

B) The claims of both creditors and investors are liabilities, but only the claims of investors are considered to be long-term.

C) The claims of creditors are reported as liabilities while the claims of investors are recorded as stockholders' equity.

D) The claims of creditors and investors are considered to be essentially equivalent.

Answer: C

Explanation: Liabilities and Stockholders' Equity are the sources of financing for the firm's economic resources. Creditors' claims are reported as liabilities while investors' claims are reported as stockholders' equity.

Difficulty: 2 Medium

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

61) In what order would the items on the balance sheet appear?

A) Assets, retained earnings, liabilities, and common stock.

B) Common stock, retained earnings, liabilities, and assets.

C) Assets, liabilities, common stock, and retained earnings.

D) Common stock, assets, liabilities, and retained earnings.

Answer: C

Explanation: The balance sheet order is assets, liabilities, and stockholders' equity. Stockholders' equity includes common stock and retained earnings.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

62) Which of the following would most likely increase retained earnings?

A) An increase in expenses.

B) An increase in revenues.

C) Declaring a cash dividend.

D) Issuing additional common stock.

Answer: B

Explanation: Net income increases retained earnings. Increased revenue, given a fixed expense amount, would increase net income. An increase in expenses and declaring a cash dividend both decrease retained earnings.

Difficulty: 1 Easy

Topic: Financial statements—Stockholders equity

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

63) A company's retained earnings increased $375,000 last year and its assets increased $973,000. The company declared a $79,000 cash dividend during the year. What was last year's net income?

A) $296,000.

B) $375,000.

C) $454,000.

D) $519,000.

Answer: C

Explanation: The $375,000 increase in retained earnings = Net income of $454,000 − Dividends of $79,000 or, alternatively, $375,000 + $79,000 = $454,000.

Difficulty: 2 Medium

Topic: Financial statements—Stockholders equity

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

64) Which of the following items is not reported as an expense on the income statement?

A) Interest expense.

B) Dividends paid.

C) Selling, general, and administrative expenses.

D) Cost of goods sold.

Answer: B

Explanation: Interest expense, selling, general and administrative expenses, and cost of goods sold are all reported as expenses on the income statement. Dividends paid is not an expense.

Difficulty: 2 Medium

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

65) Which of the following has primary responsibility to develop Generally Accepted Accounting Principles?

A) Financial Accounting Standards Board.

B) Company Executives.

C) Securities and Exchange Commission.

D) Public Company Accounting Oversight Board.

Answer: A

Explanation: The Securities and Exchange Commission has charged the Financial Accounting Standards Board with developing Generally Accepted Accounting Principles.

Difficulty: 1 Easy

Topic: Accounting communication process-GAAP

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

66) Which of the following has the legal authority to determine financial reporting in the United States?

A) Financial Accounting Standards Board.

B) American Accounting Association.

C) Securities and Exchange Commission.

D) Public Company Accounting Oversight Board.

Answer: C

Explanation: The Securities and Exchange Commission is the government agency that determines the financial statements that public companies must provide to stockholders.

Difficulty: 1 Easy

Topic: Accounting communication process-GAAP

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

67) Which of the following is **not** reported as a liability on a balance sheet?

A) Income taxes payable.

B) Common stock.

C) Accounts payable.

D) Dividends payable.

Answer: B

Explanation: Common stock is a component of stockholders' equity on the balance sheet.

Difficulty: 1 Easy

Topic: Financial statements—Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

68) Which of the following transactions increases both cash and net income?

A) Cash receipts from a bank loan.

B) Cash receipts from sale of common stock.

C) Cash receipts from customers for services provided.

D) Cash receipts from cost of goods sold.

Answer: C

Explanation: Net income is the result of revenues less cost of goods sold and other expenses. Cash receipts from customers increase revenue, which flows through to an increase in net income. Cash receipts also increase the cash account.

Difficulty: 2 Medium

Topic: Financial statements—Relationships

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

69) Which of the following is **not** an alternate title for the financial statement that reports revenues and expenses?

A) Income Statement.

B) Statement of Net Income.

C) Statement of Operations.

D) Statement of Income.

Answer: B

Explanation: Statement of Net Income is not among the alternative titles used for the financial statement that reports revenues and expenses.

Difficulty: 2 Medium

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

70) A calendar year reporting company preparing its annual financial statements should use the phrase "At December 31, 2020" in the heading of which financial statements?

A) On all of the required financial statements.

B) On the income statement only.

C) On the income statement and balance sheet, but not the statement of cash flows.

D) On the balance sheet only.

Answer: D

Explanation: The balance sheet is a snapshot of a company's assets, liabilities, and stockholders' equity at a specific point in time.

Difficulty: 1 Easy

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

71) Which of the following properly describes the impact on the financial statements when a company borrows $20,000 from a local bank?

A) Net income increases $20,000.

B) Assets decrease $20,000.

C) Stockholders' equity increases $20,000.

D) Liabilities increase $20,000.

Answer: D

Explanation: The amount borrowed needs to be repaid, and the local bank is a creditor; therefore, liabilities are increased by the amount of the loan.

Difficulty: 2 Medium

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

72) Which of the following would **not** be reported in the operating activities section of a cash flow statement?

A) Cash paid for dividends to stockholders.

B) Cash paid for interest expense.

C) Cash paid for employee wages.

D) Cash received from customers.

Answer: A

Explanation: Cash paid for dividends to stockholders is not a cash flow directly related to earning income; it is a financing activity and is not reported in the operating activities section of the cash flow statement.

Difficulty: 2 Medium

Topic: Financial statements—Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

73) Which of the following would be reported in the financing activities section of a cash flow statement?

A) Cash paid for dividends to stockholders.

B) Cash paid for interest expense.

C) Cash paid to acquire equipment.

D) Cash received from sale of investments.

Answer: A

Explanation: The financing activities section of the statement of cash flows reflects cash received and paid out as a result of financing the business. Cash paid for dividends to stockholders is part of this section because stockholders are a component of the financing of a business.

Difficulty: 2 Medium

Topic: Financial statements—Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

74) Which of the following would be reported in the investing activities section of a cash flow statement?

A) Cash received from customers.

B) Cash received from the issue of common stock.

C) Cash paid to repay a bank loan.

D) Cash paid to acquire common stock of another company.

Answer: D

Explanation: Cash flows from investing include cash flows related to the purchase and sale of a company's assets. Acquiring common stock of another company is considered an investment, which is an asset.

Difficulty: 2 Medium

Topic: Financial statements—Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

75) Which of the following statements is correct?

A) The payment of a cash dividend reduces net income.

B) Cash received from issuing common stock to stockholders is reported as a financing activity cash flow within the statement of cash flows.

C) Providing services to a customer on account does not impact net income.

D) The purchase of manufacturing equipment is reported within the statement of cash flows as a financing activity.

Answer: B

Explanation: Issuing common stock is a financing activity and the cash received as a result of this is reported in the financing section of the statement of cash flows.

Difficulty: 2 Medium

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

76) Husky Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled $89,300.

Cash borrowed from banks totaled $31,700.

Cash paid to employees for salaries totaled $32,100.

Cash received from selling Husky common stock to stockholders totaled $41,000.

Cash payments to banks for repayment of money borrowed totaled $7,500.

Cash paid to suppliers totaled $12,500.

Land costing $25,000 was sold for $25,000 cash.

Cash paid for dividends to stockholders totaled $3,300.

How much was Husky's cash flow from operating activities?

A) $47,600.

B) $44,700.

C) $41,400.

D) $37,200.

Answer: B

Explanation: $44,700 = Cash collected from customers ($89,300) − cash paid to employees for salaries ($32,100) − cash paid to suppliers ($12,500).

Difficulty: 3 Hard

Topic: Financial statements—Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

77) Husky Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled $89,300.

Cash borrowed from banks totaled $31,700.

Cash paid to employees for salaries totaled $32,100.

Cash received from selling Husky common stock to stockholders totaled $41,000.

Cash payments to banks for repayment of money borrowed totaled $7,500.

Cash paid to suppliers totaled $12,500.

Land costing $25,000 was sold for $25,000 cash.

Cash paid for dividends to stockholders totaled $3,300.

How much was Husky's cash flow from financing activities?

A) $72,700.

B) $59,000.

C) $65,200.

D) $61,900.

Answer: D

Explanation: $61,900 = Cash borrowed from banks ($31,700) plus cash received from selling Husky common stock to stockholders ($41,000) minus cash payments to banks for repayment of money borrowed ($7,500) minus cash paid for dividends to stockholders ($3,300).

Difficulty: 3 Hard

Topic: Financial statements—Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

78) Sparty Corporation has provided the following information for its most recent year of operation:

Revenues earned were $97,000, of which $9,000 were uncollected at the end of the year.

Operating expenses incurred were $39,000, of which $7,000 were unpaid at the end of the year.

Dividends declared were $11,000, of which $3,000 were unpaid at the end of the year.

Income tax expense is $17,400.

What is the amount of net income reported on Sparty's income statement?

A) $32,900.

B) $39,300.

C) $33,600.

D) $40,600.

Answer: D

Explanation: $40,600 = Revenues earned ($97,000) minus operating expenses ($39,000) minus income tax expense ($17,400).

Difficulty: 2 Medium

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

79) Which of the following statements is correct?

A) Revenues are reported on the income statement regardless of whether the customer has paid for the goods or services.

B) Expenses are reported on the income statement during the period they are paid for.

C) Net income includes a deduction for dividend payments made to stockholders.

D) Net income normally equals the net cash generated by operations.

Answer: A

Explanation: Accrual accounting requires revenues to be reported in the period of delivering goods or services, whether or not the customer has paid for the goods or services.

Difficulty: 2 Medium

Topic: Financial statements—Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

80) During the current year, Rock Company's cash balance increased from $79,000 to $91,300. Rock's net cash flow from operating activities was $37,300 and its net cash flow from financing activities was $11,100. How much was Rock's net cash flow from investing activities?

A) A net cash flow of $42,900.

B) A net cash flow of ($36,100).

C) A net cash flow of $60,700.

D) A net cash flow of ($60,700).

Answer: B

Explanation: The change in cash is ending balance $91,300 − beginning balance $79,000 = $12,300.

$12,300 = Net cash flow from operating activities ($37,300) +/− Net cash flow from investing activities (X) + Net cash flow from financing activities ($11,100).

$12,300 = $37,300 +/− X + $11,100.

Solve for X = Investing activities = −$36,100.

Difficulty: 2 Medium

Topic: Financial statements—Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

81) Which of the following statements is **false**?

A) A positive net income results in an increase in retained earnings.

B) The ending retained earnings balance from the retained earnings portion of the statement of stockholders' equity is reported on the balance sheet.

C) The change in the cash balance on the statement of cash flows added to the beginning cash balance equals the ending cash balance.

D) The dividends reported on the statement of stockholders' equity are also reported as dividend expense on the income statement.

Answer: D

Explanation: Dividends are not an expense and therefore are not reported on the income statement.

Difficulty: 2 Medium

Topic: Financial statements—Relationships

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

82) Which of the following is **not** a consequence to a company resulting from the issuance of their financial statements?

A) The effect on the selling price of their stock.

B) The providing of information to their competitors.

C) The effect of bonus payments to its employees.

D) The providing of information to their auditors.

Answer: D

Explanation: Providing information to their auditors is a step towards the issuance of a company's financial statements and not a consequence of issuing their financial statements.

Difficulty: 1 Easy

Topic: Accounting communication process-GAAP

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

83) Which of the following statements pertaining to the audit function is **incorrect**?

A) The primary responsibility for the information in the financial statements lies with the auditors.

B) The audit report describes the auditor's opinion of the fairness of the financial statements.

C) An audit ensures that the financial statements conform to generally accepted accounting principles.

D) The auditor is a person who is independent of the reporting company.

Answer: A

Explanation: The primary responsibility for the information in the financial statements lies with management.

Difficulty: 1 Easy

Topic: Accounting communication process—Accuracy; Employment in accounting—Supp B

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.; 01-Supplement B Employment in the Accounting Profession Today

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

84) The International Accounting Standards Board has worked to develop global accounting standards known as:

A) Generally accepted accounting principles.

B) Globally accepted financial standards.

C) International financial reporting standards.

D) Generally accepted international financial standards.

Answer: C

Explanation: Global convergence of accounting standards is being facilitated by the adoption of international financial reporting standards. These standards are developed by the International Accounting Standards Board.

Difficulty: 1 Easy

Topic: Accounting communication process—IFRS

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Diversity

Accessibility: Keyboard Navigation

85) An examination of the financial statements of a business to ensure that they conform to generally accepted accounting principles is called:

A) a certification.

B) an audit.

C) a verification.

D) a validation.

Answer: B

Explanation: The technical term for the examination of the financial statements to ensure that they represent what they claim to, and conform with generally accepted accounting principles, is an audit.

Difficulty: 1 Easy

Topic: Accounting communication process—Accuracy; Employment in accounting—Supp B

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.; 01-Supplement B Employment in the Accounting Profession Today

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

86) Which of the following best describes the purpose of an audit?

A) To prove the accuracy of an entity's financial statements.

B) To lend credibility to an entity's financial statements.

C) To audit every transaction that an entity entered into.

D) To establish that a corporation's stock is a sound investment.

Answer: B

Explanation: An audit is an independent review of an entity's financial statements. The result of an audit is an audit report that lends credibility to these financial statements.

Difficulty: 2 Medium

Topic: Accounting communication process—Accuracy; Employment in accounting—Supp B

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.; 01-Supplement B Employment in the Accounting Profession Today

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

87) Why does a company hire independent auditors?

A) To guarantee the accuracy of both annual and quarterly financial statements.

B) To verify the accounting accuracy of every transaction entered into.

C) To report on the fairness of financial statement presentation.

D) The auditors are responsible for the content of the financial statements.

Answer: C

Explanation: The role of auditors is to review the financial statements and issue an opinion on the fairness of these statements.

Difficulty: 1 Easy

Topic: Accounting communication process—Accuracy; Employment in accounting—Supp B

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.; 01-Supplement B Employment in the Accounting Profession Today

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

88) Why is the CPA's role in performing audits important to our economic system?

A) The auditors provide direct financial advice to potential investors.

B) The auditors have the primary responsibility for the information contained in financial statements.

C) The auditors issue reports on the accuracy of each financial transaction.

D) The audit of financial statements helps investors and others to know that they can rely on the information presented in the financial statements.

Answer: D

Explanation: The CPA conducting the audit, and issuing the report, is independent of the reporting entity and offers credibility for the users of financial statements to rely on these statements.

Difficulty: 2 Medium

Topic: Accounting communication process—Accuracy; Employment in accounting—Supp B

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.; 01-Supplement B Employment in the Accounting Profession Today

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

89) Which of the following is **not** one of the three steps taken by a corporation to assure the accuracy of its records?

A) Implementing a system of controls over the company's records and assets.

B) Hiring an independent auditor to report on the fairness of the financial statements.

C) Hiring a financial analyst to ensure the actual results of operations are similar to planned results.

D) Forming a committee made up of board of directors' members to oversee the integrity of the corporation's system of controls and the hiring of the independent auditors.

Answer: C

Explanation: The three steps to ensure the accuracy of records include implementing a system of controls, hiring external auditors, and having a board of directors with an audit committee. A financial analyst does not provide services that help a corporation assure the accuracy of its records.

Difficulty: 2 Medium

Topic: Accounting communication process-Accuracy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

90) Which of the following groups has primary responsibility for the information contained in the financial statements?

A) The company's management.

B) The company's auditors.

C) The company's investors.

D) SEC.

Answer: A

Explanation: The primary responsibility for the information in the financial statements lies with management.

Difficulty: 2 Medium

Topic: Accounting communication process-Accuracy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

91) Since 2002, there has been substantial movement toward the adoption of International Financial Reporting Standards (IFRS) issued by the:

A) Financial Accounting Standards Board.

B) Securities and Exchange Commission.

C) International Accounting Standards Board.

D) American Institute of Certified Public Accountants.

Answer: C

Explanation: The International Accounting Standards Board issues International Financial Reporting Standards (IFRS).

Difficulty: 1 Easy

Topic: Accounting communication process—IFRS; GAAP

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Diversity

Accessibility: Keyboard Navigation

92) Which of the following is **not** a formal requirement to become a licensed certified public accountant (CPA)?

A) A college education.

B) Professional experience.

C) Membership in the American Institute of Certified Public Accountants (AICPA).

D) A professional examination.

Answer: C

Explanation: The American Institute of Certified Public Accountants requires all of its members to adhere to a professional code of ethics and professional auditing standards. A CPA may be a member but membership is not required in order to become a CPA. To become a licensed CPA, one needs a college degree, successful completion of the CPA exam, and professional experience, as regulated by each licensing jurisdiction.

Difficulty: 1 Easy

Topic: Employment in accounting—Supp B

Learning Objective: 01-Supplement B Employment in the Accounting Profession Today

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

93) Which of the following is a disadvantage of a corporation when compared to a partnership?

A) The stockholders have limited liability.

B) The corporation is treated as a separate legal entity from the stockholders.

C) The corporation and its stockholders are subject to double taxation.

D) The corporation must account for the transactions of the business as separate and apart from those of the owners.

Answer: C

Explanation: A corporation's income is subject to double taxation; it is taxed when it is earned and again when it is distributed to stockholders as dividends.

Difficulty: 1 Easy

Topic: Types of business entities—Supp A

Learning Objective: 01-Supplement A Types of Business Entities

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

94) Which of the following statements is true about a sole proprietorship?

A) The owner and the business are separate legal entities but not separate accounting entities.

B) The owner and the business are separate accounting entities but not separate legal entities.

C) The owner and the business are separate legal entities and separate accounting entities.

D) Most large businesses in this country are organized as sole proprietorships.

Answer: B

Explanation: A sole proprietorship is an unincorporated business owned by one person. Legally, the business and the owner are not separate entities; however, the owner and business are separate accounting entities.

Difficulty: 1 Easy

Topic: Types of business entities—Supp A

Learning Objective: 01-Supplement A Types of Business Entities

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

95) For a business organized as a general partnership, which statement is true?

A) The owners and the business are separate legal entities.

B) Each partner is potentially responsible for the debts of the business.

C) Formation of a partnership requires getting a charter from the state of incorporation.

D) A partnership is not considered to be a separate accounting entity.

Answer: B

Explanation: Legally, each partner in a general partnership is responsible for the debts of the business. In this case, each general partner has unlimited liability.

Difficulty: 1 Easy

Topic: Types of business entities—Supp A

Learning Objective: 01-Supplement A Types of Business Entities

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

96) Which of the following would **not** be reported on a statement of stockholders' equity?

A) Dividend payments.

B) Net income.

C) Beginning retained earnings.

D) Ending retained earnings.

Answer: A

Explanation: The statement of stockholders' equity reports dividends *declared*. The statement of cash flows reports dividend payments.

Difficulty: 2 Medium

Topic: Financial statements—Stockholders equity

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

97) Which of the following statements is **true**?

A) Expenses reported on the income statement are equal to the cash paid for operating activities on the statement of cash flows.

B) The statement of cash flows has a relationship with the balance sheet.

C) Dividends paid are reported on the statement of cash flows as an operating cash flow and on the income statement as a financing cash flow.

D) Net income is reported on the income statement but not on the statement of stockholders' equity.

Answer: B

Explanation: The change in cash on the statement of cash flows is added to the beginning balance of cash on the balance sheet. The result will equal the end-of-year balance in cash.

Difficulty: 2 Medium

Topic: Financial statements—Relationships

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

98) The declaration of a $5,000 dividend by JLH Company would be reported on which of JLH's financial statements?

A) The income statement only.

B) The statement of stockholders' equity.

C) The balance sheet only.

D) The statement of cash flows.

Answer: B

Explanation: Dividends declared are reported on the statement of stockholders' equity, as a component of retained earnings.

Difficulty: 1 Easy

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

99) Which of the following transactions affects both retained earnings and net income?

A) The payment of a cash dividend.

B) The recording of revenue for services provided.

C) The issuance of stock in exchange for cash.

D) The borrowing of money from a bank.

Answer: B

Explanation: Recording of revenue increases net income, which in turn increases retained earnings.

Difficulty: 2 Medium

Topic: Financial statements—Relationships

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

100) Which of the following transactions affects both the income statement and the statement of cash flows?

A) Selling stock in exchange for cash.

B) Declaring and paying a cash dividend.

C) Selling a product to a customer which creates an account receivable.

D) Paying employee wages as they are earned.

Answer: D

Explanation: Paying an employee wages as they are earned results in an expense being recognized (income statement) and a cash outflow (statement of cash flows).

Difficulty: 2 Medium

Topic: Financial statements—Relationships

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

101) With regard to relationships among financial statements, which of the following is true?

A) The results of the statement of stockholders' equity affect the income statement.

B) The income statement affects the results of the statement of stockholders' equity.

C) The statement of cash flows affects the income statement.

D) The results of the statement of cash flows affect the statement of stockholders' equity.

Answer: B

Explanation: The statement of stockholders' equity explains changes in stockholders' equity accounts, including the change in the retained earnings balance caused by net income.

Difficulty: 3 Hard

Topic: Financial statements—Relationships

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

102) Which of the following would **not** be found within the investing activities section of the statement of cash flows?

A) Cash paid to purchase a building for manufacturing facilities.

B) Cash received from the sale of common stock to stockholders.

C) Cash received from the sale of equipment used in manufacturing a product.

D) Cash paid to purchase land.

Answer: B

Explanation: Cash received from the sale of common stock is a financing activity. Investing activities involve the purchase of the company's productive assets.

Difficulty: 2 Medium

Topic: Financial statements—Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

103) Which of the following is primarily responsible for the information provided in the financial statements?

A) Chief Executive Officer.

B) External Auditors.

C) Board of Directors.

D) Internal Accounting Staff.

Answer: A

Explanation: Primary responsibility for the information in the financial statements lies with management. Management is represented by the highest officer of the company and the highest financial officer.

Difficulty: 1 Easy

Topic: Accounting communication process-Accuracy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

104) Which of the following does **not** represent a professional accounting certification?

A) Certified Management Accountant.

B) Certified Public Accountant.

C) Certified Internal Auditor.

D) Certified Tax Accountant.

Answer: D

Explanation: There is no professionally recognized accounting certification known as a Certified Tax Accountant.

Difficulty: 1 Easy

Topic: Employment in accounting—Supp B

Learning Objective: 01-Supplement B Employment in the Accounting Profession Today

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

105) Determine the missing amounts for each independent case below. Assume the amounts shown are at the end of the company's first year of operation.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Company Name** | **Total Revenue** | **Total Assets** | **Total Expenses** | **Total Liabilities** | **Net Income (Loss)** | **Stockholders' Equity** |
| Randolph | $600,000` | $450,000 | $350,000 | $130,000 |  |  |
| Newman | $105,000 |  |  | $80,000 | $10,000 | $75,000 |
| Wiseman |  | $190,000 | $70,000 |  | ($30,000) | $100,000 |
| Martin | $180,000 | $215,000 | $115,000 | $75,000 |  |  |
| VanTassel |  |  | $55,000 | $75,000 | $19,000 | $79,000 |

Answer:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Company**  **Name** | **Total**  **Revenue** | **Total**  **Assets** | **Total**  **Expenses** | **Total**  **Liabilities** | **Net Income**  **(Loss)** | **Stockholders'**  **Equity** |
| Randolph |  |  |  |  | $250,000 | $320,000 |
| Newman |  | $155,000 | $95,000 |  |  |  |
| Wiseman | $40,000 |  |  | $90,000 |  |  |
| Martin |  |  |  |  | $65,000 | $140,000 |
| VanTassel | $74,000 | $154,000 |  |  |  |  |

Difficulty: 2 Medium

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

106) Gail's Greenhouse, Inc., a small retail store that sells houseplants, started business on January 1, 2019. At the end of January 2019, the following information was available:

|  |  |
| --- | --- |
| Sales of plants for cash | $75,000 |
| Sales of plants for credit (not yet collected) | 15,000 |
| Cost of plants which were sold and paid for during January | 45,000 |

Expenses during January incurred, and paid for, during January unless otherwise noted:

|  |  |
| --- | --- |
| Salaries | $5,000 |
| Telephone | 250 |
| Office supplies (all used) | 150 |
| Electricity | 300 |
| Rent on the store for January, 2019 (will not be paid until February, 2019) | 1,000 |

A. Using the above information, prepare the income statement for Gail's Greenhouse for the month ended January 31, 2019.

B. What is the amount of cash flows provided by operating activities to be presented on the statement of cash flows?

Answer:

A.

|  |  |  |
| --- | --- | --- |
| **Gail's Greenhouse, Inc.**  **Income Statement**  **For the Month Ended January 31, 2019** | | |
| Revenue ($75,000 + $15,000) |  | $90,000 |
| **Expenses:** |  |  |
| Cost of goods sold | $45,000 |  |
| Salaries | 5,000 |  |
| Telephone | 250 |  |
| Office supplies | 150 |  |
| Electricity | 300 |  |
| Rent | 1,000 |  |
| Total expenses |  | 51,700 |
| Net income |  | $38,300 |

B. $38,300 - 15,000 + 1,000 = $24,300; or, alternatively, $75,000 - 45,000 - 5,000 - 250 - 150 - 300 = $24,300

Difficulty: 3 Hard

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

107) Indicate on which financial statement you would expect to find each of the following. If an item can be found on more than one statement, list each statement.

|  |  |
| --- | --- |
| Example: Cash | Balance Sheet and Statement of Cash Flows |
| Notes payable | \_\_\_\_\_\_\_\_ |
| Wages expense | \_\_\_\_\_\_\_\_ |
| Cost of goods sold | \_\_\_\_\_\_\_\_ |
| Sales revenue | \_\_\_\_\_\_\_\_ |
| Inventory | \_\_\_\_\_\_\_\_ |
| Income tax expense | \_\_\_\_\_\_\_\_ |
| Dividends declared | \_\_\_\_\_\_\_\_ |
| Retained earnings | \_\_\_\_\_\_\_\_ |
| Accounts payable | \_\_\_\_\_\_\_\_ |
| Equipment | \_\_\_\_\_\_\_\_ |

Answer:

|  |  |
| --- | --- |
| Cash | Balance Sheet and Statement of Cash Flows |
| Notes payable | Balance Sheet |
| Wages expense | Income Statement |
| Cost of goods sold | Income Statement |
| Sales revenue | Income Statement |
| Inventory | Balance Sheet |
| Income tax expense | Income Statement |
| Dividends declared | Statement of Stockholders' Equity |
| Retained earnings | Balance sheet and Statement of Stockholders' Equity |
| Accounts payable | Balance Sheet |
| Equipment | Balance Sheet |

Difficulty: 1 Easy

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

108) For each of the following items that appear on the balance sheet, identify each as an asset (A), liability (L), or element of stockholders' equity (SE). For any item that would not appear on the balance sheet, write the letter, N.

|  |  |
| --- | --- |
| Retained earnings | \_\_\_\_\_\_\_ |
| Accounts payable | \_\_\_\_\_\_\_ |
| Selling expense | \_\_\_\_\_\_\_ |
| Common stock | \_\_\_\_\_\_\_ |
| Accounts receivable | \_\_\_\_\_\_\_ |
| Income tax expense | \_\_\_\_\_\_\_ |
| Dividends | \_\_\_\_\_\_\_ |
| Property and equipment | \_\_\_\_\_\_\_ |

Answer:

|  |  |
| --- | --- |
| Retained earnings | SE |
| Accounts payable | L |
| Selling expense | N |
| Common stock | SE |
| Accounts receivable | A |
| Income tax expense | N |
| Dividends | N |
| Property and equipment | A |

Difficulty: 1 Easy

Topic: Financial statements-Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

109) Rose Corporation began operations on January 2, 2019. During 2019, Rose made cash and credit sales totaling $500,000 and collected $420,000 in cash from its customers. Rose purchased inventory costing $250,000, paid $15,000 for dividends and the cost of goods sold was $210,000. Also, the corporation incurred the following expenses during 2019:

|  |  |
| --- | --- |
| Salary expense | $80,000 |
| Interest expense | 5,000 |
| Insurance expense | 4,000 |
| Supplies expense | 6,000 |
| Income tax expense | 34,000 |

1. Prepare an income statement showing revenues, expenses, income before income taxes, income tax expense, and net income for the year ended December 31, 2019.

2. Based on the above information, what is the amount of accounts receivable on the balance sheet prepared as of December 31, 2019?

3. Based on the above information, what is the amount of retained earnings on the balance sheet prepared as of December 31, 2019?

Answer:

1.

|  |  |  |
| --- | --- | --- |
| **Rose Corporation**  **Income Statement**  **For the Year Ended December 31, 2019** | | |
| **Revenues:** |  |  |
| **Sales revenue** | **$500,000** |  |
| Total revenues |  | $500,000 |
| **Expenses:** |  |  |
| Cost of goods sold | 210,000 |  |
| Salary expense | 80,000 |  |
| Interest expense | 5,000 |  |
| Insurance expense | 4,000 |  |
| Supplies expense | 6,000 |  |
| Total expenses |  | 305,000 |
| Income before income taxes |  | $195,000 |
| Income tax expense |  | 34,000 |
| Net income |  | $161,000 |

2. $500,000 - 420,000 = $80,000 Accounts receivable at the end of the year.

3. $0 beginning balance + $161,000 net income - $15,000 dividends = $146,000 Retained earnings at the end of the year.

Difficulty: 3 Hard

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

110) Cosmos Corporation was established on December 31, 2018, by a group of investors who invested a total of $1,000,000 for shares of the new corporation's common stock. During the month of January 2019, Cosmos provided services to customers for which the total revenue was $100,000. Of this amount, $10,000 had not been collected by the end of January. Cosmos recorded salary expense of $20,000, of which 90% had been paid by the end of the month; rent expense of $5,000, which had been paid on January 1; and other expenses of $12,000, which had been paid by check. On January 31, 2019, Cosmos purchased a van by paying cash of $30,000. There were no other transactions that affected cash.

1. In which section of the statement of cash flows would the amount of cash paid for rent be reported?

2. In which section of the statement of cash flows would the amount of cash paid for the van purchase be reported?

3. By how much did Cosmos's cash increase or decrease during January 2019?

4. What was Cosmos's net income or net loss (after income tax expense) for the month of January 2019? The income tax expense was $18,900.

5. Explain why the net increase or decrease in cash for a business generally will be different than the net income, or net loss, for the same period.

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| 1. | Cash used in operating activities. |  |  |
| 2. | Cash used in investing activities. |  |  |
| 3. | Amount collected from customers |  | $90,000 |
|  | Payment of salaries |  | (18,000) |
|  | Payment of rent |  | (5,000) |
|  | Payment of other expenses |  | (12,000) |
|  | Payment for van |  | (30,000) |
|  | Increase in cash |  | $25,000 |
| 4. | Revenues |  | $100,000 |
|  | **Less expenses:** |  |  |
|  | Salaries expense | $20,000 |  |
|  | Rent expense | 5,000 |  |
|  | Other expenses | 12,000 |  |
|  | Total expenses |  | 37,000 |
|  | Income before income taxes |  | $63,000 |
|  | Income tax expense |  | 18,900 |
|  | Net income |  | $44,100 |
| 5. | Net income or net loss for a period is equal to revenues minus expenses; it is not equal to the change in cash. Revenues are reported on the income statement when earned (or when the goods or services are sold to the customer), which may be before or after the period in which cash is received from the customer. Expenses are reported on the income statement when incurred (or in the period they are used to earn revenues). Again, the payment of cash may occur before or after the period when an expense appears on the income statement. | | |

Difficulty: 3 Hard

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Communication, Knowledge Application

Accessibility: Keyboard Navigation

111) Parker Pool Supply, Inc. reported the following items for the year ended December 31, 2019:

|  |  |
| --- | --- |
| Wages and salary expense | $527,000 |
| Cost of goods sold | 1,124,000 |
| Rent expense | 395,000 |
| Sales revenue | 2,564,000 |
| Interest expense | 30,000 |
| Income tax expense | 121,000 |
| Accounts receivable | 27,000 |

Prepare an income statement for the year ended December 31, 2019.

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| **Parker Pool Supply, Inc.**  **Income Statement**  **For the Year Ended December 31, 2019** | | | |
| **Revenue:** |  |  |
| **Sales revenue** | **$2,564,000** |  |
| Total revenues |  | $2,564,000 |
| **Expenses:** |  |  |
| Cost of goods sold | 1,124,000 |  |
| Wages and salary expense | 527,000 |  |
| Rent expense | 395,000 |  |
| Interest expense | 30,000 |  |
| Total expenses |  | 2,076,000 |
| Pretax income |  | 488,000 |
| Income tax expense |  | 121,000 |
| Net income |  | $367,000 |

Accounts receivable of $27,000 would appear on the balance sheet, not the income statement.

Difficulty: 2 Medium

Topic: Financial statements-Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

112) National Shops, Inc. reported the following amounts on its balance sheet as of December 31, 2019:

|  |  |
| --- | --- |
| Inventory | $325,000 |
| Notes payable | 100,000 |
| Cash | 150,000 |
| Common stock | 750,000 |
| Net property, plant and equipment | 600,000 |
| Accounts receivable | 30,000 |
| Accounts payable | 45,000 |
| Retained earnings | ? |

Prepare an income statement for the year ended December 31, 2019.

Answer:

1. Total assets = $1,105,000 = Inventory ($325,000) + Cash ($150,000) + Net property, plant and equipment ($600,000) + Accounts receivable ($30,000).

2. Liabilities include Accounts payable and Notes payable.

3. Assets = Liabilities + Stockholders' equity = Assets ($1,105,000) = Liabilities $145,000 (Notes payable + Accounts payable) + Stockholders' equity= $960,000; Stockholders' equity ($960,000) = Common stock ($750,000) + Retained earnings.

Solve for Retained earnings = $210,000.

4.

|  |  |
| --- | --- |
| **National Shops, Inc.**  **Balance Sheet**  **At December 31, 2019** | |
| **Assets** |  |
| **Cash** | **$150,000** |
| Accounts receivable | 30,000 |
| Inventory | 325,000 |
| Property, plant, and equipment | 600,000 |
| Total assets | $1,105,000 |
| **Liabilities** |  |
| Accounts payable | $45,000 |
| Notes payable | 100,000 |
| Total liabilities | $145,000 |
| Stockholders' equity |  |
| Common stock | $750,000 |
| Retained earnings | 210,000 |
| Total stockholders' equity | 960,000 |
| Total liabilities and stockholders' equity | $1,105,000 |

5. The balance sheet of National Shops shows that the company is capable of paying its short-term liabilities. There is cash of $150,000, more than enough to settle the accounts payable of $45,000. I would recommend that my company grant credit to National Shops.

Difficulty: 3 Hard

Topic: Financial statements-Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Analyze; Apply

AACSB: Communication, Knowledge Application

Accessibility: Keyboard Navigation

113) During 2019, Winterset Company performed services for which customers paid or promised to pay a total of $587,000. Of this amount, $552,000 had been collected by year-end. Winterset paid $340,000 in cash for employee wages and owed the employees $15,000 at the end of the year for work that had been done but had not paid for. Winterset paid interest expense of $3,000 and $195,000 for other service expenses. The income tax rate was 35%, and income taxes had not yet been paid at the end of the year. Winterset declared and paid dividends of $20,000. There were no other transactions that affected cash.

1. What was the amount of the increase or decrease in cash during the year?

2. Prepare an income statement for Winterset for the year 2019.

3. At the beginning of 2019, Winterset's retained earnings were $90,000. Prepare a statement of stockholders' equity with only a column for retained earnings.

Answer:

1.

|  |  |
| --- | --- |
| **Amount of increase or decrease in cash:** | |
| $552,000 | Collected from customers |
| (340,000) | Paid to employees |
| (3,000) | Interest expense |
| (195,000) | Other service expense |
| (20,000) | Dividends |
| ($6,000) | Decrease in cash |

2.

|  |  |  |
| --- | --- | --- |
| **Winterset Company**  **Income Statement**  **For the Year Ended December 31, 2019** | | |
| **Revenues:** |  |  |
| **Service revenue** | **$587,000** |  |
| Total revenues |  | $587,000 |
| **Expenses:** |  |  |
| Wages expense | 355,000 |  |
| Service expense | 195,000 |  |
| Interest expense | 3,000 |  |
| Total expenses |  | 553,000 |
| Pretax income |  | 34,000 |
| Income tax expense |  | 11,900 |
| Net income |  | $22,100 |

3.

|  |  |
| --- | --- |
| **Winterset Company**  **Statement of Stockholders' Equity**  **For the Year Ended December 31, 2019** | |
| Retained earnings, January 1, 2019 | $90,000 |
| Net income | 22,100 |
| Dividends | (20,000) |
| Retained earnings, December 31, 2019 | $92,100 |

Difficulty: 3 Hard

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

114) Alfred Company manufactures men's clothing. During 2019, the company reported the following items that affected cash. Indicate whether each of these items is a cash flow from operating activities (O), investing activities (I), or financing activities (F).

|  |  |
| --- | --- |
| Purchased equipment by paying cash: | \_\_\_ |
| Collected cash on account from customers: | \_\_\_ |
| Paid dividends to stockholders: | \_\_\_ |
| Paid cash for supplies: | \_\_\_ |
| Paid suppliers for fabric: | \_\_\_ |
| Borrowed money from bank on a note payable: | \_\_\_ |
| Paid interest to bank on the note payable: | \_\_\_ |
| Paid wages to employees: | \_\_\_ |
| Sold shares of common stock to new stockholders: | \_\_\_ |

Answer:

|  |  |
| --- | --- |
| Purchased equipment by paying cash: | I |
| Collected cash on account from customers: | O |
| Paid dividends to stockholders: | F |
| Paid cash for supplies: | O |
| Paid suppliers for fabric: | O |
| Borrowed money from bank on a note payable: | F |
| Paid interest to bank on the note payable: | O |
| Paid wages to employees: | O |
| Sold shares of common stock to new stockholders: | F |

Difficulty: 2 Medium

Topic: Financial statements-Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

115) Fulton Company was established at the beginning of 2019 when several investors paid a total of $200,000 to purchase Fulton common stock. No additional investments in common stock were made during the year. By December 31, 2019, Fulton had cash on hand of $45,000, office equipment of $40,000, inventory of $156,000, and accounts payable of $10,000. Sales for the year were $812,000. Of this amount, customers still owed $20,000. Fulton declared and paid dividends of $25,000 to its stockholders during 2019.

1. Based on the information above, prepare a balance sheet for Fulton Company at December 31, 2019. In the process of preparing the balance sheet, you must calculate the ending balance in retained earnings.

2. Prepare a statement of stockholders' equity for the year ended December 31, 2019.

3. What was the amount of Fulton's net income for 2019?

4. Was Fulton successful during its first year in operation? Explain your answer.

Answer:

1.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Fulton Company**  **Balance Sheet**  **At December 31, 2019** | | | | | | |
| **Assets** |  | |  | |
| Cash |  | | $45,000 | |
| Accounts receivable | |  | | 20,000 | |
| Inventories | |  | | 156,000 | |
| Office equipment (net) | |  | | 40,000 | |
| Total assets | |  | | $261,000 | |
| **Liabilities** | |  | |  | |
| Accounts payable | |  | | $10,000 | |
| Stockholders' equity | |  | |  | |
| Common stock | | $200,000 | |  | |
| Retained earnings | | 51,000 | |  | |
| Total stockholders' equity | |  | | 251,000 | |
| Total liabilities and stockholders' equity | |  | | $261,000 | |

2.

|  |  |  |
| --- | --- | --- |
| **Fulton Company**  **Statement of Stockholders' Equity**  **For the Year Ended December 31, 2019** | | |
|  | **Common Stock** | **Retained Earnings** |
| Balance, January 1, 2019 | $-0- | $-0- |
| Issue common stock | 200,000 |  |
| Net income |  | 76,000\* |
| Dividends to stockholders |  | (25,000) |
| Balance, December 31, 2019 | $200,000 | $51,000 |

3. $76,000 (see statement of stockholders' equity above)

4. Yes, Fulton's first year was successful. The company earned net income whereas many new companies have losses during early years of operations. Also, Fulton was able to pay dividends to its stockholders. At the end of the first year, the company has just $10,000 in liabilities. It appears to be in sound financial condition.

Difficulty: 3 Hard

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Analyze; Apply

AACSB: Analytical Thinking, Communication, Knowledge Application

Accessibility: Keyboard Navigation

116) For Glad Rags Shops, the following information is available for the year ended December 31, 2019:

|  |  |
| --- | --- |
| Sales revenue | $4,200,000 |
| Cost of goods sold | 2,650,000 |
| Salaries expense | 500,000 |
| Rent expense | 300,000 |
| Administrative expense | 250,000 |

Dividends declared $10,000

The income tax expense is $150,000.

Prepare an income statement for Glad Rags Shops.

Answer:

|  |  |  |
| --- | --- | --- |
| **Glad Rags Shops**  **Income Statement**  **For the Year Ended December 31, 2019** | | |
| **Revenue:** |  |  |
| Sales revenue | $4,200,000 |  |
| Total revenues |  | $4,200,000 |
| **Expenses:** |  |  |
| Cost of goods sold | 2,650,000 |  |
| Salaries expense | 500,000 |  |
| Rent expense | 300,000 |  |
| Administrative expense | 250,000 |  |
| Total expenses |  | 3,700,000 |
| Income before income taxes |  | 500,000 |
| Less income tax expense |  | 150,000 |
| Net income |  | $350,000 |

Difficulty: 2 Medium

Topic: Financial statements-Income statement

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

117) Baseline Corporation was formed two years ago to manufacture fitness equipment. It has been profitable and is growing rapidly. It currently has 150 stockholders and 90 employees; most of the employees own at least a few shares of Baseline's common stock. The company has received financing from two banks. It will sell additional shares of common stock within the next three months and will also seek additional loans and hire new employees to support its continued growth.

1. Explain who relies on the information in financial statements prepared by Baseline Corporation.

2. Why is compliance with generally accepted accounting principles and accuracy in accounting important for Baseline?

Answer:

1. Various external decision makers rely on the financial statements of a corporation. For Baseline, these decision makers include the bankers who have loaned money to the company. These creditors would monitor the performance of Baseline to estimate the likelihood that Baseline will be able to repay existing loans when they come due, and to decide whether to make additional loans to Baseline in the future. Current stockholders would want to review Baseline's financial statements to decide whether they wanted to continue to own Baseline's stock. Potential stockholders and creditors would use the information to decide whether they wanted to purchase Baseline's common stock or loan money to the company in the future. Supply chain managers analyze the financial statements to determine whether suppliers have resources to meet demand and to invest in future developments that may be needed by Baseline Corporation. Baseline anticipates hiring additional workers in the near future; potential employees might use information in the financial statements to evaluate the company as an employer.

2. Compliance with generally accepted accounting principles and accuracy in accounting are important to Baseline because they are important to the people in part (1) above who rely on the information in Baseline's financial statements. To maintain the credibility of its financial statements, Baseline must comply with GAAP in applying the content and measurement rules for financial statements and must ensure the accuracy of its accounting records in doing so.

Difficulty: 2 Medium

Topic: Accounting system-Information users

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Understand

AACSB: Communication

Accessibility: Keyboard Navigation

118) A new accountant who prepared the financial statements for Saltech Company at the end of its first year of operations made several errors. For each of the following items, indicate whether the income statement and balance sheet are affected by the error, and also the amount by which the respective financial statement is affected. (For example, an error might cause revenues and net income on the income statement and retained earnings and accounts receivable and assets on the balance sheet to be overstated by x dollars). Ignore the effects of income taxes.

Items to determine which financial statement is affected, the error amount, and whether the account is overstated or understated:

a. The company had sales for cash of $3,000,000. It also had sales on account of $1,800,000 that had been collected by the end of the year, and sales on account of $200,000 that are expected to be collected early the following year. The accountant reported total sales revenue of $4,800,000.

b. The company had total inventories of $600,000 at the end of the year. Of this amount, inventory reported at $30,000 was obsolete and will have to be scrapped. The balance sheet prepared by the accountant showed total inventories of $600,000.

c. The company has a bank loan for which interest expense during the year of $10,000 will be paid early in January of the next year. The accountant recorded neither the interest expense nor the interest payable.

d. An insurance policy was listed as an asset of $6,000 at the beginning of the year. The entire amount of the policy was for the current year and the policy has expired. The accountant took no action to recognize the expiration of the policy.

Answer:

a. On the income statement, revenues and net income are understated by $200,000. On the balance sheet, accounts receivable and retained earnings are understated by $200,000.

b. On the balance sheet, inventory and retained earnings are overstated by $30,000. On the income statement, expenses are understated and the net income is overstated by $30,000.

c. On the income statement, expenses are understated and net income is overstated by $10,000. On the balance sheet, interest payable is understated and retained earnings are overstated by $10,000.

d. On the balance sheet, prepaid insurance and retained earnings are overstated by $6,000. On the income statement, expenses are understated and net income is overstated by $6,000.

Difficulty: 3 Hard

Topic: Distinguish different financial statements

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Analyze

AACSB: Analytical Thinking, Communication

Accessibility: Keyboard Navigation

119) Larson Company ends its recent year of operations with $3,500,000 in retained earnings. During the year Larson's net income exceeded its dividend declarations by $200,000. Larson's dividend declarations were $25,000 greater than the dividend payments.

How much was Larson Company's beginning retained earnings?

Answer: Beginning retained earnings = $3,300,000 = Ending retained earnings ($3,500,000) minus the change in retained earnings during the year ($200,000).

The change in retained earnings during the year = Net income minus dividends declared, not dividends paid.

Net income minus dividends declared is provided as the amount of $200,000.

Difficulty: 3 Hard

Topic: Financial statements-Stockholders equity

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

120) As of January 1, 2019, a corporation had assets of $340,000 and liabilities of $120,000. During 2019, assets increased $45,000 and liabilities increased $15,000.

Answer: Assets at December 31, 2019 = $385,000 = Beginning assets ($340,000) plus increase in assets during 2019 ($45,000).

Liabilities at December 31, 2019 = $135,000 = Beginning liabilities ($120,000) plus increase in liabilities during 2019 ($15,000).

At December 31, 2019:

Assets ($385,000) = Liabilities ($135,000) + Stockholders' equity.

Solve for Stockholders' equity = $250,000.

Calculate stockholders' equity at December 31, 2019.

Difficulty: 2 Medium

Topic: Financial statements-Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

121) Laker Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled $99,300.

Cash borrowed from banks totaled $42,700.

Cash paid to employees totaled $23,300.

Cash paid for rent totaled $3,100.

Cash received from selling an investment in Husky stock totaled $73,000.

Cash payments to banks for repayment of money borrowed totaled $9,700.

Cash paid for operating expenses totaled $11,200.

Land costing $75,000 was sold for $75,000 cash.

Cash paid for dividend payments to stockholders totaled $7,700.

Calculate Laker's net cash flow from financing activities.

Answer: Net cash flow from financing activities = $25,300 = Cash borrowed from banks ($42,700) minus cash payments to banks for repayment of money borrowed ($9,700) minus cash paid for dividend payments to stockholders ($7,700).

Difficulty: 2 Medium

Topic: Financial statements-Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

122) Laker Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled $99,300.

Cash borrowed from banks totaled $42,700.

Cash paid to employees totaled $23,300.

Cash paid for rent totaled $3,100.

Cash received from selling an investment in Husky stock totaled $73,000.

Cash payments to banks for repayment of money borrowed totaled $9,700.

Cash paid for operating expenses totaled $11,200.

Land costing $75,000 was sold for $75,000 cash.

Cash paid for dividend payments to stockholders totaled $7,700.

Calculate Laker's net cash flow from investing activities.

Answer: Net cash flow from investing activities = $148,000 = Cash received from selling an investment in Husky stock ($73,000) plus cash received from selling land ($75,000).

Difficulty: 2 Medium

Topic: Financial statements-Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

123) Laker Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled $99,300.

Cash borrowed from banks totaled $42,700.

Cash paid to employees totaled $23,300.

Cash paid for rent totaled $3,100.

Cash received from selling an investment in Husky stock totaled $73,000.

Cash payments to banks for repayment of money borrowed totaled $9,700.

Cash paid for operating expenses totaled $11,200.

Land costing $75,000 was sold for $75,000 cash.

Cash paid for dividend payments to stockholders totaled $7,700.

Calculate Laker's net cash flow from operating activities.

Answer: Net cash flow from operating activities = $61,700 = Cash collected from customers ($99,300) minus cash paid to employees ($23,300) minus cash paid for rent ($3,100) minus cash paid for operating expenses ($11,200).

Difficulty: 2 Medium

Topic: Financial statements-Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

124) During 2019, Rock Company's cash balance increased from $57,000 to $94,300. Rock's net cash flow from operating activities was $26,900 and its net cash flow from financing activities was $13,700.

Calculate Rock's net cash flow from investing activities.

Answer: The change in cash = $37,300 = the ending balance of cash ($94,300) minus the beginning balance of cash ($57,000).

$37,300 change in cash = Net cash flow from operating activities ($26,900) +/- Net cash flow from investing activities (X) + Net cash flow from financing activities ($13,700).

$37,300 = $26,900 +/- X + $13,700.

X = Investing activities = ($3,300) cash used in investing activities.

Difficulty: 2 Medium

Topic: Financial statements-Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

125) Moss Company has provided the following data:

2019 revenues were $87,500.

2019 expenses were $43,900.

Dividends declared and paid by Moss during 2019 totaled $15,700.

Total assets on December 31, 2019 were $227,000.

Total stockholders' equity on December 31, 2019 was $133,000.

Common stock on December 31, 2019 was $93,000.

Calculate the beginning retained earnings balance.

Answer: Stockholders' equity ($133,000) = Common stock ($93,000) + Ending retained earnings (X).

Solve for ending retained earnings = $40,000.

Beginning retained earnings = $12,100 = Ending retained earnings ($40,000) - Net income (Revenues $87,500 - Expenses $43,900) + Dividends ($15,700).

Difficulty: 2 Medium

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

126) Describe the roles of the Securities and Exchange Commission and The Financial Accounting Standards Board with respect to the development of Generally Accepted Accounting Principles.

Answer: The SEC was created by Congress in 1933 develop accounting guidelines for publicly traded companies. The SEC has given the FASB the responsibility to develop GAAP.

Difficulty: 1 Easy

Topic: Accounting communication process-GAAP

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

127) Describe the elements of the balance sheet equation.

Answer: The balance sheet equation states that assets equal liabilities plus stockholders' equity. Assets are a firm's economic resources such as cash, supplies, inventory, and equipment. Liabilities are a firm's debts such as accounts payable and notes payable. Stockholders' equity consists of common stock and retained earnings.

Difficulty: 1 Easy

Topic: Financial statements-Balance sheet

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

128) Describe the role of a company's management and the external auditors in the accounting communication process.

Answer: Management is primarily responsible for the content of their company's financial reporting. The external auditors' opinion reports on the fairness of the financial statements while reasonably assuring that they represent what they claim to represent and that they conform to GAAP.

Difficulty: 1 Easy

Topic: Accounting communication process-Accuracy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

129) What is the objective of the cash flow statement? Describe the three cash flow classifications that are reported within the cash flow statement.

Answer: The objective of the cash flow statement is to explain the change in the cash balance during a particular time period. The operating activities section describes the cash flows that resulted from normal profit seeking activities. The investing activities section describes cash flows resulting from acquisition and disposition of long-term assets and investments. The financing activities section describes the cash flows resulting from issuance and retirement of long-term debt and equity.

Difficulty: 1 Easy

Topic: Financial statements-Cash flows

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

130) How is net income in the income statement different from the cash flow from operating activities in the cash flow statement?

Answer: Net income is comprised of revenues expected to be received for goods and services delivered to a customer less expenses used to earn revenue during the period; it is not based on cash flows or cash basis accounting. This means that revenues and expenses are recognized even if they were paid in cash in a prior period or have not yet been paid by the end of the reporting period. Cash flow from operating activities is cash flow based on actual cash receipts and cash payments during the accounting period.

Difficulty: 1 Easy

Topic: Distinguish different financial statements

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation