Student name:\_\_\_\_\_\_\_\_\_\_

**1)** Indicate whether each of the following statements about markets is true or false.   
 \_\_\_\_\_\_\_\_ a) Financial resources can be provided to a business by investors.  
 \_\_\_\_\_\_\_\_ b) Resource owners are the businesses that transform resources into products that satisfy consumer desires.  
 \_\_\_\_\_\_\_\_ c) Labor resources include both the physical and intellectual labor of a business's employees.  
 \_\_\_\_\_\_\_\_ d) Businesses purchase their resources from resource owners.  
 \_\_\_\_\_\_\_\_ e) Consumers are the main providers of resources in any market.

**2)** Indicate whether each of the following statements about accounting information is true or false.  
   
 \_\_\_\_\_\_\_\_ a) Financial accounting is primarily intended to satisfy the information needs of internal stakeholders.  
 \_\_\_\_\_\_\_\_ b) Managerial accounting information includes financial and nonfinancial information.  
 \_\_\_\_\_\_\_\_ c) The accounting information intended to satisfy the needs of a company's employees is managerial accounting information.  
 \_\_\_\_\_\_\_\_ d) GAAP requires that companies adhere to financial accounting standards.  
 \_\_\_\_\_\_\_\_ e) Managerial accounting information is usually less detailed than financial accounting information.

**3)** Indicate whether each of the following statements about liabilities is true or false.  
   
 \_\_\_\_\_\_\_\_ a) A net loss on the income statement decreases liabilities.  
 \_\_\_\_\_\_\_\_ b) The acquisition of a bank loan increases both assets and liabilities.  
 \_\_\_\_\_\_\_\_ c) The accounting equation requires that liabilities be equal to stockholders’ equity.  
 \_\_\_\_\_\_\_\_ d) The amount of a company's liabilities is equal to the difference between its assets and its stockholders’ equity.  
 \_\_\_\_\_\_\_\_ e) Liabilities are reported on the statement of cash flows of a business.

**4)** Indicate whether each of the following statements about retained earnings is true or false.  
   
 \_\_\_\_\_\_\_\_ a) A dividend paid to stockholders decreases retained earnings.  
 \_\_\_\_\_\_\_\_ b) Issuing common stock for cash increases retained earnings.  
 \_\_\_\_\_\_\_\_ c) The amount of net income for a period must equal retained earnings.  
 \_\_\_\_\_\_\_\_ d) The purchase of a truck decreases retained earnings.  
 \_\_\_\_\_\_\_\_ e) Net income increases retained earnings.

**5)** Indicate whether each of the following statements about the types of transactions is true or false.  
   
 \_\_\_\_\_\_\_\_ a) An asset source transaction increases total assets and increases claims to assets.  
 \_\_\_\_\_\_\_\_ b) The issuance of stock to owners for cash would be an example of an asset exchange transaction.  
 \_\_\_\_\_\_\_\_ c) Purchasing equipment for cash is an example of an asset use transaction.  
 \_\_\_\_\_\_\_\_ d) Paying a dividend to stockholders is an example of an asset use transaction.  
 \_\_\_\_\_\_\_\_ e) Making a payment on a bank loan is an example of an asset exchange transaction.

**6)** Indicate whether each of the following statements about financial statements is true or false.  
   
 \_\_\_\_\_\_\_\_ a) A cash dividend paid to stockholders is reported in the investing activities section of the statement of cash flows.  
 \_\_\_\_\_\_\_\_ b) A cash dividend paid to stockholders is reported on the statement of changes in stockholders' equity.  
 \_\_\_\_\_\_\_\_ c) A cash dividend paid to stockholders is reported on the income statement.  
 \_\_\_\_\_\_\_\_ d) The balance sheet reports the ending balances of permanent accounts as of the last day of the accounting period.  
 \_\_\_\_\_\_\_\_ e) Changes in retained earnings during the accounting period are reported on the income statement.

**7)** Indicate whether each of the following statements about stockholders’ equity is true or false.  
   
 \_\_\_\_\_\_\_\_ a) Expenses decrease retained earnings.  
 \_\_\_\_\_\_\_\_ b) Stockholders' equity and liabilities can be viewed either as sources of assets or claims to assets of the business.  
 \_\_\_\_\_\_\_\_ c) Retained earnings is increased by loans received from a bank.  
 \_\_\_\_\_\_\_\_ d) Dividends paid to stockholders decrease common stock.  
 \_\_\_\_\_\_\_\_ e) Generally, assets are reported at the actual price paid for them when purchased regardless of subsequent changes in market value.

**8)** Jessup Company was founded in Year 1. It acquired $45,000 cash by issuing stock to investors and an additional $15,000 cash by borrowing from creditors. During Year 1 it received $25,000 cash revenues and paid $32,000 in cash expenses. The company then went out of business.   
 **Required:**  
 a) Explain the term, "business liquidation."  
 b) What amount of cash should Jessup Company have had on hand immediately before going out of business?  
 c) What amount of cash will Jessup's creditors receive?  
 d) What amount of cash will Jessup's stockholders receive?

**9)** Bates Company entered into the following transactions during its first year in business. Assume that all transactions involve the receipt or payment of cash.  
   
 1) Issued common stock to investors for $25,000 cash.  
 2) Borrowed $18,000 from the local bank.  
 3) Provided services to customers for $28,000.  
 4) Paid expenses amounting to $21,400.  
 5) Purchased a plot of land costing $22,000.  
 6) Paid a dividend of $15,000 to its stockholders.  
 7) Repaid $12,000 of the loan listed in item 2.  
 **Required:**  
 (a) Fill in the three column headings of the accounting equation in the first row of the table shown below.  
 (b) Show the effects of the above transactions on the accounting equation.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Event number** |  | **=** |  | **+** |  |
| **1.** |  |  |  |  |  |
| **2.** |  |  |  |  |  |
| **3.** |  |  |  |  |  |
| **4.** |  |  |  |  |  |
| **5.** |  |  |  |  |  |
| **6.** |  |  |  |  |  |
| **7.** |  |  |  |  |  |
| **Total** |  |  |  |  |  |

**10)** Each of the following requirements is independent of the others.  
   
 a) Valdez Corporation has liabilities of $95,000 and stockholders’ equity of $115,000. What is the amount of Valdez's assets?  
 b) Global Company has assets of $320,000 and liabilities of $95,000. What is the amount of Global's stockholders’ equity?  
 c) Brown Company has assets of $90,000 and liabilities of $25,000. What is the amount of Brown's claims?

**11)** The following business events occurred for Ringgold Company during Year 1, its first year in operation:   
 1. Issued stock to investors for $45,000 cash  
 2. Borrowed $25,000 cash from the local bank  
 3. Provided services to its customers and received $32,000 cash  
 4. Paid expenses of $28,000  
 5. Paid $22,000 cash for land  
 6. Paid dividend of $12,000 to stockholders  
 7. Repaid $10,000 of the loan listed in item 2  
   
 **Required:**  
 a) Show the effects of the above transactions on the accounting equation, below. Include dollar amounts of increases and decreases. Enter "NA" for elements of the accounting equation that are not affected by the transaction. If one element of the accounting equation is affected by an increase and also by a decrease, enter each part on a separate line. (The effects of the first transaction is shown below.)  
 b) After entering all the events, calculate the total amounts of assets, liabilities, and stockholders’ equity at the end of the year.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Event number** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| **1.** | 45,000 |  | NA |  | 45,000 |
| **2.** |  |  |  |  |  |
| **3.** |  |  |  |  |  |
| **4.** |  |  |  |  |  |
| **5.** |  |  |  |  |  |
|  |  |  |  |  |  |
| **6.** |  |  |  |  |  |
| **7.** |  |  |  |  |  |
| **Total** |  |  |  |  |  |

**12)** Ramirez Company experienced the following events during Year 1:   
 1. Acquired $50,000 cash by issuing common stock  
 2. Borrowed $25,000 cash from a creditor  
 3. Provided services to customers for $38,000 cash  
 4. Paid $32,000 cash for operating expenses  
 5. Paid a cash dividend of $2,500 to stockholders  
 6. Purchased land with cash, $30,000  
   
 **Required:**  
 a) Show how each of these events affects the accounting equation. Enter "NA" for elements of the accounting equation that are not affected by the transaction. If one element of the accounting equation is affected by an increase and also by a decrease, enter each part on a separate line. (The effects of the first event are shown below.)  
 b) Calculate the total amount of assets, liabilities, common stock, and retained earnings at the end of the period.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Stockholders' Equity** | | |
| **Event number** | **Assets** | **=** | **Liabilities** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| **1.** | 50,000 |  | NA |  | 50,000 |  | NA |
| **2.** |  |  |  |  |  |  |  |
| **3.** |  |  |  |  |  |  |  |
| **4.** |  |  |  |  |  |  |  |
| **5.** |  |  |  |  |  |  |  |
| **6.** |  |  |  |  |  |  |  |
| **Total** |  |  |  |  |  |  |  |

**13)** At the beginning of Year 2, the accounting records of Grace Company included the accounts and balances shown on the first row of the table below. During Year 2, the following transactions occurred:  
   
 1. Received $95,000 cash for providing services to customers  
 2. Paid salaries expense, $50,000  
 3. Purchased land for $12,000 cash  
 4. Paid $4,000 on note payable  
 5. Paid operating expenses, $22,000  
 6. Paid cash dividend, $2,500  
   
 **Required:**  
 a) Record the transactions in the appropriate accounts. Record the amounts of revenue, expense, and dividends in the retained earnings column. Enter 0 for items not affected. Provide appropriate titles for these accounts in the last column of the table.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Event** | **Assets** | | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | | **Account Titles for RE** |
| **Cash** | **Land** | **Notes Payable** | **Common Stock** | **+** | **Retained Earnings** |
| **Beginning** | 29,000 | 32,000 |  | 18,000 |  | 33,000 |  | 10,000 |  |
| **1.** |  |  |  |  |  |  |  |  |  |
| **2.** |  |  |  |  |  |  |  |  |  |
| **3.** |  |  |  |  |  |  |  |  |  |
| **4.** |  |  |  |  |  |  |  |  |  |
| **5.** |  |  |  |  |  |  |  |  |  |
| **6.** |  |  |  |  |  |  |  |  |  |

b) What is the amount of total assets as of December 31, Year 2?   
 c) What is the amount of total stockholders' equity as of December 31, Year 2?

**14)** Montgomery Company experienced the following events during Year 1 (all were cash events):  
 1.Issued a note  
 2.Paid operating expenses  
 3.Issued common stock  
 4.Provided services to customers  
 5.Repaid part of the note in event 1  
 6.Paid dividends to stockholders  
   
 **Required:**  
 Indicate how each of these events affects the accounting equation by writing the letter "I" for increase, the letter "D" for decrease, and "NA" for no effect under each of the components of the accounting equation. Use only one item of entry in each column. (The effects of the first event are shown below.)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Stockholders' Equity** | | |
| **Event number** | **Assets** | **=** | **Liabilities** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| **1.** | I |  | I |  | NA |  | NA |
| **2.** |  |  |  |  |  |  |  |
| **3.** |  |  |  |  |  |  |  |
| **4.** |  |  |  |  |  |  |  |
| **5.** |  |  |  |  |  |  |  |
| **6.** |  |  |  |  |  |  |  |

**15)** Indicate how each of the following transactions affects assets by entering "+" for increase, "−" for decrease, or " +/− for an increase that is offset by a decrease (such as an asset exchange). Enter only one item for each answer.  
   
 \_\_\_\_\_\_\_\_ 1) Issued stock to investors.  
 \_\_\_\_\_\_\_\_ 2) Borrowed cash from the bank.  
 \_\_\_\_\_\_\_\_ 3) Provided services for cash.  
 \_\_\_\_\_\_\_\_ 4) Paid operating expenses.  
 \_\_\_\_\_\_\_\_ 5) Purchased land for cash.  
 \_\_\_\_\_\_\_\_ 6) Paid cash dividend to the stockholders.  
 \_\_\_\_\_\_\_\_ 7) Repaid the bank loan.

**16)** Classify each of the following events as an asset source (designate as "AS"), asset use (designate as "AU"), asset exchange (designate as "AX"), or not an asset source (designate as "NA").  
   
 \_\_\_\_\_\_\_\_ 1) Borrowed cash from the bank  
 \_\_\_\_\_\_\_\_ 2) Issued stock for cash  
 \_\_\_\_\_\_\_\_ 3) Purchased land for cash  
 \_\_\_\_\_\_\_\_ 4) Performed services and collected cash  
 \_\_\_\_\_\_\_\_ 5) Paid cash for operating expense  
 \_\_\_\_\_\_\_\_ 6) Purchased equipment for cash  
 \_\_\_\_\_\_\_\_ 7) Paid dividends to stockholders  
 \_\_\_\_\_\_\_\_ 8) Repaid the bank loan with cash

**17)** Grimes Corporation reports the following cash transactions for the year ending December 31, Year 1, its first year of operation:  
   
 1) Issued common stock for $35,000  
 2) Borrowed $25,000 from a local bank  
 3) Purchased land for $40,000  
 4) Provided services to clients for $38,000  
 5) Paid operating expenses of $30,500  
 6) Paid $2,000 cash dividends to stockholders  
   
 **Required:**  
 a) What are the total assets for Grimes Corporation at December 31, Year 1?  
 b) Prepare an income statement for Year 1.

**18)** Young Company reported the following balance sheet for the end of Year 1:

|  |  |
| --- | --- |
| Young Company | |
| Balance Sheet | |
| For the Year Ended December 31, Year 1 | |
| **Assets** |  |
| **Cash** | $ 58,800 |
| **Land** | 25,500 |
| **Total assets** | $ 84,300 |
| **Liabilities** |  |
| **Notes payable** | $ 18,000 |
| **Stockholders' equity** |  |
| **Common stock** | 50,000 |
| **Retained earnings** | 16,300 |
| **Total stockholders' equity** | 66,300 |
| **Total liabilities and stockholders' equity** | $ 84,300 |

During Year 2, Young reported the following transactions:  
 ● Repaid $9,000 to a local bank on a note payable  
 ● Provided services to clients for $27,400 cash  
 ● Paid operating expenses of $20,200  
 ● Paid $4,500 cash dividends to stockholders  
   
 **Required:**  
 Prepare Young Company's balance sheet as of December 31, Year 2.

**19)** Use the following information to prepare an income statement for Penelope Company for the period ending December 31, Year 1. All transactions were for cash.  
   
 A) Received revenue from services provided to customers, $30,500.  
 B) Paid $19,000 cash for land.  
 C) Issued $16,000 of common stock.  
 D) Paid dividends to stockholders, $3,000.  
 E) Paid operating expenses, $25,400.

**20)** The following events are for Holiday Travel Services for Year 1, the first year of operations. Assume that all transactions involve the receipt or payment of cash.  
   
 1) The business acquired $50,000 from stock issued to owners.  
 2) Creditors loaned the company $27,500.  
 3) The company provided services to its customers and received $75,400.  
 4) The company paid expenses amounting to $63,250.  
 5) The company purchased land for $25,000.  
 6) The company paid a dividend of $5,500 to its owners.  
   
 **Required:**  
 a) Show the effects of the above transactions on the accounting equation. (Start by using appropriate element and account headings). For those events that affect retained earnings, indicate in a separate column the appropriate temporary account. Enter a "0" if a transaction does not affect a given account.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Event Number** |  | | | **=** |  | **+** |  | | | **Other Account Titles** |
| **1** |  |  |  |  |  |  |  |  |  |  |
| **2** |  |  |  |  |  |  |  |  |  |  |
| **3** |  |  |  |  |  |  |  |  |  |  |
| **4** |  |  |  |  |  |  |  |  |  |  |
| **5** |  |  |  |  |  |  |  |  |  |  |
| **6** |  |  |  |  |  |  |  |  |  |  |
| **Totals** |  |  |  |  |  |  |  |  |  |  |

b) Prepare an income statement and balance sheet for and as of the end of Year 1.

**21)** The following transactions apply to Wilson Fitness Center for Year 1.  
   
 1) Started the business by issuing $48,000 of common stock for cash.  
 2) Provided services to clients and received $65,500 cash.  
 3) Borrowed $10,500 from the bank.  
 4) Paid $8,500 for rent of equipment.  
 5) Purchased land for $15,000.  
 6) Paid $46,600 of salary expense.  
 7) Cash dividends of $4,000 were paid to the stockholders.  
   
 **Required:**  
 a) What are the total assets of the business at the end of Year 1?  
 b) Prepare a statement of cash flows for Year 1.

**22)** The following is a partial set of financial statements prepared for the company's first year of operations. All transactions were for cash.  
   
 **Required:**  
 Fill in the missing information by determining the amounts represented by letters a through d.

|  |  |
| --- | --- |
| Income Statement | |
| **Revenue** | $ a |
| **Expense** | 6,200 |
| **Net income** | $ b |
| Statement of Changes in Stockholders' Equity | |
| **Beginning common stock** | $ 0 |
| **Plus: Issuance of common stock** | 11,000 |
| **Ending common stock** | 11,000 |
| **Beginning Retained Earnings** | $ 0 |
| **Add: Net Income** | 3,500 |
| **Ending Retained Earnings** | $ c |
| **Total stockholders' equity** | $ d |

**23)** The following is a partial set of financial statements prepared for the company's first year of operations. All transactions were for cash.  
   
 **Required:**  
 Fill in the blanks indicated by the alphabetic letters in the following financial statements.

|  |  |
| --- | --- |
| Income Statement | |
| **Service revenue** | $44,000 |
| **Operating expenses** | a |
| **Net income** | $ b |
| Statement of Changes in Stockholders' Equity | |
| **Beginning common stock** | $80,000 |
| **Add: Common stock issued** | 0 |
| **Ending common stock** | $80,000 |
| **Beginning retained earnings** | $ 0 |
| **Add: Net income** | c |
| **Less: Dividends** | d |
| **Ending retained earnings** | 16,000 |
| **Total stockholders' equity** | $ e |
| Balance Sheet | |
| **Assets** |  |
| **Cash** | $ f |
| **Land** | 20,000 |
| **Total assets** | $ 120,000 |
| **Liabilities** | g |
| **Stockholders' equity** |  |
| **Common stock** | 80,000 |
| **Retained earnings** | h |
| **Total stockholders' equity** | i |
| **Total liabilities and stockholders' equity** | $120,000 |
| Statement of Cash Flows | |
| **Cash flows from operating activites** |  |
| **Cash receipt from revenue** | $ 44,000 |
| **Cash payment for expense** | j |
| **Net cash flow from operating activities** | k |
| **Cash flows for investing activities** |  |
| **Cash payment for land** | (20,000) |
| **Cash flows from financing activities** |  |
| **Cash receipt from loan** | l |
| **Cash receipt from stock issue** | 80,000 |
| **Cash dividend paid to owners** | (12,000) |
| **Net cash flow from financing activities** | 92,000 |
| **Net increase in cash** | $100,000 |

**24)** The following transactions apply to the Garber Corporation for Year 1, its first year in business.   
 1) Issued stock to investors, $48,000.  
 2) The company borrowed $42,000 cash from the bank.  
 3) Services were provided to customers and $50,000 cash was received.  
 4) The company acquired land for $44,000.  
 5) The company paid $34,000 rent for the building where it does its business.  
 6) The company paid $3,200 for supplies that were used during the period.  
 7) The company sold the land acquired in item 5 for $44,000.  
 8) A dividend of $1,000 was paid to the owners.  
 9) Repaid $20,000 of the loan described in item 2.  
   
 **Required:**  
 a. Prepare an income statement, statement of changes in stockholders’ equity, and balance sheet for Year 1.  
 b. Prepare a statement of cash flows for Year 1.

**25)** Rosemont Company began operations on January 1, Year 1, and on that date issued stock for $60,000 cash. In addition, Rosemont borrowed $50,000 cash from the local bank. The company provided services to its customers during Year 1 and received $35,000. It purchased land for $70,000. During the year, it paid $10,000 cash for salaries and $9,000 cash for supplies that were used up in its operations. Stockholders were paid cash dividends of $8,000 during the year.  
   
 **Required:**  
 a) List the transactions from the information above (for example, issued common stock for $60,000) and indicate in which section of the statement of cash flows each transaction would be reported.  
 b) What would the amount be for net cash flows from operating activities?  
 c) What would be the end-of-year balance for the cash account?  
 d) What would be the amount of the total assets for the Rosemont Company at the end of Year 1?  
 e) What would be the end-of-year balance for the Retained Earnings account?

**26)** The Campbell Company began operations on January 1, Year 1 and on that date issued $60,000 of common stock for cash. In addition, the company borrowed $40,000 from the bank. It provided services to its customers during Year 1 and received $72,000 cash. During the year, it paid $80,000 cash for land, $50,000 for salaries, and $10,000 in cash dividends to the owners.  
   
 **Required:**  
   
 1) Show the effects of the above transactions on the accounting equation. (Start by using appropriate element and account headings). Enter a "0" if a transaction does not affect a given account.  
 2) Prepare an income statement and a balance sheet for the Year 1 accounting period.

**27)** Pinehurst Company was formed in Year 1 and experienced the following accounting events during the year:|  
   
 1. Issued common stock for $15,000 cash  
 2. Earned cash revenue of $28,000  
 3. Paid cash expenses of $20,500.  
   
 These were the only events that affected the company during the year.  
   
 **Required:**  
 a) Show the effects of the above transactions on the accounting equation. (Start by using appropriate element and account headings). Leave the cell blank if a transaction does not affect a given account.  
 b) Prepare an income statement for Year 1 and a balance sheet as of December 31, Year 1.

**28)** Fieldstone Company was founded on January 1, Year 1. During Year 1, the company experienced the following events:  
   
 1. Received cash revenue of $25,500  
 2. Paid cash expenses of $20,000  
 3. Issued common stock for $30,000 cash  
 4. Paid cash dividend of $2,000 to owners.  
   
 **Required:**  
 a) Show the effects of the above transactions on the accounting equation. (Start by using appropriate element and account headings). Leave the cell blank if a transaction does not affect a given account.  
 b) Prepare the Year 1 income statement and balance sheet for Fieldstone Company.

**29)** During Year 1, Sawyer Company earned $42,000 of cash revenue and paid $28,200 of cash expenses and $1,600 in dividends to the company's owners. Enter each of these three events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA). Enter "NA" if a given transaction does not affect a financial statement element.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Event** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** | **Statement of Cash Flows** |
| **a)** |  |  |  |  |  |  |  |  |  |  |  |
| **b)** |  |  |  |  |  |  |  |  |  |  |  |
| **c)** |  |  |  |  |  |  |  |  |  |  |  |

**30)** During Year 1, Pace Company issued common stock to stockholders for $12,000, purchased land for $3,200 cash, and paid cash dividends of $1,000 to the company's owners.  
   
 **Required:**  
 Enter each of these three events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA).  
   
 Enter 0 if there would be no entry in a column.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Event** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** | **Statement of Cash Flows** |
| **a)** |  |  |  |  |  |  |  |  |  |  |  |
| **b)** |  |  |  |  |  |  |  |  |  |  |  |
| **c)** |  |  |  |  |  |  |  |  |  |  |  |

**31)** During Year 1, Morsch Company issued common stock to stockholders for $10,000; purchased land for $2,000 cash; provided services to customers for $8,000; paid cash operating expenses of $6,200; and paid cash dividends of $1,000 to the company's owners.  
   
 **Required:**  
 Enter each of these events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA). Enter a "0" if a transaction does not affect a given element of the accounting equation.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Event** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** | **Statement of Cash Flows** |
| **a)** |  |  |  |  |  |  |  |  |  |  |  |
| **b)** |  |  |  |  |  |  |  |  |  |  |  |
| **c)** |  |  |  |  |  |  |  |  |  |  |  |

**32)** Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.  
   
 Increase = I Decrease = D Not Affected = NA  
   
 Walker Company issued common stock for $150,000 cash.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
|  |  |  |  |  |  |  |  |  |  |  |

**33)** Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.  
   
 Increase = I Decrease = D Not Affected = NA  
   
 Nguyen Company borrowed $50,000 cash from Metropolitan Bank.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
|  |  |  |  |  |  |  |  |  |  |  |

**34)** Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.  
   
 Increase = I Decrease = D Not Affected = NA  
   
 Bell Company provided consulting services for $20,000 cash.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
|  |  |  |  |  |  |  |  |  |  |  |

**35)** Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.  
   
 Increase = I Decrease = D Not Affected = NA  
   
 Pierce Company paid $40,000 cash to purchase land.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
|  |  |  |  |  |  |  |  |  |  |  |

**36)** Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.  
   
 Increase = I Decrease = D Not Affected = NA  
   
 Perez Company paid $220,000 cash for salaries expense.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
|  |  |  |  |  |  |  |  |  |  |  |

**37)** Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.  
   
 Increase = I Decrease = D Not Affected = NA  
   
 Epstein Company paid $20,000 in cash dividends to its owners.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
|  |  |  |  |  |  |  |  |  |  |  |

**38)** Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.  
   
 Increase = I Decrease = D Not Affected = NA  
   
 North Company issued a note to purchase a building.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
|  |  |  |  |  |  |  |  |  |  |  |

**39)** Name the group that has the primary authority for establishing U.S. GAAP.

**40)** Who are the three distinct types of participants in the market for business resources? Briefly describe the role of each group of participants.

**41)** What is meant by the term "stakeholders"?

**42)** What is meant by the term "global GAAP"? How does it impact U.S. companies? What body is responsible for setting global standards?

**43)** Briefly distinguish between financial accounting and managerial accounting.

**44)** Explain some of the similarities and differences between not-for-profit organizations and other types of businesses.

**45)** What financial statement elements are reported on a balance sheet?

**46)** From what three sources does a business obtain its assets?

**47)** How does providing services for cash affect the accounting equation? Is it considered an asset source, asset use, or asset exchange transaction?

**48)** How does the payment of cash dividends to stockholders affect the accounting equation? Is it considered an asset source, asset use, or asset exchange transaction?

**49)** If total stockholder's equity is $150,000 and liabilities are $75,000, what are total assets?

**50)** What is meant by the term stockholders' equity?

**51)** Give three examples of asset use transactions.

**52)** What does a company's statement of cash flows tell you about the company?

**53)** If a corporation issues common stock for $50,000 cash, in which section of the statement of cash flows will this transaction be reported?

**54)** Which types of accounts are closed out to the Retained Earnings account at the end of an accounting period?

**55)** Name and briefly describe each of the four financial statements.

**56)** Define the term "accounting period." How does this term relate to the "matching concept" as it pertains to the income statement?

**57)** Which of the following groups has the primary responsibility for establishing generally accepted accounting principles for business entities in the United States?

A) Securities and Exchange Commission   
 B) U.S. Congress  
 C) International Accounting Standards Board  
 D) Financial Accounting Standards Board

**58)** The Heritage Company is a manufacturer of office furniture. Which term best describes Heritage's role in society?

A) Business   
 B) Regulatoryagency  
 C) Consumer  
 D) Resource owner

**59)** Which resource providers lend financial resources to a business with the expectation of repayment with interest?

A) Consumers   
 B) Creditors  
 C) Investors  
 D) Owners

**60)** Which type of accounting information is intended to satisfy the needs of external users of accounting information?

A) Cost accounting   
 B) Managerial accounting  
 C) Tax accounting  
 D) Financial accounting

**61)** Which of the following statements is **false** regarding managerial accounting information?

A) It is often used by investors.   
 B) It is more detailed than financial accounting information.  
 C) It can include nonfinancial information.  
 D) It focuses on divisional rather than overall profitability.

**62)** Financial accounting standards are known collectively as GAAP. What does that acronym stand for?

A) Generally Accepted Accounting Principles   
 B) Generally Applied Accounting Procedures  
 C) Governmentally Approved Accounting Practices  
 D) Generally Authorized Auditing Principles

**63)** International accounting standards are formulated by the IASB. What does that acronym stand for?

A) Internationally Accepted Standards Board   
 B) International Accounting Standards Board  
 C) International Accountability Standards Bureau  
 D) International Accounting and Sustainability Board

**64)** Jack Henry borrowed $800,000 from Walt Bank to open a new bike store called Wooden Wheels. Jack transferred $650,000 of the cash he borrowed to the store on the first day of the year. How many reporting entities exist in this scenario?

A) One reporting entity.   
 B) Two reporting entities.  
 C) Three reporting entities.  
 D) Four reporting entities.

**65)** Jack Henry borrowed $856,000 from Walt Bank to open a new bike store called Wooden Wheels. Jack transferred $652,000 of the cash he borrowed to Wooden Wheels on the first day of the year. Which of the following appropriately reflects the cash transactions between these reporting entities?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Jack Henry** | | **Wooden Wheels** | | **Walt Bank** | |
| **A.** | $204,000 | increase | $652,000 | increase | $856,000 | decrease |
| **B.** | $856,000 | increase | $652,000 | increase | $204,000 | decrease |
| **C.** | $856,000 | decrease | $856,000 | increase | $652,000 | decrease |
| **D.** | $652,000 | increase | $204,000 | increase | $856,000 | decrease |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**66)** Jack Henry borrowed $800,000 from Walt Bank to open a new bike store called Wooden Wheels. Jack transferred $650,000 of the cash he borrowed to Wooden Wheels on the first day of the year. Which of the following appropriately reflects the cash transactions between these reporting entities?

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jack Henry** | **Wooden Wheels** | **Walt Bank** |
| **A.** | $150,000 increase | $650,000 increase | $800,000 decrease |
| **B.** | $800,000 increase | $650,000 increase | $150,000 decrease |
| **C.** | $800,000 decrease | $800,000 increase | $650,000 decrease |
| **D.** | $650,000 increase | $150,000 increase | $800,000 decrease |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**67)** Ellen Gatsby and her siblings, Ben and Sarah, started Gatsby Company when they each invested $100,000 in the company. After the investments there will be

A) one reporting entity.   
 B) two reporting entities.  
 C) three reporting entities.  
 D) four reporting entities.

**68)** Which of the following is an example of revenue?

A) Cash received as a result of a bank loan   
 B) Cash received from investors from the sale of common stock  
 C) Cash received from customers at the time services were provided  
 D) Cash received from the sale of land for its original selling price

**69)** Which of the following is **not** an element of the financial statements?

A) Liabilities   
 B) Stockholders’ Equity  
 C) Assets  
 D) Cash

**70)** Which of the following is an accurate definition of the term asset?

A) An obligation to creditors.   
 B) A resource that will be used to produce revenue.  
 C) A transfer of wealth from the business to its owners.  
 D) A sacrifice incurred from operating the business.

**71)** Which of the following is a source of assets?

A) Creditors   
 B) Investors  
 C) Operations  
 D) All the answers represent sources of assets.

**72)** If total assets decrease, then

A) liabilities must increase and retained earnings must decrease.   
 B) common stock must decrease and retained earnings must increase.  
 C) liabilities, common stock, or retained earnings must decrease.  
 D) liabilities, common stock, or retained earnings must increase.

**73)** Liabilities

A) represent obligations to repay debts.   
 B) may increase when assets increase.  
 C) are found on the claims side of the accounting equation.  
 D) All of the answers are characteristics of liabilities.

**74)** Which term describes assets earned from operations that have been reinvested into the business?

A) liability   
 B) dividend  
 C) common stock  
 D) retained earnings

**75)** Which of the following is the most accurate depiction of the accounting equation?

A) Assets = Liabilities + Common Stock + Retained Earnings   
 B) Assets = Liabilities + Common Stock − Expenses  
 C) Assets = Liabilities + Retained Earnings − Dividends  
 D) Assets = Liabilities + Common Stock + Dividends

**76)** Which term describes a distribution of the Company’s assets back to the owners of the business?

A) liability   
 B) dividend  
 C) retained earnings  
 D) common stock

**77)** Finn Company reported assets of $1,400 and stockholders’ equity of $550. What amount will Finn report for liabilities?

A) $850   
 B) $550  
 C) $1,950  
 D) Cannot be determined

**78)** Finn Company reported assets of $1,000 and stockholders’ equity of $600. What amount will Finn report for liabilities?

A) $400   
 B) $600  
 C) $1,600  
 D) Cannot be determined

**79)** Algonquin Company reported assets of $50,000, liabilities of $22,000 and common stock of $15,000. Based on this information only, what is the amount of the company’s retained earnings?

A) $7,000.   
 B) $57,000.  
 C) $13,000.  
 D) $87,000.

**80)** Stosch Company's balance sheet reported assets of $117,000, liabilities of $30,000 and common stock of $27,000 as of December 31, Year 1. Retained Earnings on the December 31, Year 2 balance sheet is $78,000 and Stosch paid a $29,000 dividend during Year 2. What is the amount of net income for Year 2?

A) $60,000   
 B) $47,000  
 C) $18,000  
 D) $29,000

**81)** Stosch Company's balance sheet reported assets of $40,000, liabilities of $15,000 and common stock of $12,000 as of December 31, Year 1. Retained earnings on the December 31, Year 2 balance sheet is $18,000 and Stosch paid a $14,000 dividend during Year 2. What is the amount of net income for Year 2?

A) $17,000   
 B) $19,000  
 C) $13,000  
 D) $21,000

**82)** Hazeltine Company issued common stock for $200,000 cash. What happened as a result of this event?

A) Assets increased.   
 B) Stockholders’ equity increased.  
 C) Claims increased.  
 D) Assets, claims, and equity all increased.

**83)** Ballard Company reported assets of $620 and liabilities of $190. What amount will Ballard's report for stockholders' equity?

A) $810   
 B) $620  
 C) $430  
 D) Cannot be determined

**84)** Ballard Company reported assets of $500 and liabilities of $200. What amount will Ballard's report for stockholders' equity?

A) $300   
 B) $500  
 C) $700  
 D) Cannot be determined

**85)** A company's total assets increased during the period while its liabilities and common stock were unchanged. No dividends were declared or paid during the period. Which of the following would explain this situation?

A) Revenues were greater than expenses during the period.   
 B) Retained earnings were less than net income during the period.  
 C) No dividends were paid during the period.  
 D) The company must have purchased assets with cash during the period.

**86)** Li Company paid cash to purchase land.What happened as a result of this business event?

A) Total assets decreased.   
 B) Total assets were unaffected.  
 C) Total stockholders’ equity decreased.  
 D) Both assets and total equity decreased.

**87)** Turner Company reported assets of $20,000 (including cash of $9,000), liabilities of $8,000, common stock of $7,000, and retained earnings of $5,000. Based on this information, what can be concluded?

A) 25% of Turner's assets are the result of prior earnings.   
 B) $5,000 is the maximum dividend that can be paid to shareholders.  
 C) 40% of Turner's assets are the result of borrowing from creditors.  
 D) 25% of Turner's assets are from prior earnings, $5,000 is the maximum possible dividend, and 40% of assets are the result of borrowed resources.

**88)** At the time of liquidation, Fairchild Company reported assets of $202,000, liabilities of $106,000, common stock of $71,000 and retained earnings of $25,000. What is the maximum amount of Fairchild's assets that the shareholders are entitled to receive?

A) $121,000   
 B) $101,000  
 C) $202,000  
 D) $96,000

**89)** At the time of liquidation, Fairchild Company reported assets of $200,000, liabilities of $120,000, common stock of $70,000 and retained earnings of $10,000. What is the maximum amount of Fairchild’s assets that the shareholders are entitled to receive?

A) $200,000   
 B) $80,000  
 C) $90,000  
 D) $100,000

**90)** As of December 31, Year 2, Bristol Company had $128,000 of assets, $44,000 of liabilities and $30,240 of retained earnings. What percentage of Bristol's assets were obtained through investors?

A) 42%   
 B) 34%  
 C) 24%  
 D) 54%

**91)** As of December 31, Year 2, Bristol Company had $100,000 of assets, $40,000 of liabilities and $25,000 of retained earnings. What percentage of Bristol’s assets were obtained through investors?

A) 60%   
 B) 25%  
 C) 40%  
 D) 35%

**92)** On January 1, Year 2, Chavez Company had beginning balances as follows: total assets of $12,500, total liabilities of $4,500, and common stock of $3,000. During Year 2, Chavez paid dividends to its stockholders of $2,000. Given that retained earnings amounted to $6,000 at the end of Year 2, what was Chavez's net income for Year 2?

A) $3,000   
 B) $5,000  
 C) $7,000  
 D) $2,000

**93)** When a business provides services for cash, which elements of the accounting equation are affected?

A) Revenue and Expense   
 B) Cash and Revenue  
 C) Cash and Expense  
 D) Cash and Dividends

**94)** During Year 2, Millstone Company provided $6,500 of services for cash, paid cash dividends of $1,000 to owners, and paid $4,000 cash for expenses. Liabilities were unchanged. Which of the following statements accurately describes the effect of these events on the elements of the company's financial statements?

A) Assets increased by $6,500.   
 B) Assets increased by $1,500.  
 C) Stockholders’ equity increased by $2,500.  
 D) Assets increased by $5,500.

**95)** At the end of Year 2, retained earnings for the Baker Company was $2,850. Revenue earned by the company in Year 2 was $3,100, expenses paid during the period were $1,650, and dividends paid during the period were $1,050. Based on this information alone, what was the amount of retained earnings at the beginning of Year 2?

A) $6,200.   
 B) $1,400.  
 C) $3,250.  
 D) $2,450.

**96)** At the end of Year 2, retained earnings for the Baker Company was $3,500. Revenue earned by the company in Year 2 was $1,500, expenses paid during the period were $800, and dividends paid during the period were $500. Based on this information alone, what was the amount of retained earnings at the beginning of Year 2?

A) $3,300   
 B) $3,700  
 C) $2,800  
 D) $3,800

**97)** Which of the following is **not** an example of an asset use transaction?

A) Paying cash dividends   
 B) Paying cash expenses  
 C) Paying off the principal of a loan  
 D) Paying cash to purchase land

**98)** Borrowing cash from the bank is an example of which type of transaction?

A) Asset source   
 B) Claims exchange  
 C) Asset use  
 D) Asset exchange

**99)** Which of the following could describe the effects of an asset exchange transaction on the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** | **Cash Flows** |
| **A.** | +/− |  | n/a |  | n/a | n/a |  | n/a |  | n/a | +OA |
| **B.** | + |  | n/a |  | + | n/a |  | n/a |  | n/a | +FA |
| **C.** | − |  | n/a |  | − | n/a |  | n/a |  | n/a | n/a |
| **D.** | + |  | + |  | n/a | n/a |  | n/a |  | n/a | +FA |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**100)** Which of the following does **not** describe the effects of an asset use transaction on the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** | **Cash Flows** |
| **A.** | − |  | − |  | n/a | n/a |  | n/a |  | n/a | −OA |
| **B.** | − |  | − |  | n/a | n/a |  | n/a |  | n/a | −FA |
| **C.** | − |  | n/a |  | − | n/a |  | + |  | − | −OA |
| **D.** | n/a |  | + |  | n/a | + |  | + |  | − | n/a |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**101)** Which of the following cash transactions would **not** affect total assets?

A) Borrowing cash from a bank   
 B) Issuing common stock for cash  
 C) Purchasing land for cash  
 D) Providing services for cash

**102)** Kelly Company experienced the following events during its first accounting period.  
   
 (1) Issued common stock for $10,000 cash.  
 (2) Earned $8,000 of cash revenue.  
 (3) Paid $1,000 cash to purchase land.  
 (4) Paid cash dividends amounting to $500.  
 (5) Paid $4,400 of cash expenses.  
   
 Based on this information the amount of net income is

A) $2,100.   
 B) $2,600.  
 C) $3,600.  
 D) $5,600.

**103)** Which of the following shows the effects of paying a cash dividend on the accounting equation?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Accounting Equation | | | | |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** |
| **A.** | − |  | + |  | NA |
| **B.** | +/− |  | NA |  | NA |
| **C.** | − |  | NA |  | + |
| **D.** | − |  | NA |  | − |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**104)** Which of the following shows the effects of providing services for cash on the accounting equation?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Accounting Equation | | | | |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** |
| **A.** | + |  | NA |  | NA |
| **B.** | + |  | NA |  | + |
| **C.** | − |  | NA |  | + |
| **D.** | + |  | NA |  | − |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**105)** The statement of changes in stockholders’ equity shows changes in which of the following accounts?

A) Retained Earnings and Assets   
 B) Assets and Liabilities  
 C) Common Stock and Retained Earnings  
 D) Liabilities and Common Stock

**106)** Which of the following transactions would be reported on the statement of changes in stockholders’ equity?

A) Borrowed $5,000 cash from the bank.   
 B) Paid a $100 cash dividend to the owners.  
 C) Purchased land for $2,000 cash.  
 D) Paid $1,500 cash to pay off a portion of its note payable.

**107)** At the beginning of Year 2, Jones Company had a balance in common stock of $305,000 and a balance of retained earnings of $16,800. During Year 2, the following transactions occurred:  
 ● Issued common stock for $90,000  
 ● Earned net income of $50,200  
 ● Paid dividends of $7,300  
 ● Issued a note payable for $20,100  
   
 Based on the information provided, what is the total stockholders’ equity on December 31, Year 2?

A) $364,700   
 B) $149,700  
 C) $454,700  
 D) $434,600

**108)** At the beginning of Year 2, Jones Company had a balance in common stock of $300,000 and a balance of retained earnings of $15,000. During Year 2, the following transactions occurred:  
 ● Issued common stock for $90,000  
 ● Earned net income of $50,000  
 ● Paid dividends of $8,000  
 ● Issued a note payable for $20,000  
   
 Based on the information provided, what is the total stockholders' equity on December 31, Year 2?

A) $147,000   
 B) $357,000  
 C) $427,000  
 D) $447,000

**109)** Which of the following appears in the investing activities section of the statement of cash flows?

A) Cash inflow from interest revenue   
 B) Cash inflow from the issuance of common stock  
 C) Cash outflow for the payment of dividends  
 D) Cash outflow for the purchase of land

**110)** Jackson Company had a net increase in cash from operating activities of $11,800 and a net decrease in cash from financing activities of $2,120. If the beginning and ending cash balances for the company were $3,100 and $11,300, what was the net cash change from investing activities?

A) An outflow or decrease of $1,480.   
 B) An inflow or increase of $1,480.  
 C) An inflow or increase of $2,120.  
 D) Zero.

**111)** Jackson Company had a net increase in cash from operating activities of $10,000 and a net decrease in cash from financing activities of $2,000. If the beginning and ending cash balances for the company were $4,000 and $11,000, What was the net cash change from investing activities?

A) An outflow or decrease of $1,000   
 B) An inflow or increase of $2,000  
 C) An inflow or increase of $1,000  
 D) Zero

**112)** The financial statements of Calloway Company prepared at the end of the current year contained the following elements and corresponding amounts: Assets = $21,000; Liabilities = ?; Common Stock = $5,100; Revenue = $11,200; Dividends = $800; Beginning Retained Earnings = $3,800; Ending Retained Earnings = $7,100.  
   
 Based on this information, what was the amount of expenses reported on Calloway's income statement for the current year?

A) $14,200   
 B) $7,900  
 C) $3,300  
 D) $7,100

**113)** The financial statements of Calloway Company prepared at the end of the current year contained the following elements and corresponding amounts: Assets = $50,000; Liabilities = ?; Common Stock = $15,000; Revenue = $22,000; Dividends = $1,500; Beginning Retained Earnings = $3,500; Ending Retained Earnings = $7,500.   
 Based on this information, what was the amount of expenses reported on Calloway's income statement for the current year?

A) $18,500   
 B) $13,000  
 C) $16,500  
 D) $10,000

**114)** The financial statements of Calloway Company prepared at the end of the current year contained the following elements and corresponding amounts: Assets = $28,000; Liabilities = ?; Common Stock = $5,800; Revenue = $12,600; Dividends = $1,150; Beginning Retained Earnings = $4,150; Ending Retained Earnings = $7,800.  
   
 What was the amount of total liabilities reported on the balance sheet as of the end of the current year?

A) $9,950   
 B) $11,950  
 C) $14,400  
 D) $18,050

**115)** The financial statements of Calloway Company prepared at the end of the current year contained the following elements and corresponding amounts: Assets = $50,000; Liabilities = ?; Common Stock = $15,000; Revenue = $22,000; Dividends = $1,500; Beginning Retained Earnings = $3,500; Ending Retained Earnings = $7,500.  
   
 What was the amount of total liabilities reported on the balance sheet as of the end of the current year?

A) $27,500   
 B) $31,500  
 C) $35,000  
 D) $42,500

**116)** Which of the following financial statements provides information about a company as of a specific point in time?

A) Income statement   
 B) Balance sheet  
 C) Statement of cash flows  
 D) Statement of changes in stockholders' equity

**117)** Which of the following is a (are) permanent account(s)?

A) The Retained Earnings account   
 B) All income statement accounts  
 C) The Dividend account  
 D) All balance sheet accounts and the Dividend account

**118)** In which section of a statement of cash flows would the payment of cash dividends be reported?

A) Investing activities.   
 B) Operating activities.  
 C) Financing activities.  
 D) Dividends are not reported on the statement of cash flows.

**119)** Which financial statement matches asset increases from operating a business with asset decreases from operating the business?

A) Balance sheet   
 B) Statement of changes in stockholders’ equity  
 C) Income statement  
 D) Statement of cash flows

**120)** Chow Company earned $2,900 of cash revenue, paid $1,700 for cash expenses, and paid a $550 cash dividend to its owners. Which of the following statements is **true**?

A) The net cash outflow from investing activities was $550.   
 B) The net cash inflow from operating activities was $650.  
 C) The net cash inflow from operating activities was $1,200.  
 D) The net cash outflow from investing activities was $1,200.

**121)** Chow Company earned $1,500 of cash revenue, paid $1,200 for cash expenses, and paid a $200 cash dividend to its owners. Which of the following statements is **true**?

A) The net cash inflow from operating activities was $100.   
 B) The net cash outflow from investing activities was $200.  
 C) The net cash inflow from operating activities was $300.  
 D) The net cash outflow from investing activities was $100.

**122)** Yi Company provided services to a customer for $5,500 cash. Based on this information alone, which of the following statements is  **true**?

A) Total assets increased, and total stockholders’ equity decreased.   
 B) Total assets were unchanged.  
 C) Liabilities decreased and net income increased.  
 D) Total assets increased, and net income increased.

**123)** During Year 2, Chico Company earned $2,900 of cash revenue, paid $1,250 of cash expenses, and paid a $750 cash dividend to its owners. Based on this information alone, which of the following statements is **not** true?

A) Cash outflow from investing activities was $750.   
 B) Net income amounted to $1,650.  
 C) Cash inflow from operating activities was $1,650.  
 D) Total assets increased by $900.

**124)** During Year 2, Chico Company earned $1,950 of cash revenue, paid $1,600 of cash expenses, and paid a $150 cash dividend to its owners. Based on this information alone,which of the following statements is **not** true?

A) Net income amounted to $350.   
 B) Total assets increased by $200.  
 C) Cash inflow from operating activities was $350.  
 D) Cash outflow from investing activities was $150.

**125)** Glavine Company repaid a bank loan with cash. How should the cash flow from this event be shown on the horizontal statements model?

A) An operating activity that decreases cash, decreases stockholders’ equity, and decreases net income   
 B) A financing activity that decreases cash and decreases liabilities  
 C) A financing activity that decreases cash, decreases stockholders’ equity, and decreases net income  
 D) An investing activity that decreases cash and decreases liabilities

**126)** Retained earnings at the beginning and ending of the accounting period were $750 and $1,600, respectively. Revenues of $2,900 and dividends paid to stockholders of $650 were reported during the period. What was the amount of expenses reported for the period?

A) $2,250.   
 B) $850.  
 C) $1,400.  
 D) $2,050.

**127)** Retained earnings at the beginning and ending of the accounting period were $300 and $800, respectively. Revenues of $1,100 and dividends paid to stockholders of $200 were reported during the period. What was the amount of expenses reported for the period?

A) $500   
 B) $400  
 C) $900  
 D) $700

**128)** Yowell Company began operations on January 1, Year 1. During Year 1, the company engaged in the following cash transactions:  
   
 1.1) issued stock for $80,000  
 2.2) borrowed $45,000 from its bank  
 3.3) provided consulting services for $78,000  
 4.4) paid back $35,000 of the bank loan  
 5.5) paid rent expense for $19,000  
 6.6) purchased equipment costing $32,000  
 7.7) paid $5,000 dividends to stockholders  
 8.8) paid employees' salaries, $41,000  
   
 What is Yowell's net cash flow from operating activities?

A) Inflow of $13,000   
 B) Inflow of $37,000  
 C) Inflow of $18,000  
 D) Inflow of $63,000

**129)** Yowell Company began operations on January 1, Year 1. During Year 1, the company engaged in the following cash transactions:   
 1.1) issued stock for $40,000  
 2.2) borrowed $25,000 from its bank  
 3.3) provided consulting services for $39,000  
 4.4) paid back $15,000 of the bank loan  
 5.5) paid rent expense for $9,000  
 6.6) purchased equipment costing $12,000  
 7.7) paid $3,000 dividends to stockholders  
 8.8) paid employees' salaries, $21,000  
   
 What is Yowell's net cash flow from operating activities?

A) Inflow of $6,000   
 B) Inflow of $9,000  
 C) Inflow of $18,000  
 D) Inflow of $30,000

**130)** Yowell Company began operations on January 1, Year 1. During Year 1, the company engaged in the following cash transactions:  
   
 1.1) issued stock for $44,000  
 2.2) borrowed $27,000 from its bank  
 3.3) provided consulting services for $42,000  
 4.4) paid back $17,000 of the bank loan  
 5.5) paid rent expense for $10,000  
 6.6) purchased equipment costing $14,000  
 7.7) paid $3,200 dividends to stockholders  
 8.8) paid employees' salaries, $23,000  
   
 What is Yowell's ending notes payable balance?

A) $27,000   
 B) $10,000  
 C) $0  
 D) $(17,000)

**131)** Yowell Company began operations on January 1, Year 1. During Year 1, the company engaged in the following cash transactions:   
 1.1) issued stock for $40,000  
 2.2) borrowed $25,000 from its bank  
 3.3) provided consulting services for $39,000  
 4.4) paid back $15,000 of the bank loan  
 5.5) paid rent expense for $9,000  
 6.6) purchased equipment costing $12,000  
 7.7) paid $3,000 dividends to stockholders  
 8.8) paid employees' salaries, $21,000  
   
 What is Yowell's ending notes payable balance?

A) $0   
 B) $25,000  
 C) ($15,000)  
 D) $10,000

**132)** Yowell Company began operations on January 1, Year 1. During Year 1, the company engaged in the following cash transactions:  
   
 1.1) issued stock for $42,000  
 2.2) borrowed $26,000 from its bank  
 3.3) provided consulting services for $40,000  
 4.4) paid back $16,000 of the bank loan  
 5.5) paid rent expense for $9,500  
 6.6) purchased equipment costing $13,000  
 7.7) paid $3,100 dividends to stockholders  
 8.8) paid employees' salaries, $22,000  
   
 What is Yowell's net income?

A) $3,100   
 B) $8,500  
 C) $16,000  
 D) $38,900

**133)** Yowell Company began operations on January 1, Year 1. During Year 1, the company engaged in the following cash transactions:   
 1.1) issued stock for $40,000  
 2.2) borrowed $25,000 from its bank  
 3.3) provided consulting services for $39,000  
 4.4) paid back $15,000 of the bank loan  
 5.5) paid rent expense for $9,000  
 6.6) purchased equipment costing $12,000  
 7.7) paid $3,000 dividends to stockholders  
 8.8) paid employees' salaries, $21,000  
   
 What is Yowell's net income?

A) $9,000   
 B) $30,000  
 C) $18,000  
 D) $6,000

**134)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions*.*)  
   
 1.1) Acquired $1,000 cash from the issue of common stock.  
 2.2) Borrowed $470 from a bank.  
 3.3) Earned $650 of revenues.  
 4.4) Paid expenses of $260.  
 5.5) Paid a $60 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions.)  
   
 1.1) Issued an additional $375 of common stock.  
 2.2) Repaid $255 of its debt to the bank.  
 3.3) Earned revenues of $800.  
 4.4) Incurred expenses of $380.  
 5.5) Paid dividends of $110.  
   
 What is Packard Company's net cash flow from financing activities for Year 2?

A) $10 inflow   
 B) $265 outflow  
 C) $255 outflow  
 D) $365 inflow

**135)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions.)   
 1.1) Acquired $950 cash from the issue of common stock.  
 2.2) Borrowed $420 from a bank.  
 3.3) Earned $650 of revenues.  
 4.4) Paid expenses of $250.  
 5.5) Paid a $50 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions.)  
   
 1.1) Issued an additional $325 of common stock.  
 2.2) Repaid $220 of its debt to the bank.  
 3.3) Earned revenues of $750.  
 4.4) Incurred expenses of $360.  
 5.5) Paid dividends of $100.  
   
 What is Packard Company's net cash flow from financing activities for Year 2?

A) $220 outflow   
 B) $320 outflow  
 C) $5 inflow  
 D) $225 inflow

**136)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions*.*)  
   
 1.1) Acquired $1,050 cash from the issue of common stock.  
 2.2) Borrowed $520 from a bank.  
 3.3) Earned $700 of revenues.  
 4.4) Paid expenses of $270.  
 5.5) Paid a $70 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions*.*)  
   
 1.1) Issued an additional $425 of common stock.  
 2.2) Repaid $290 of its debt to the bank.  
 3.3) Earned revenues of $850.  
 4.4) Incurred expenses of $400.  
 5.5) Paid dividends of $120.  
   
 What was the balance of Packard's Retained Earnings account **before** closing in Year 1?

A) $360   
 B) $430  
 C) $0  
 D) $450

**137)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions.)   
 1.1) Acquired $950 cash from the issue of common stock.  
 2.2) Borrowed $420 from a bank.  
 3.3) Earned $650 of revenues.  
 4.4) Paid expenses of $250.  
 5.5) Paid a $50 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions.)  
   
 1.1) Issued an additional $325 of common stock.  
 2.2) Repaid $220 of its debt to the bank.  
 3.3) Earned revenues of $750.  
 4.4) Incurred expenses of $360.  
 5.5) Paid dividends of $100.  
   
 What was the balance of Packard's Retained Earnings account **before** closing in Year 1?

A) $400   
 B) $0  
 C) $350  
 D) $450

**138)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions*.*)  
   
 1.1) Acquired $1,250 cash from the issue of common stock.  
 2.2) Borrowed $720 from a bank.  
 3.3) Earned $900 of revenues.  
 4.4) Paid expenses of $310.  
 5.5) Paid a $110 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions*.*)  
   
 1.1) Issued an additional $625 of common stock.  
 2.2) Repaid $430 of its debt to the bank.  
 3.3) Earned revenues of $1,050.  
 4.4) Incurred expenses of $480.  
 5.5) Paid dividends of $160.  
   
 What is the amount of total stockholders’ equity that will be reported on Packard’s balance sheet at the end of Year 1?

A) $1,140   
 B) $1,840  
 C) $480  
 D) $1,730

**139)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions.)   
 1.1) Acquired $950 cash from the issue of common stock.  
 2.2) Borrowed $420 from a bank.  
 3.3) Earned $650 of revenues.  
 4.4) Paid expenses of $250.  
 5.5) Paid a $50 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions.)  
   
 1.1) Issued an additional $325 of common stock.  
 2.2) Repaid $220 of its debt to the bank.  
 3.3) Earned revenues of $750.  
 4.4) Incurred expenses of $360.  
 5.5) Paid dividends of $100.  
   
 What is the amount of total stockholders’ equity that will be reported on Packard’s balance sheet at the end of Year 1?

A) $1,350   
 B) $900  
 C) $250  
 D) $1,300

**140)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions*.*)  
   
 1.1) Acquired $1,450 cash from the issue of common stock.  
 2.2) Borrowed $920 from a bank.  
 3.3) Earned $1,100 of revenues.  
 4.4) Paid expenses of $350.  
 5.5) Paid a $150 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions*.*)  
   
 1.1) Issued an additional $825 of common stock.  
 2.2) Repaid $570 of its debt to the bank.  
 3.3) Earned revenues of $1,250.  
 4.4) Incurred expenses of $560.  
 5.5) Paid dividends of $200.  
   
 What is the after-closing amount of retained earnings that will be reported on Packard’s balance sheet at the end of Year 2? (Assume that closing entries have been posted).

A) $1,590   
 B) $1,290  
 C) $1,090  
 D) $1,715

**141)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions.)   
 1.1) Acquired $950 cash from the issue of common stock.  
 2.2) Borrowed $420 from a bank.  
 3.3) Earned $650 of revenues.  
 4.4) Paid expenses of $250.  
 5.5) Paid a $50 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions.)  
   
 1.1) Issued an additional $325 of common stock.  
 2.2) Repaid $220 of its debt to the bank.  
 3.3) Earned revenues of $750.  
 4.4) Incurred expenses of $360.  
 5.5) Paid dividends of $100.  
   
 What is the after-closing amount of retained earnings that will be reported on Packard’s balance sheet at the end of Year 2? (Assume that closing entries have been posted).

A) $640   
 B) $800  
 C) $290  
 D) $740

**142)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions*.*)  
   
 1.1) Acquired $1,900 cash from the issue of common stock.  
 2.2) Borrowed $1,370 from a bank.  
 3.3) Earned $1,550 of revenues.  
 4.4) Paid expenses of $440.  
 5.5) Paid a $240 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions*.*)  
   
 1.1) Issued an additional $1,275 of common stock.  
 2.2) Repaid $885 of its debt to the bank.  
 3.3) Earned revenues of $1,700.  
 4.4) Incurred expenses of $740.  
 5.5) Paid dividends of $290.  
   
 What is the amount of assets that will be reported on Packard’s balance sheet at the end of Year 2?

A) $1,060   
 B) $4,140  
 C) $5,490  
 D) $5,200

**143)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions.)   
 1.1) Acquired $950 cash from the issue of common stock.  
 2.2) Borrowed $420 from a bank.  
 3.3) Earned $650 of revenues.  
 4.4) Paid expenses of $250.  
 5.5) Paid a $50 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions.)  
   
 1.1) Issued an additional $325 of common stock.  
 2.2) Repaid $220 of its debt to the bank.  
 3.3) Earned revenues of $750.  
 4.4) Incurred expenses of $360.  
 5.5) Paid dividends of $100.  
   
 What is the amount of assets that will be reported on Packard’s balance sheet at the end of Year 2?

A) $2,115   
 B) $440  
 C) $2,215  
 D) $395

**144)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions*.*)  
   
 1.1) Acquired $1,100 cash from the issue of common stock.  
 2.2) Borrowed $570 from a bank.  
 3.3) Earned $750 of revenues.  
 4.4) Paid expenses of $280.  
 5.5) Paid a $80 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions*.*)  
   
 1.1) Issued an additional $475 of common stock.  
 2.2) Repaid $325 of its debt to the bank.  
 3.3) Earned revenues of $900.  
 4.4) Incurred expenses of $420.  
 5.5) Paid dividends of $130.  
   
 What is the net cash inflow from operating activities that will be reported on Packard’s statement of cash flows for Year 1?

A) $475   
 B) $1,120  
 C) $470  
 D) $345

**145)** Packard Company engaged in the following transactions during Year 1, its first year of operations: (Assume all transactions are cash transactions.)   
 1.1) Acquired $950 cash from the issue of common stock.  
 2.2) Borrowed $420 from a bank.  
 3.3) Earned $650 of revenues.  
 4.4) Paid expenses of $250.  
 5.5) Paid a $50 dividend.  
   
 During Year 2, Packard engaged in the following transactions: (Assume all transactions are cash transactions.)  
   
 1.1) Issued an additional $325 of common stock.  
 2.2) Repaid $220 of its debt to the bank.  
 3.3) Earned revenues of $750.  
 4.4) Incurred expenses of $360.  
 5.5) Paid dividends of $100.  
   
 What is the net cash inflow from operating activities that will be reported on Packard’s statement of cash flows for Year 1?

A) $400   
 B) $650  
 C) $350  
 D) $820

**146)** Which of the following would be reported in the cash flow from financing activities section of a statement of cash flows?

A) Paid cash for dividends   
 B) Received cash for common stock  
 C) Sold land for cash  
 D) Paying cash for dividends and receiving cash from common stock

**147)** Santa Fe Company was started on January 1, Year 1, when it acquired $9,200 cash by issuing common stock. During Year 1, the company earned cash revenues of $5,300, paid cash expenses of $3,350, and paid a cash dividend of $900. Which of the following is true based on this information?

A) The Year 1 statement of cash flows would show a net cash inflow from financing activities of $8,300.   
 B) The Year 1 statement of cash flows would show net cash inflow from operating activities of $5,300.  
 C) The December 31, Year 1 balance sheet would show total stockholders’ equity of $8,300.  
 D) The Year 1 income statement would show net income of $1,050.

**148)** Santa Fe Company was started on January 1, Year 1, when it acquired $9,000 cash by issuing common stock. During Year 1, the company earned cash revenues of $4,500, paid cash expenses of $3,750, and paid a cash dividend of $250. Which of the following is true based on this information?

A) The December 31, Year 1 balance sheet would show total stockholders’ equity of $8,750.   
 B) The Year 1 income statement would show net income of $500.  
 C) The Year 1 statement of cash flows would show net cash inflow from operating activities of $4,500.  
 D) The Year 1 statement of cash flows would show a net cash inflow from financing activities of $8,750.

**149)** Robertson Company paid $1,850 cash for rent expense. What happened as a result of this business event?

A) Total equity decreased.   
 B) Liabilities decreased.  
 C) The net cash flow from operating activities decreased.  
 D) Both total equity and net cash flow from operating activities decreased.

**150)** Mayberry Company paid $30,000 cash to purchase land. What happened as a result of this business event?

A) Total equity was not affected.   
 B) The net cash flow from investing activities decreased.  
 C) Total assets were not affected.  
 D) Total assets and total stockholders’ equity were not affected, and net cash flow from investing activities decreased.

**151)** Lexington Company engaged in the following transactions during Year 1, its first year in operation: (*Assume all transactions are cash transactions*)  
   
 ● Acquired $4,500 cash from issuing common stock.  
 ● Borrowed $2,950 from a bank.  
 ● Earned $3,850 of revenues.  
 ● Incurred $2,550 in expenses.  
 ● Paid dividends of $550.  
   
 Lexington Company engaged in the following transactions during Year 2: (*Assume all transactions are cash transactions*)  
   
 ● Acquired an additional $1,250 cash from the issue of common stock.  
 ● Repaid $1,825 of its debt to the bank.  
 ● Earned revenues, $5,250.  
 ● Incurred expenses of $3,050.  
 ● Paid dividends of $1,540.  
   
 What was the net cash flow from financing activities reported on Lexington's statement of cash flows for Year 2?

A) $1,250 outflow   
 B) $2,115 inflow  
 C) $290 inflow  
 D) $2,115 outflow

**152)** Lexington Company engaged in the following transactions during Year 1, its first year in operation: *(Assume all transactions are cash transactions)* ● Acquired $6,000 cash from issuing common stock.  
 ● Borrowed $4,400 from a bank.  
 ● Earned $6,200 of revenues.  
 ● Incurred $4,800 in expenses.  
 ● Paid dividends of $800.  
   
 Lexington Company engaged in the following transactions during Year 2: *(Assume all transactions are cash transactions)*  
 ● Acquired an additional $1,000 cash from the issue of common stock.  
 ● Repaid $2,600 of its debt to the bank.  
 ● Earned revenues, $9,000.  
 ● Incurred expenses of $5,500.  
 ● Paid dividends of $1,280.  
   
 What was the net cash flow from financing activities reported on Lexington's statement of cash flows for Year 2?

A) $2,880 outflow.   
 B) $2,880 inflow.  
 C) $1,000 outflow.  
 D) $1,000 inflow.

**153)** Lexington Company engaged in the following transactions during Year 1, its first year in operation: (*Assume all transactions are cash transactions*)  
   
 ● Acquired $4,500 cash from issuing common stock.  
 ● Borrowed $2,950 from a bank.  
 ● Earned $3,850 of revenues.  
 ● Incurred $2,550 in expenses.  
 ● Paid dividends of $550.  
   
 Lexington Company engaged in the following transactions during Year 2: (*Assume all transactions are cash transactions*)  
   
 ● Acquired an additional $1,250 cash from the issue of common stock.  
 ● Repaid $1,825 of its debt to the bank.  
 ● Earned revenues, $5,250.  
 ● Incurred expenses of $3,050.  
 ● Paid dividends of $1,540.  
   
 What is the amount of total assets that will be reported on Lexington's balance sheet at the end of Year 1?

A) $3,950   
 B) $1,550  
 C) $8,100  
 D) $8,200

**154)** Lexington Company engaged in the following transactions during Year 1, its first year in operation: *(Assume all transactions are cash transactions)* ● Acquired $6,000 cash from issuing common stock.  
 ● Borrowed $4,400 from a bank.  
 ● Earned $6,200 of revenues.  
 ● Incurred $4,800 in expenses.  
 ● Paid dividends of $800.  
   
 Lexington Company engaged in the following transactions during Year 2: *(Assume all transactions are cash transactions)*  
 ● Acquired an additional $1,000 cash from the issue of common stock.  
 ● Repaid $2,600 of its debt to the bank.  
 ● Earned revenues, $9,000.  
 ● Incurred expenses of $5,500.  
 ● Paid dividends of $1,280.  
   
 What is the amount of total assets that will be reported on Lexington's balance sheet at the end of Year 1?

A) $11,000   
 B) $12,000  
 C) $1,600  
 D) $7,600

**155)** Lexington Company engaged in the following transactions during Year 1, its first year in operation: (*Assume all transactions are cash transactions*)  
   
 ● Acquired $4,100 cash from issuing common stock.  
 ● Borrowed $2,750 from a bank.  
 ● Earned $3,650 of revenues.  
 ● Incurred $2,510 in expenses.  
 ● Paid dividends of $510.  
   
 Lexington Company engaged in the following transactions during Year 2: (*Assume all transactions are cash transactions*)  
   
 ● Acquired an additional $1,050 cash from the issue of common stock.  
 ● Repaid $1,685 of its debt to the bank.  
 ● Earned revenues, $5,050.  
 ● Incurred expenses of $2,970.  
 ● Paid dividends of $1,300.  
   
 What was the amount of retained earnings that will be reported on Lexington's balance sheet at the end of Year 1?

A) $250   
 B) $630  
 C) $1,050  
 D) $7,480

**156)** Lexington Company engaged in the following transactions during Year 1, its first year in operation: *(Assume all transactions are cash transactions)* ● Acquired $6,000 cash from issuing common stock.  
 ● Borrowed $4,400 from a bank.  
 ● Earned $6,200 of revenues.  
 ● Incurred $4,800 in expenses.  
 ● Paid dividends of $800.  
   
 Lexington Company engaged in the following transactions during Year 2: *(Assume all transactions are cash transactions)*  
 ● Acquired an additional $1,000 cash from the issue of common stock.  
 ● Repaid $2,600 of its debt to the bank.  
 ● Earned revenues, $9,000.  
 ● Incurred expenses of $5,500.  
 ● Paid dividends of $1,280.  
   
 What was the amount of retained earnings that will be reported on Lexington's balance sheet at the end of Year 1?

A) $6,200   
 B) $5,400  
 C) $1,400  
 D) $600

**157)** Lexington Company engaged in the following transactions during Year 1, its first year in operation: (*Assume all transactions are cash transactions*)  
   
 ● Acquired $3,600 cash from issuing common stock.  
 ● Borrowed $2,500 from a bank.  
 ● Earned $3,400 of revenues.  
 ● Incurred $2,460 in expenses.  
 ● Paid dividends of $460.  
   
 Lexington Company engaged in the following transactions during Year 2: (*Assume all transactions are cash transactions*)  
   
 ● Acquired an additional $800 cash from the issue of common stock.  
 ● Repaid $1,510 of its debt to the bank.  
 ● Earned revenues, $4,800.  
 ● Incurred expenses of $2,870.  
 ● Paid dividends of $1,000.  
   
 What was the amount of liabilities on Lexington's balance sheet at the end of Year 2?

A) $990   
 B) ($1,510)  
 C) $540  
 D) $800

**158)** Lexington Company engaged in the following transactions during Year 1, its first year in operation: *(Assume all transactions are cash transactions)* ● Acquired $6,000 cash from issuing common stock.  
 ● Borrowed $4,400 from a bank.  
 ● Earned $6,200 of revenues.  
 ● Incurred $4,800 in expenses.  
 ● Paid dividends of $800.  
   
 Lexington Company engaged in the following transactions during Year 2: *(Assume all transactions are cash transactions)*  
 ● Acquired an additional $1,000 cash from the issue of common stock.  
 ● Repaid $2,600 of its debt to the bank.  
 ● Earned revenues, $9,000.  
 ● Incurred expenses of $5,500.  
 ● Paid dividends of $1,280.  
   
 What was the amount of liabilities on Lexington's balance sheet at the end of Year 2?

A) $1,000.   
 B) $1,800.  
 C) ($2,600).  
 D) $480.

**159)** As of December 31, Year 1, Mason Company had $530 cash. During Year 2, Mason earned $2,100 of cash revenue and paid $860 of cash expenses. What is the amount of cash that will be reported on the balance sheet at the end of Year 2?

A) $2,630   
 B) $3,490  
 C) $1,240  
 D) $1,770

**160)** As of December 31, Year 1, Mason Company had $500 cash. During Year 2, Mason earned $1,200 of cash revenue and paid $800 of cash expenses. What is the amount of cash that will be reported on the balance sheet at the end of Year 2?

A) $900   
 B) $400  
 C) $1,700  
 D) $2,500

**161)** Expenses are reported on which of the following financial statement(s)?

A) Income statement   
 B) Balance sheet  
 C) Statement of changes in stockholders' equity  
 D) Income statement and statement of changes in stockholders’ equity

**162)** Dividends paid by a company are reported on which of the following financial statement(s)?

A) Income statement   
 B) Statement of changes in stockholders' equity  
 C) Statement of cash flows  
 D) Statement of changes in stockholders’ equity and statement of cash flows

**163)** Liabilities are reported on which of thefollowing financial statement(s)?

A) Income statement   
 B) Balance sheet  
 C) Statement of cash flows  
 D) Statement of changes in stockholders' equity

**164)** Frank Company earned $15,000 of cash revenue. Which of the following accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A.** | 15,000 |  | n/a |  | 15,000 | n/a |  | n/a |  | n/a | 15,000 OA |
| **B.** | 15,000 |  | n/a |  | 15,000 | 15,000 |  | n/a |  | 15,000 | n/a |
| **C.** | 15,000 |  | n/a |  | 15,000 | 15,000 |  | n/a |  | 15,000 | 15,000 OA |
| **D.** | 15,000 |  | 15,000 |  | n/a | 15,000 |  | n/a |  | 15,000 | 15,000 OA |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**165)** Jackson Company paid $500 cash for salary expenses. Which of the following accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** | |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A.** | n/a |  | 500 |  | (500) | n/a |  | 500 |  | (500) |  | n/a |
| **B.** | (500) |  | n/a |  | (500) | n/a |  | 500 |  | (500) | (500) | OA |
| **C.** | (500) |  | n/a |  | (500) | n/a |  | n/a |  | n/a | (500) | OA |
| **D.** | (500) |  | n/a |  | (500) | n/a |  | 500 |  | (500) | (500) | IA |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**166)** Perez Company paid a $220 cash dividend. Which of the following accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A** | n/a |  | 220 |  | (220) | n/a |  | 220 |  | (220) | n/a |
| **B** | (220) |  | n/a |  | (220) | n/a |  | 220 |  | (220) | (220) FA |
| **C** | (220) |  | n/a |  | (220) | n/a |  | n/a |  | n/a | (220) FA |
| **D** | (220) |  | n/a |  | (220) | n/a |  | n/a |  | n/a | (220) OA |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**167)** Perez Company paid a $300 cash dividend. Which of the following accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** | |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A.** | n/a |  | 300 |  | (300) | n/a |  | 300 |  | (300) |  | n/a |
| **B.** | (300) |  | n/a |  | (300) | n/a |  | 300 |  | (300) | (300) | FA |
| **C.** | (300) |  | n/a |  | (300) | n/a |  | n/a |  | n/a | (300) | FA |
| **D.** | (300) |  | n/a |  | (300) | n/a |  | n/a |  | n/a | (300) | OA |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**168)** Garrison Company acquired $23,000 by issuing common stock. Which of the following accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A.** | 23,000 |  | n/a |  | 23,000 | n/a |  | n/a |  | n/a | 23,000 FA |
| **B.** | 23,000 |  | n/a |  | 23,000 | 23,000 |  | n/a |  | 23,000 | 23,000 FA |
| **C.** | 23,000 |  | 23,000 |  | n/a | 23,000 |  | n/a |  | n/a | 23,000 FA |
| **D.** | 23,000 |  | 23,000 |  | n/a | 23,000 |  | n/a |  | 23,000 | 23,000 OA |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**169)** Tandem Company borrowed $32,000 of cash from a local bank. Which of the following accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A.** | 32,000 |  | 32,000 |  | n/a | 32,000 |  | n/a |  | 32,000 | 32,000 FA |
| **B.** | 32,000 |  | n/a |  | 32,000 | n/a |  | n/a |  | n/a | 32,000 FA |
| **C.** | 32,000 |  | n/a |  | 32,000 | 32,000 |  | n/a |  | 32,000 | 32,000 FA |
| **D.** | 32,000 |  | 32,000 |  | n/a | n/a |  | n/a |  | n/a | 32,000 FA |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**170)** Zimmerman Company sold land for $25,000 cash. The original cost of the land was $25,000. Which of the following accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** | |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A.** | 25,000 |  | n/a |  | n/a | n/a |  | n/a |  | n/a | 25,000 | IA |
|  | (25,000) |  |  |  |  |  |  |  |  |  |  |  |
| **B.** | (25,000) |  | n/a |  | (25,000) | (25,000) |  | n/a |  | n/a | (25,000) | IA |
| **C.** | 25,000 |  | 25,000 |  | 15,000 | n/a |  | n/a |  | n/a | 25,000 | FA |
| **D.** | 25,000 |  | n/a |  | n/a | 25,000 |  | n/a |  | 25,000 | 25,000 | IA |
|  | (25,000) |  |  |  |  |  |  |  |  |  |  |  |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**171)** Which of the following could represent the effects of an asset source transaction on a company’s financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A.** | + |  | n/a |  | + | n/a |  | n/a |  | n/a | +OA |
| **B.** | + |  | + |  | n/a | n/a |  | + |  | − | +IA |
| **C.** | + |  | n/a |  | + | + |  | n/a |  | + | +OA |
| **D.** | None of these could represent the effects of an asset source transaction. | | | | | | | | | | |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**172)** Which of the following could represent the effects of an asset exchange transaction on a company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A.** | +/− |  | n/a |  | n/a | n/a |  | n/a |  | n/a | −IA |
| **B.** | n/a |  | + |  | n/a | n/a |  | + |  | + | n/a |
| **C.** | − |  | n/a |  | − | n/a |  | n/a |  | n/a | −OA |
| **D.** | None of these could represent the effects of an asset exchange transaction. | | | | | | | | | | |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**173)** Which of the following describes the effects of an asset use transaction on a company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A.** | − |  | n/a |  | − | n/a |  | n/a |  | n/a | −FA |
| **B.** | − |  | − |  | n/a | n/a |  | + |  | − | −IA |
| **C.** | − |  | n/a |  | − | + |  | n/a |  | + | −OA |
| **D.** | None of these could represent the effects of an asset use transaction. | | | | | | | | | | |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**174)** Reynolds Company experienced an accounting event that affected its financial statements as indicated below:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** | **Statement of Cash Flows** |
| + |  | n/a |  | + | + |  | n/a |  | + | +OA |

Which of the following accounting events could have caused these effects on Reynolds' financial statements?

A) Paid a cash dividend.   
 B) Earned cash revenue.  
 C) Borrowed money from a bank.  
 D) The information provided does not represent a completed event.

**175)** Chico Company experienced an accounting event that affected its financial statements as indicated below:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** | **Statement of Cash Flows** |
| + |  | n/a |  | + | n/a |  | n/a |  | n/a | +FA |

Which of the following accounting events could have caused these effects on Chico's financial statements?

A) Issued common stock   
 B) Earned cash revenue  
 C) Borrowed money from a bank  
 D) Paid a cash dividend

**176)** Delta Company experienced an accounting event that affected its financial statements as indicated below:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** | **Statement of Cash Flows** |
| − |  | n/a |  | − | n/a |  | + |  | − | -OA |

Which of the following accounting events could have caused these effects on Delta's statements?

A) Paid a cash dividend   
 B) Incurred a cash expense  
 C) Borrowed money from a bank  
 D) Earned cash revenue

**177)** Northern Corporation purchased land from South Company for $800 cash.  
   
 Which of the following describes the effects of this transaction on the elements of Northern Corporation’s books?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A.** | − |  | + |  | n/a | n/a |  | − |  | − | −IA |
| **B.** | + |  | n/a |  | + | n/a |  | n/a |  | n/a | +FA |
| **C.** | n/a |  | n/a |  | n/a | + |  | n/a |  | + | −FA |
| **D.** | +/− |  | n/a |  | n/a | n/a |  | n/a |  | n/a | −IA |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**178)** Northern Corporation purchased land from South Company for $800 cash.  
   
 What happened as a result of this transaction?

A) The balance in the Cash account on Northern’s books decreased, while the balance in the Cash account on South Company’s books increased.   
 B) South Company has a cash inflow from financing activities.  
 C) Northern Corporation has a cash outflow from financing activities.  
 D) All of these statements are true.

**179)** Which of the following would **not** describe the effects of an asset source transaction on the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| **A.** | + |  | + |  | n/a | n/a |  | n/a |  | n/a | +FA |
| **B.** | + |  | n/a |  | + | n/a |  | n/a |  | n/a | +FA |
| **C.** | + |  | n/a |  | + | + |  | n/a |  | + | +OA |
| **D.** | n/a |  | n/a |  | n/a | n/a |  | n/a |  | n/a | −IA |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**180)** Morrison Company experienced a business event that had the following effect on its accounting equation.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| (25,000) |  | (25,000) |  | NA |  | NA |

Which of the events would have caused this effect?

A) Paid off debt.   
 B) Issued common stock for cash.  
 C) Incurred cash expense.  
 D) Paid a cash dividend.

**181)** Wig Wam Incorporated experienced a business event that had the following effect on its accounting equation.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| 50,000 |  | 50,000 |  | NA |  | NA |

Which of the events would have caused this effect?

A) paid off debt.   
 B) issued common stock for cash.  
 C) incurred cash expense.  
 D) loan from a creditor

**182)** Smokey Enterprises began operations by receiving $100,000 cash from its sole owner Jessica Jones. During its first year of operations, the business earned $20,000 in cash from operations and paid $15,000 in cash expenses during the year. During its first year of operations, Smokey Enterprises would report net income of

A) $5,000   
 B) $105,000  
 C) $20,000  
 D) $15,000

**183)** The land that Martin Company paid $75,000 to purchase in the prior year had an appraised market value of $100,000 at the end of the current reporting period. Which of the following shows how the change in market value will affect the company’s accounting equation? The letters “NA” indicate that the component of the equation is not affected.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | **=** | **Liabilities** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| **A.** | $75,000 | = | NA | + | NA | + | $75,000 |
| **B.** | $25,000 | = | NA | + | NA | + | $25,000 |
| **C.** | NA | = | NA | + | NA | + | NA |
| **D.** | $100,000 | = | NA | + | NA | + | $100,000 |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**184)** The accounting records of Coastal Company contained the following account balances.

|  |  |
| --- | --- |
| **Cash** | $500 |
| **Land** | $800 |
| **Notes Payable** | $200 |
| **Common Stock** | $400 |

The records also contained an account titled Retained Earnings.Based on this information the balance of the retained earnings account must be

A) $900.   
 B) $500.  
 C) $700.  
 D) $400.

**185)** The following accounting equation represents the financial position of Qualtro Company.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | |
| **Cash** | **+** | **Land** | **=** | **Notes Payable** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| 400 | + | 2,200 | = | 800 | + | 1,200 | + | 600 |

Based on this equation, Qualtro

A) can pay a $600 cash dividend.   
 B) can pay off its note payable.  
 C) can pay a $300 cash dividend.  
 D) can pay only $600 of its note payable.

**186)** The following accounting equation represents the financial position of Bentley Company.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | |
| **Cash** | **+** | **Land** | **=** | **Notes Payable** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| 600 | + | 2,200 | = | 1,000 | + | 1,400 | + | 400 |

Based on this equation, Bentley

A) can pay a $600 cash dividend.   
 B) can pay off its note payable.  
 C) can pay only $400 of its note payable.  
 D) None of the answers is correct.

**187)** Alexis Company was started in Year 1.At the end of Year 1 the Company’s had the following accounting equation.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | |
| **Cash** | **+** | **Land** | **=** | **Notes Payable** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| 600 | + | 2,200 | = | 1,000 | + | 1,400 | + | 400 |

During Year 2, the company experienced the following accounting events.  
 ● Paid off $500 of its note payable.  
 ● Earned $700 of cash revenue.  
 ● Paid $400 of cash expenses.  
 ● Paid a $100 cash dividend.  
 Based on this information alone, what percent of the company's assets at the end of Year 2 were provided by creditors?

A) 20%   
 B) 24%  
 C) 56%  
 D) Some other percentage

**188)** Alexis Company was started in Year 1.At the end of Year 1 the Company’s had the following accounting equation.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | |
| **Cash** | **+** | **Land** | **=** | **Notes Payable** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| 600 | + | 2,200 | = | 1,000 | + | 1,400 | + | 400 |

During Year 2, the company experienced the following accounting events.  
 ● Paid of $500 of its note payable.  
 ● Earned $700 of cash revenue.  
 ● Paid $400 of cash expenses.  
 ● Paid a $100 cash dividend.  
 Based on this information alone, what percent of the company's assets at the end of Year 2 were provided by earnings?

A) 20%   
 B) 24%  
 C) 56%  
 D) Some other percentage

**189)** Watt Company was established in January, Year 1. During Year 1 the company experienced the following events.  
 ● Collected $6,000 cash from the issue of common stock.  
 ● Borrowed $3,000 cash from the state bank.  
 ● Earned $4,000 of cash revenue.  
 ● Paid $2,000 cash expenses.  
 The company was liquidated at the end of Year 1.Based on this information

A) the stockholders would receive $6,000.   
 B) the stockholders would receive $8,000.  
 C) the creditor (the bank) would receive $2,000.  
 D) the creditor (the bank) would receive $6,000.

**190)** Emerald Company was established in January, Year 1.During Year 1 the company experienced the following events.  
 ● Collected $50,000 cash from the issue of common stock.  
 ● Borrowed $45,000 cash from the state bank.  
 ● Earned $120,000 of cash revenue.  
 ● Paid $180,000 cash expenses.  
 The company was liquidated at the end of Year 1.Based on this information

A) the stockholders would receive $50,000.   
 B) the stockholders would receive $110,000.  
 C) the creditor (the bank) would receive $35,000.  
 D) the creditor (the bank) would receive $45,000.

**191)** Kilgore Company experienced the following events during its first accounting period.  
 1. (1) Issued common stock for $5,000 cash.  
   
 2. (2) Earned $3,000 of cash revenue.  
   
 3. (3) Paid a $4,000 cash to purchase land.  
   
 4. (4) Paid cash dividends amounting to $400.  
   
 5. (5) Paid $2,200 of cash expenses.  
   
 Based on this information the amount of net income is

A) $800.   
 B) $400.  
 C) $2,200.  
 D) $4,400.

**192)** Kilgore Company experienced the following events during its first accounting period.  
 1. (1) Issued common stock for $5,000 cash.  
   
 2. (2) Earned $3,000 of cash revenue.  
   
 3. (3) Paid a $4,000 cash to purchase land.  
   
 4. (4) Paid cash dividends amounting to $400.  
   
 5. (5) Paid $2,200 of cash expenses.  
   
 The market value of the land at the end of the accounting period was $4,300.Based on this information the amount of total assets appearing on the year-end balance sheet is

A) $800.   
 B) $1,400.  
 C) $2,200.  
 D) $5,400.

**193)** At the end of Year 1, Clayton Company had $6,000 of cash, $7,000 land, $2,000 of liabilities, $3,000 of common stock, and $8,000 of retained earnings.During Year 2, Clayton experienced the following events.  
 1. Borrowed $1,500 cash.  
   
 2. Earned $6,500 of cash revenue.  
   
 3. Paid $4,000 of cash expenses.  
   
 4. Paid $5,000 cash to purchase land.  
   
 Based on this information the amount of total assets, total liabilities, and retained earnings appearing on the Year 2 financial statements is

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Total Assets** | **Total Liabilities** | **Retained Earnings** |
| **A.** | $5,000 | $5,500 | $8,500 |
| **B.** | $17,000 | $3,500 | $10,500 |
| **C.** | $11,000 | $2,000 | $10,500 |
| **D.** | $11,000 | $2,500 | $5,500 |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**194)** The following information was drawn from Gore, Incorporated’s statement of cash flows.  
 1. (1) $2,000 net cash outflow from investing activities  
   
 2. (2) $3,000 net cash inflow from financing activities  
   
 3. (3) $6,000 net increase in the cash balance.  
   
 Based on this information, the amount of cash flow from operating activities appearing on the statement of cash flows must be a

A) $7,000 net cash inflow.   
 B) $5,000 net cash inflow  
 C) $1,000 net cash outflow.  
 D) $8,000 net cash outflow.

**195)** Kilgore Company experienced the following events during its first accounting period.  
 1. (1) Issued common stock for $5,000 cash.  
   
 2. (2) Earned $3,000 of cash revenue.  
   
 3. (3) Paid a $4,000 cash to purchase land.  
   
 4. (4) Paid cash dividends amounting to $400.  
   
 5. (5) Paid $2,200 of cash expenses.  
   
 Based on this information, the amount of cash flow from investing activities appearing on the statement of cash flows is

A) $5,000 inflow.   
 B) $1,800 inflow.  
 C) $4,000 outflow.  
 D) $400 outflow

**196)** At the end of Year 1 Bowers Company had $6,000 of assets, $2,000 of liabilities, $3,000 of common stock, and $1,000 of retained earnings. During Year 2 Bowers experienced the following events.  
 1. (1) Borrowed $4,000 cash.  
   
 2. (2) Earned $5,000 of cash revenue.  
   
 3. (3) Paid $3,000 of cash expenses.  
   
 4. (4) Paid $7,000 cash to purchase land  
   
 Based on this information, the amount of net income, cash flow from investing activities, and total liabilities appearing on the Year 2 financial statements is

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Net Income** | **Cash Flow from Investing Activities** | **Total Liabilities** |
| **A.** | $2,000 | $7,000 | $2,000 |
| **B.** | $5,000 | Zero | $4,000 |
| **C.** | $2,000 | $8,000 | Zero |
| **D.** | $2,000 | ($7,000) | $6,000 |

A) Option A   
 B) Option B  
 C) Option C  
 D) Option D

**197)** During its first year of operation, Cade Company experienced the following events.  
 1. (1) Issued common stock for $7,000 cash.  
   
 2. (2) Earned $5,000 of cash revenue.  
   
 3. (3) Paid $3,000 of cash expenses.  
   
 4. (4) Paid cash dividends amounting to $1,000.  
   
 Before closing on December 31, the balance in the retained earning account would be

A) $2,000.   
 B) $1,000.  
 C) zero.  
 D) $8,000.

**198)** During its first year of operation, Cade Company experienced the following events.  
 1. (1) Issued common stock for $7,000 cash.  
   
 2. (2) Earned $5,000 of cash revenue.  
   
 3. (3) Paid $3,000 of cash expenses.  
   
 4. (4) Paid cash dividends amounting to $1,000.  
   
 After closing on December 31, the balance in the retained earning account would be

A) $2,000.   
 B) $1,000.  
 C) zero.  
 D) $8,000.

**199)** At the beginning of Year 2 Clair Company had a $5,500 balance in its retained earnings account.During January of Year 2 Clair earned $2,000 of revenue and incurred $1,400 of expenses.Based on this information, the balance in retained earnings account on January 31, Year 2 is

A) $5,500.   
 B) $5,600.  
 C) $6,100.  
 D) $7,500.

**200)** In a market, creditors are resource providers.

⊚ true  
 ⊚ false

**201)** In a market, a company that manufactures cars would be referred to as business.

⊚ true  
 ⊚ false

**202)** The value created by a business is created by its assets.

⊚ true  
 ⊚ false

**203)** The stockholders of a business have a priority claim to its assets in the event of liquidation.

⊚ true  
 ⊚ false

**204)** The types of resources needed by a business are financial, physical, and labor resources.

⊚ true  
 ⊚ false

**205)** Financial accounting information is usually less detailed than managerial accounting information.

⊚ true  
 ⊚ false

**206)** The Financial Accounting Standards Board is a privately funded organization with authority for establishing accounting standards for businesses in the US.

⊚ true  
 ⊚ false

**207)** A business and the person who owns the business are separate reporting entities.

⊚ true  
 ⊚ false

**208)** The information reported in financial statements is organized into ten categories known as accounts.

⊚ true  
 ⊚ false

**209)** Liabilities are obligations of a business to relinquish assets, provide services, or accept other obligations.

⊚ true  
 ⊚ false

**210)** Liabilities are not a source of assets for a business.

⊚ true  
 ⊚ false

**211)** Retained earnings reduces a company's commitment to use its assets for the benefit of its stockholders.

⊚ true  
 ⊚ false

**212)** The historical cost concept requires that most assets be recorded at the amount paid for them, regardless of increases in market value.

⊚ true  
 ⊚ false

**213)** An asset source transaction increases a business's assets and the claims to assets.

⊚ true  
 ⊚ false

**214)** Borrowing money from the bank is an example of an asset source transaction.

⊚ true  
 ⊚ false

**215)** An asset use transaction does not affect the total amount of claims to a company's assets.

⊚ true  
 ⊚ false

**216)** The four financial statements prepared by a business bear no relationship to each other.

⊚ true  
 ⊚ false

**217)** All of a business's temporary accounts appear on the income statement.

⊚ true  
 ⊚ false

**Answer Key**Test name: chapter 1

1) a) T b) F c) T d) T e) F   
   
 Financial resources are provided to a business by investors and creditors. Businesses, not resource owners, transform resources into products. Resource owners are the main providers of resources in any market.

2) a) F b) T c) T d) T e) F   
   
 Financial accounting is primarily intended for external, not internal, stakeholders. Managerial accounting information is usually more detailed than financial accounting information.

3) a) F b) T c) F d) T e) F  
 A net loss decreases a company's stockholders’ equity, not its liabilities. The accounting equation requires that assets be equal to liabilities plus stockholders’ equity. Liabilities are reported on the balance sheet, not on the statement of cash flows.

4) a) T b) F c) F d) F e) T  
   
 Issuing common stock for cash increases the common stock account, not retained earnings. Net income increases retained earnings but does not necessarily equal its total. The purchase of a truck increases one asset (truck) and decreases another asset (cash) or increases a liability (note payable). Retained earnings includes all net income that a company has earned in its existence that has not been paid out in dividends.

5) a) T b) F c) F d) T e) F   
 The issuance of stock to owners for cash is an example of an asset source, not asset exchange, transaction. Purchasing equipment for cash is an example of an asset exchange transaction in which one asset (cash) decreases and another asset (equipment) increases. Making a payment on a bank loan is an example of an asset use, not asset exchange, transaction.

6) a) F b) T c) F d) T e) F  
   
 A cash dividend paid to stockholders is reported in the financing activities section of the statement of cash flows. A cash dividend paid to stockholders is reported on the statement of changes in stockholders’ equity, not on the income statement. Changes in retained earnings for the accounting period are reported on the statement of changes in stockholders’ equity, not on the income statement.

7) a) T b) T c) F d) F e) T  
   
 Loans received from a bank increase assets and liabilities, but do not affect retained earnings. Dividends paid to stockholders decrease retained earnings, not common stock.

8) a) Liquidation is the process of dividing up assets and allocating them to resource providers (creditors and investors).  
 b) Amount of cash on hand = $53,000  
 c) $15,000  
 d) $38,000

9) Accounting Equation

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **(a)** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| (b) |  |  |  |  |  |
| 1. | 25,000 |  |  |  | 25,000 |
| 2. | 18,000 |  | 18,000 |  |  |
| 3. | 28,000 |  |  |  | 28,000 |
| 4. | (21,400) |  |  |  | (21,400) |
| 5. | 22,000 |  |  |  |  |
|  | (22,000) |  |  |  |  |
| 6. | (15,000) |  |  |  | (15,000) |
| 7. | (12,000) |  | (12,000) |  |  |
| Totals | 22,600 |  | 6,000 |  | 16,600 |

10) a) $210,000  
 b) $225,000  
 c) $90,000

11)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Event number** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| **1.** | 45,000 |  | NA |  | 45,000 |
| **2.** | 25,000 |  | 25,000 |  | NA |
| **3.** | 32,000 |  | NA |  | 32,000 |
| **4.** | (28,000) |  | NA |  | (28,000) |
| **5.** | 22,000 |  | NA |  | NA |
|  | (22,000) |  | NA |  | NA |
| **6.** | (12,000) |  | NA |  | (12,000) |
| **7.** | (10,000) |  | (10,000) |  | NA |
| **Total** | 52,000 |  | 15,000 |  | 37,000 |

12)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Stockholders' Equity** | | |
| **Event number** | **Assets** | **=** | **Liabilities** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| **1.** | 50,000 |  | NA |  | 50,000 |  | NA |
| **2.** | 25,000 |  | 25,000 |  | NA |  | NA |
| **3.** | 38,000 |  | NA |  | NA |  | 38,000 |
| **4.** | (32,000) |  | NA |  | NA |  | (32,000) |
| **5.** | (2,500) |  | NA |  | NA |  | (2,500) |
| **6.** | 30,000 |  |  |  |  |  |  |
|  | (30,000) |  | NA |  | NA |  | NA |
| **Total** | 78,500 |  | 25,000 |  | 50,000 |  | 3,500 |

13)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Event** | **Assets** | | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | | **Account Titles for RE** |
| **Cash** | **Land** | **Notes Payable** | **Common Stock** | **+** | **Retained Earnings** |
| **Beginning** | 29,000 | 32,000 |  | 18,000 |  | 33,000 |  | 10,000 |  |
| **1.** | 95,000 | 0 |  | 0 |  | 0 |  | 95,000 | Service Revenue |
| **2.** | (50,000) | 0 |  | 0 |  | 0 |  | (50,000) | Salaries Expense |
| **3.** | (12,000) | 12,000 |  | 0 |  | 0 |  | 0 |  |
| **4.** | (4,000) | 0 |  | (4,000) |  | 0 |  | 0 |  |
| **5.** | (22,000) | 0 |  | 0 |  | 0 |  | (22,000) | Operating Expense |
| **6.** | (2,500) | 0 |  | 0 |  | 0 |  | (2,500) | Dividend |
| **Total** | $33,500 | $44,000 |  | $14,000 |  | $33,000 |  | $30,500 |  |

b) Total assets = $33,500 + $44,000 = $77,500   
 c) Total stockholders' equity = $33,000 + $30,500 = $63,500

14)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Stockholders' Equity** | | |
| **Event number** | **Assets** | **=** | **Liabilities** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| **1.** | I |  | I |  | NA |  | NA |
| **2.** | D |  | NA |  | NA |  | D |
| **3.** | I |  | NA |  | I |  | NA |
| **4.** | I |  | NA |  | NA |  | I |
| **5.** | D |  | D |  | NA |  | NA |
| **6.** | D |  | NA |  | NA |  | D |

15) 1) +, 2) +, 3) +, 4) −, 5) +/−, 6) −, 7) −

16) 1) AS 2) AS 3) AX 4) AS 5) AU 6) AX 7) AU 8) AU

17) a) Total assets = $35,000 + $25,000 + $40,000 − $40,000 + $38,000 − $30,500 − $2,000 = $65,500  
 b)

|  |  |
| --- | --- |
| Grimes Corporation | |
| Income Statement | |
| For the Year Ended December 31, Year 1 | |
| **Revenue** | $ 38,000 |
| **Operating expenses** | (30,500) |
| **Net income** | $ 7,500 |

18)

|  |  |
| --- | --- |
| Young Company | |
| Balance Sheet | |
| For the Year Ended December 31, Year 2 | |
| **Assets** |  |
| **Cash** | $ 52,500 |
| **Land** | 25,500 |
| **Total assets** | $ 78,000 |
| **Liabilities** |  |
| **Notes payable** | $ 9,000 |
| **Stockholders' equity** |  |
| **Common stock** | 50,000 |
| **Retained earnings** | 19,000 |
| **Total stockholders' equity** | 69,000 |
| **Total liabilities and stockholders' equity** | $ 78,000 |

Ending balances: Cash ($58,800 − $9,000 + $27,400 − $20,200 − $4,500); Land − No change; Notes payable ($18,000 − $9,000); Common stock − No change; Retained earnings ($16,300 + $27,400 − $20,200 − $4,500)

19)

|  |  |
| --- | --- |
| Penelope Company | |
| Income Statement | |
| For the Year Ended December 31, Year 1 | |
| **Revenue** | $ 30,500 |
| **Operating expenses** | (25,400) |
| **Net income** | $ 5,100 |

Only revenue and expenses are reported on the income statement. Purchasing land, paying dividends, and issuing common stock do not affect the income statement.

20)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Event number** | **Assets** | | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | | **Other Account Titles** |
| **Cash** | **Land** | **=** | **Notes Payable** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| **1** | 50,000 | 0 |  | 0 |  | 50,000 |  | 0 |  |
| **2** | 27,500 | 0 |  | 27,500 |  | 0 |  | 0 |  |
| **3** | 75,400 | 0 |  | 0 |  | 0 |  | 75,400 | Service Revenue |
| **4** | (63,250) | 0 |  | 0 |  | 0 |  | (63,250) | Operating Expenses |
| **5** | (25,000) | 25,000 |  | 0 |  | 0 |  | 0 |  |
| **6** | (5,500) | 0 |  | 0 |  | 0 |  | (5,500) | Dividends |
| **Totals** | 59,150 | 25,000 |  | 27,500 |  | 50,000 |  | 6,650 |  |

(b)

|  |  |
| --- | --- |
| Holiday Travel Services | |
| Income Statement | |
| For the Year Ended December 31, Year 1 | |
| **Service revenue** | $ 75,400 |
| **Operating expenses** | (63,250) |
| **Net income** | $ 12,150 |
| Holiday Travel Services | |
| Balance Sheet | |
| As of December 31, Year 1 | |
| **Assets** |  |
| **Cash** | $ 59,150 |
| **Land** | 25,000 |
| **Total assets** | $ 84,150 |
| **Liabilities** |  |
| **Notes payable** | $ 27,500 |
| **Stockholders' equity** |  |
| **Common stock** | 50,000 |
| **Retained earnings** | 6,650 |
| **Total stockholders' equity** | 56,650 |
| **Total liabilities and stockholders' equity** | $ 84,150 |

21) a) Total assets = $48,000 + $65,500 + $10,500 − $8,500 + $15,000 − $15,000 − $46,600 − $4,000 = $64,900

|  |  |
| --- | --- |
| Wilson Fitness Center | |
| Statement of Cash Flows | |
| For the Year Ended December 31, Year 1 | |
| **Cash flows from operating activites** |  |
| **Cash receipt from revenue** | $ 65,500 |
| **Cash payment for expense** | (55,100) |
| **Net cash flow from operating activities** | $ 10,400 |
| **Cash flows for investing activities** |  |
| **Cash payment for land** | $ (15,000) |
| **Cash flows from financing activities** |  |
| **Cash receipt from loan** | 10,500 |
| **Cash receipt from stock issue** | 48,000 |
| **Cash dividend paid to owners** | (4,000) |
| **Net cash flow from financing activities** | $ 54,500 |
| **Net increase in cash** | 49,900 |
| **Plus: Beginning cash balance** | 0 |
| **Ending cash balance** | $ 49,900 |

22) a) $9,700, b) $3,500, c) $3,500, d) $14,500  
   
 Further breakdown of calculations below:  
   
 Revenue − Expenses of $6,200 = $3,500 net income  
   
 Revenue = $9,700  
   
 Net income = Revenue of $9,700 − $6,200 = $3,500  
   
 Beginning RE + Net income of $3,500 = $3,500 of Ending Retained Earnings  
   
 Ending Common Stock of $11,000 + Ending Retained Earnings of $3,500 = Total Stockholders’ Equity of $14,500

23) a = 16,000  
 b = 28,000  
 c = 28,000  
 d = 12,000  
 e = 96,000  
 f = 100,000  
 g = 24,000  
 h = 16,000  
 i = 96,000  
 j = (16,000)  
 k = 28,000  
 l = 24,000

24) a.

|  |  |
| --- | --- |
| Garber Corporation | |
| Income Statement | |
| For the Year Ended December 31, Year 1 | |
| **Service revenue** | $ 50,000 |
| **Operating expenses** | (37,200) |
| **Net income** | $ 12,800 |
| Garber Corporation | |
| Statement of Changes in Stockholders' Equity | |
| For the Year Ended December 31, Year 1 | |
| **Beginning common stock** | $ 0 |
| **Add: Common stock issued** | 48,000 |
| **Ending common stock** | 48,000 |
| **Beginning retained earnings** | 0 |
| **Add: Net income** | 12,800 |
| **Less: Dividends** | (1,000) |
| **Ending retained earnings** | 11,800 |
| **Total stockholders' equity** | $ 59,800 |
| Garber Corporation | |
| Balance Sheet | |
| As of December 31, Year 1 | |
| **Assets** |  |
| **Cash** | $ 81,800 |
| **Land** | 0 |
| **Total assets** | $ 81,800 |
| **Liabilities** |  |
| **Notes payable** | $ 22,000 |
| **Stockholders' equity** |  |
| **Common stock** | 48,000 |
| **Retained earnings** | 11,800 |
| **Total stockholders' equity** | 59,800 |
| **Total liabilities and stockholders' equity** | $ 81,800 |

b.

|  |  |
| --- | --- |
| Garber Corporation | |
| Statement of Cash Flows | |
| For the Year Ended December 31, Year 1 | |
| **Cash flows from operating activites** |  |
| **Cash receipt from revenue** | $ 50,000 |
| **Cash payment for expense** | (37,200) |
| **Net cash flow from operating activities** | 12,800 |
| **Cash flows for investing activities** |  |
| **Cash receipt from sale of land** | 44,000 |
| **Cash payment for land** | (44,000) |
| **Net cash flow for investing activities** | 0 |
| **Cash flows from financing activities** |  |
| **Cash receipt from loan** | 42,000 |
| **Cash receipt from stock issue** | 48,000 |
| **Cash repayment of loan** | (20,000) |
| **Cash dividend paid to owners** | (1,000) |
| **Net cash flow from financing activities** | 69,000 |
| **Net increase in cash** | 81,800 |
| **Plus: Beginning cash balance** | 0 |
| **Ending cash balance** | $ 81,800 |

25)

|  |  |  |
| --- | --- | --- |
| **Transaction** | **Description** | **Section of statement of cash flows** |
| **1** | Issued stock for $60,000 cash | Financing activities |
| **2** | Borrowed $50,000 cash from bank | Financing activities |
| **3** | Provided services to customers, $35,000 | Operating activities |
| **4** | Purchased land for $70,000 | Investing activities |
| **5** | Paid cash for salaries, $10,000 | Operating activities |
| **6** | Paid cash for supplies, $9,000 | Operating activities |
| **7** | Paid cash dividends, $8,000 | Financing activities |

b) Net cash flows from operating activities = $16,000 ($35,000 − $10,000 − $9,000)  
   
 c) Cash account balance: $48,000 ($60,000 + $50,000 + $35,000 − $70,000 − $10,000 − $9,000 − $8,000)  
   
 d) Total Assets = $118,000 (Cash = $48,000; Land = $70,000)  
   
 e) Retained earnings balance: $8,000 ($35,000 − $10,000 − $9,000 − $8,000)

26) 1)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Event** | **Assets** | | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | |
| **Cash** | **Land** |  | **Notes Payable** |  | **Common Stock** | **+** | **Retained Earnings** |
| **Issued stock** | 60,000 | 0 |  | 0 |  | 60,000 |  | 0 |
| **Borrowed cash** | 40,000 | 0 |  | 40,000 |  | 0 |  | 0 |
| **Revenue** | 72,000 | 0 |  | 0 |  | 0 |  | 72,000 |
| **Land purchase** | (80,000) | 80,000 |  | 0 |  | 0 |  | 0 |
| **Salaries** | (50,000) | 0 |  | 0 |  | 0 |  | (50,000) |
| **Dividends** | (10,000) | 0 |  | 0 |  | 0 |  | (10,000) |
| **Ending balances** | 32,000 | 80,000 |  | 40,000 |  | 60,000 |  | 12,000 |

2)

|  |  |
| --- | --- |
| Campbell Company | |
| Income Statement | |
| For the Year Ended December 31, Year 1 | |
| **Service revenue** | $ 72,000 |
| **Operating expenses** | (50,000) |
| **Net income** | $ 22,000 |
| Campbell Company | |
| Balance Sheet | |
| For the Year Ended December 31, Year 1 | |
| **Assets** |  |
| **Cash** | $ 32,000 |
| **Land** | 80,000 |
| **Total assets** | $112,000 |
| **Liabilities** |  |
| **Notes payable** | $ 40,000 |
| **Stockholders' equity** |  |
| **Common stock** | 60,000 |
| **Retained earnings** | 12,000 |
| **Total stockholders' equity** | 72,000 |
| **Total liabilities and stockholders' equity** | $112,000 |

27) a)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Event** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | |
| **Cash** | **=** |  | **+** | **Common Stock** | **+** | **Retained Earnings** |
| **1.** | 15,000 |  |  |  | 15,000 |  |  |
| **2.** | 28,000 |  |  |  |  |  | 28,000 |
| **3.** | (20,500) |  |  |  |  |  | (20,500) |
| **Totals** | 22,500 |  |  |  | 15,000 |  | 7,500 |

b)

|  |  |
| --- | --- |
| Pinehurst Company | |
| Income Statement | |
| For the Year Ended December 31, Year 1 | |
| **Service revenue** | $ 28,000 |
| **Operating expenses** | (20,500) |
| **Net income** | $ 7,500 |
| Pinehurst Company | |
| Balance Sheet | |
| As of December 31, Year 1 | |
| **Assets** |  |
| **Cash** | $22,500 |
| **Liabilities** | $ 0 |
| **Stockholders' equity** |  |
| **Common stock** | 15,000 |
| **Retained earnings** | 7,500 |
| **Total stockholders' equity** | 22,500 |
| **Total liabilities and stockholders' equity** | $22,500 |

28) a)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Event** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | |
| **Cash** | **=** |  | **+** | **Common Stock** | **+** | **Retained Earnings** |
| **1.** | 25,500 |  |  |  |  |  | 25,500 |
| **2.** | (20,000) |  |  |  |  |  | (20,000) |
| **3.** | 30,000 |  |  |  | 30,000 |  |  |
| **4.** | (2,000) |  |  |  |  |  | (2,000) |
| **Totals** | 33,500 |  |  |  | 30,000 |  | 3,500 |

b)

|  |  |
| --- | --- |
| Fieldstone Company | |
| Income Statement | |
| For the Year Ended December 31, Year 1 | |
| **Service revenue** | $ 25,500 |
| **Operating expenses** | (20,000) |
| **Net income** | $ 5,500 |
| Fieldstone Company | |
| Balance Sheet | |
| As of December 31, Year 1 | |
| **Assets** |  |
| **Cash** | $33,500 |
| **Total Assets** | $33,500 |
| **Liabilities** | $ 0 |
| **Stockholders' equity** |  |
| **Common stock** | 30,000 |
| **Retained earnings** | 3,500 |
| **Total stockholders' equity** | 33,500 |
| **Total liabilities and stockholders' equity** | $33,500 |

29)

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Event** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** | **Statement of Cash Flows** | |
| **a)** | 42,000 |  | NA |  | 42,000 | 42,000 |  | NA |  | 42,000 | 42,000 | OA |
| **b)** | (28,200) |  | NA |  | (28,200) | NA |  | 28,200 |  | (28,200) | (28,200) | OA |
| **c)** | (1,600) |  | NA |  | (1,600) | NA |  | NA |  | NA | (1,600) | FA |

30)

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Event** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** | **Statement of Cash Flows** | |
| **a)** | 12,000 |  | 0 |  | 12,000 | 0 |  | 0 |  | 0 | 12,000 | FA |
| **b)** | (3,200) |  | 0 |  | 0 | 0 |  | 0 |  | 0 | (3,200) | IA |
|  | 3,200 |  | 0 |  | 0 | 0 |  | 0 |  | 0 | 0 |  |
| **c)** | (1,000) |  | 0 |  | (1,000) | 0 |  | 0 |  | 0 | (1,000) | FA |

31)

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Event** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** | **Statement of Cash Flows** | |
| **a)** | 10,000 |  | 0 |  | 0 | 0 |  | 0 |  | 0 | 10,000 | FA |
| **b)** | (2,000) |  | 0 |  | 0 | 0 |  | 0 |  | 0 | (2,000) | IA |
|  | 2,000 |  | 0 |  | 0 | 0 |  | 0 |  | 0 | 0 |  |
| **c)** | 8,000 |  | 0 |  | 8,000 | 8,000 |  | 0 |  | 8,000 | 8,000 | OA |
| **d)** | (6,200) |  | 0 |  | 0 | 0 |  | 6,200 |  | (6,200) | (6,200) | OA |
| **e)** | (1,000) |  | 0 |  | (1,000) | 0 |  | 0 |  | 0 | (1,000) | FA |

32)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| I |  | NA |  | I | NA |  | NA |  | NA | I |

Issuing common stock is an asset source transaction that increases the business's assets (cash) and its stockholders' equity (common stock). It does not affect the income statement but is reported as a cash flow from financing activities in the statement of cash flows.

33)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| I |  | I |  | NA | NA |  | NA |  | NA | I |

Borrowing cash is an asset source transaction that increases a business's assets (cash) and its liabilities (notes payable). It does not affect the income statement but is reported as a cash flow from financing activities in the statement of cash flows.

34)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| I |  | NA |  | I | I |  | NA |  | I | I |

This is an asset source transaction that increases the business's assets (cash). When a business provides services, it earns revenue. Revenue increases net income, which will increase stockholders’ equity (retained earnings) at the end of the accounting period. This event is reported as a cash inflow from operating activities in the statement of cash flows.

35)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| I/D |  | NA |  | NA | NA |  | NA |  | NA | D |

Purchasing land for cash is an asset exchange transaction that increases one asset (land) and decreases another asset (cash). It does not affect the income statement and is reported as an investing activity in the statement of cash flows.

36)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| D |  | NA |  | D | NA |  | I |  | D | D |

Paying expenses is an asset use transaction that decreases the business's assets (cash) and decreases its stockholders’ equity (retained earnings). Note that the expense decreases net income and will decrease retained earnings at the end of the accounting period. It is reported as a cash outflow from operating activities in the statement of cash flows.

37)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| D |  | NA |  | D | NA |  | NA |  | NA | D |

Paying a cash dividend is an asset use transaction that decreases a business's assets (cash) and its stockholders’ equity (retained earnings). The dividends account will decrease retained earnings at the end of the accounting period. It does not affect net income and is reported as a cash outflow from financing activities in the statement of cash flows.

38)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | | | | | **Income Statement** | | | | | **Statement of Cash Flows** |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ Equity** | **Revenue** | **−** | **Expense** | **=** | **Net Income** |
| I |  | I |  | NA | NA |  | NA |  | NA | NA |

Issuing a note to purchase a building is an asset source transaction that increases a business's assets (building) and increases its liabilities (notes payable). It does not affect net income or the statement of cash flows.

39) The Financial Accounting Standards Board (FASB)  
   
 The Financial Accounting Standards Board (FASB) is a privately funded organization with the primary authority for establishing accounting standards in the United States.

40) Markets include consumers, businesses, and resource owners. Consumers use resources. Businesses convert resources to the form that consumers want. Resource owners control the distribution of resources to businesses.

41) Stakeholders are the parties that are interested in operations of an organization. Stakeholders often are users or potential users of accounting information. Stakeholders include resource providers, financial analysts, brokers, attorneys, government regulators and news reporters.

42) International Financial Reporting Standards (IFRS) have been adopted by most countries outside of the United States, and are becoming "global GAAP." Many believe that U.S. companies will be allowed to use either IFRS or U.S. GAAP in the future, and there is an ongoing process to reduce the differences between IFRS and GAAP. The International Accounting Standards Board (IASB), headquartered in London, is responsible for forming these standards.

43) Financial accounting is designed to satisfy the needs of external resource providers (external users) and must adhere to Generally Accepted Accounting Principles. Managerial accounting, however, provides information that is useful to managers within a business (internal users), and does not have to follow GAAP.

44) Similarities: Both types of organizations commonly use specific resources to satisfy consumer demand. These resources are financial resources, physical resources, and labor resources. Accounting systems are used by both types of organizations to measure the cost of the goods and services that are provided, the efficiency and effectiveness of the organizations' operations, and the ability of the organizations to continue to provide goods and services.  
   
 Differences: Not-for-profit organizations are established primarily for motives other than making a profit, while most other businesses are motivated by profit. As a result, factors other than profitability influence the resource allocation priorities of not-for-profit organizations.

45) A business's balance sheet shows the elements: assets, liabilities, and stockholders' equity.

46) A business obtains its assets from creditors, from investors, and from operations.

47) Providing services for cash increases assets and increases stockholders’ equity. It is considered an asset source transaction.  
   
 Providing services for cash increases cash, an asset, and revenue increases equity (retained earnings).

48) Payment of cash dividends decreases assets and decreases stockholders’ equity. It is considered an asset use transaction.  
   
 Paying dividends decreases assets (cash) and decreases equity (retained earnings).

49) $225,000  
   
 Assets = Liabilities $75,000 + Equity $150,000; Assets = $225,000

50) When a business acquires assets from investors, it commits to keep the assets safe and to use the assets in a manner that benefits the investors. The business also grants the investor an ownership interest in the business, thereby allowing the investor (owner) to share in the profits generated by the business. In accounting terms investors are called stockholders. A business's commitment to its stockholders is called stockholders' equity.

51) Paid loan, paid expense, and paid dividends to stockholders.  
   
 Asset use transactions involve a decrease in assets (for example, cash) and will also result in a decrease in either liabilities (paid loan) or equity (paid expense or dividends).

52) The statement of cash flows tells how a company obtained and used cash during the accounting period.  
   
 The statement of cash flows explains the change in cash from the beginning to the end of the period.

53) Issuing stock is reported in the financing activities section.   
 All cash exchanged between a company and its stockholders is considered a financing activity.

54) Revenues, expenses, and dividends are temporary accounts and are closed at the end of the accounting period.  
   
 These accounts are called temporary accounts. Note that dividends are not reported on the income statement or the balance sheet.

55) The balance sheet lists the assets of a business and corresponding claims (liabilities and stockholders' equity) on those assets. It draws its name from the accounting equation.  
   
 The income statement matches revenue (benefits) with the expenses (sacrifices) that were incurred to generate the revenue.  
   
 The statement of changes in stockholders' equity is used to explain the effects of transactions on stockholders' equity during an accounting period.  
   
 The statement of cash flows explains how a company obtained and used cash during the accounting period. The statement classifies cash receipts (inflows) and payments (outflows) into three categories: financing activities, investing activities, and operating activities.

56) An accounting period is the span of time covered by the financial statements, normally one year; the span of time for which income is measured. The practice of pairing together on the income statement revenues and expenses that were incurred in the same accounting period is known as the matching concept.

57) D

The Financial Accounting Standards Board is a privately funded group charged with establishing accounting standards for the U.S. It is not a branch of the U.S. government.

58) A

Businesses transform basic resources provided by resource owners into goods and services that consumers demand. Regulatory agencies set policies that affect the way that businesses operate.

59) B

Businesses borrow money from creditors, and repay the amount borrowed, plus an additional fee known as interest. Investors, in contrast, provide financial resources in exchange for ownership interest in the business. Consumers demand goods and services from businesses.

60) D

Financial accounting is intended to satisfy the needs of external users of accounting information. Managerial accounting, including cost accounting, is intended for the needs of internal users, or managers, of a business. Tax accounting is specifically intended for tax regulatory agencies.

61) A

Managerial accounting provides information primarily for internal users, or managers, of businesses. Managers require more detailed information about a business than do external users, and sometimes that information is nonfinancial in nature. Managerial accounting information focuses on divisional rather than overall profitability and is not typically made available to external users, such as investors.

62) A

Generally Accepted Accounting Principles are established by the Financial Accounting Standards Board.

63) B

The International Accounting Standards Board establishes accounting standards for most countries outside of the U.S.

64) C

The three reporting entities are Jack Henry, Walt Bank, and Wooden Wheels. A separate set of accounting records would be kept for each entity.

65) A

Jack Henry’s cash increase of $204,000 is calculated by subtracting the $652,000 in cash he transferred to Wooden Wheels from the $856,000 in cash he borrowed from Walt Bank. Wooden Wheels will report an increase in cash of $652,000 from the transfer of cash from Jack Henry. Finally, Walt Bank will report a decrease in cash of $856,000 due to the loan it provided Jack Henry.

66) A

Jack Henry’s cash increase of $150,000 is calculated by subtracting the $650,000 in cash he transferred to Wooden Wheels from the $800,000 in cash he borrowed from Walt Bank. Wooden Wheels will report an increase in cash of $650,000 from the transfer of cash from Jack Henry. Finally, Walt Bank will report a decrease in cash of $800,000 due to the loan it provided Jack Henry.

67) D

The four reporting entities are Ellen Gatsby, Ben Gatsby, Sarah Gatsby and Gatsby Company.

68) C

Cash received from providing services to customers is an example of revenue and is an asset source transaction. Cash received fromthe result of a bank loan results in a liability, notes payable. Cash investments made by owners increase the stockholders' equity account common stock. Cash received from the sale of land for its original selling price is an asset exchange transaction that decreases one asset, land, and increases another asset, cash.

69) D

Cash is not an element of the financial statements. It is an account that is part of the element assets.

70) B

Assets are resources that a business uses to conduct its operations. Examples include cash, inventory, equipment, building, land, etc. In the process of conducting operations, a business uses some assets in order to produce greater quantities of other assets. For example, Walmart may use (sell) some of its inventory in order to receive cash from a customer. The cash received is revenue. In this case, the remaining inventory is a resource (asset) that will be used (sold) in the future to produce revenue.

71) D

Businesses obtain assets from three sources. Specifically, businesses can borrow assets from creditors, acquire them from investors (owners), or generate them through operations.

72) C

If total assets decrease, then assets were used. Since the accounting equation must balance (i.e. assets must equal claims), the decrease on the asset (left) side of the accounting equation must be offset by a decrease on the claims (right) side of the equation. Since liabilities, common stock, and retained earnings appear on the right side of the equation, a decrease in an asset account must be offset by a decrease in one of these right-side accounts.

73) D

When a business borrows money from a creditor it accepts an obligation (liability) to repay the money to the creditor in the future. Borrowing money causes the company’s assets and its liabilities to increase. In the accounting equation, assets must equal claims. Liabilities and stockholders’ equity represent the claims on assets.

74) D

When a company has an increase in assets from operations and chooses to reinvest the profits into the business it is referred to as retained earnings. If the business chooses to distribute the increase in assets from operations to the owners of the business, it is called a dividend. A liability would represent an obligation to repay debt to an external party. Common stock represents the proportionate share of ownership each stockholder has in the business.

75) A

The accounting equation shows the equality between a company’s assets and the sources of those assets. The sources include liabilities, common stock and retained earnings. Therefore, Assets = Liabilities + Common Stock + Retained Earnings.

76) B

When a company redistributes its assets back to the owners of the business it is referred to as a dividend. A liability would represent an obligation to repay debt to an external party. Retained earnings are the profits that have been retained within the company rather than distributed to the owners. Common stock represents the proportionate share of ownership each stockholder has in the company.

77) A

In the accounting equation, assets equal claims (liabilities + stockholders’ equity). If assets are $1,400, total claims must also be $1,400. Therefore,liabilities must be $1,400 − $550, or $850.

78) A

In the accounting equation, assets equal claims (liabilities + stockholders’ equity). If assets are $1,000, total claims must also be $1,000. Therefore, liabilities must be $1,000 − $600, or $400.

79) C

Assets = Liabilities + Stockholders’ equity; Stockholders’ equity includes common stock and retained earnings. $50,000 = $22,000 + $15,000 + Retained earnings; Retained earnings = $13,000

80) B

If assets on December 31, Year 1 totaled $117,000, total claims (including liabilities, common stock, and retained earnings) on that date must have also been $117,000. If liabilities were $30,000 and common stock was $27,000, retained earnings on December 31, Year 1 must have been $60,000. At the end of Year 2, the company reported $78,000 in retained earnings, a $18,000 increase. During Year 2, Stosch paid a $29,000 cash dividend, which reduced retained earnings. Therefore, Year 2 net income must have been $18,000 greater than the dividend paid. $29,000 + $18,000 = $47,000.

81) B

If assets on December 31, Year 1 totaled $40,000, total claims (including liabilities, common stock, and retained earnings) on that date must have also been $40,000. If liabilities were $15,000 and common stock was $12,000, retained earnings on December 31, Year 1 must have been $13,000. At the end of Year 2, the company reported $18,000 in retained earnings, a $5,000 increase. During Year 2, Stosch paid a $14,000 cash dividend, which reduced retained earnings. Therefore, Year 2 net income must have been $5,000 greater than the dividend paid. $14,000 + $5,000 = $19,000.

82) D

Issuing common stock increases both assets (cash) and stockholders’ equity (common stock). Stockholders’ equity and liabilities collectively make up claims in the accounting equation.

83) C

In the accounting equation, assets equal claims (liabilities + stockholders’ equity). If assets are $620, total claims must also be $620. Therefore, stockholders' equity must be $620− $190, or $430.

84) A

In the accounting equation, assets equal claims (liabilities + stockholders’ equity). If assets are $500, total claims must also be $500. Therefore, stockholders' equity must be $500− $200, or $300.

85) A

Assets = Liabilities + Stockholders’ equity  
 Assets = Liabilities + Common stock + Retained earnings  
   
 If a company’s total assets increased while liabilities and common stock were unchanged, retained earnings must have increased. In order for retained earnings to increase, the company must have reported net income. In other words, its revenues must have been greater than its expenses.

86) B

Paying cash for land is an asset exchange transaction that increases one asset (land) and decreases another asset (cash). The result is no overall change in total assets.

87) D

Retained earnings of $5,000 is equal to 25% of the company’s assets, indicating that 25% of Turner’s assets are from prior earnings. $8,000, or 40%, of Turner’s assets are liabilities, indicating that those assets are the result of borrowed resources. A company can pay out no more in dividends than it has in its Retained Earnings account.

88) D

Creditors receive first priority in asset distribution during a business liquidation. Therefore, creditors would collect the $106,000 owed to them, leaving the shareholders with the remaining $96,000 ($71,000 common stock + $25,000 retained earnings).

89) B

Creditors receive first priority in asset distribution during a business liquidation. Therefore, creditors would collect the $120,000 owed to them, leaving the shareholders with the remaining $80,000 ($70,000 common stock + $10,000 retained earnings).

90) A

If assets total $128,000, claims must also total $128,000. Claims include liabilities, common stock and retained earnings. Because liabilities and retained earnings equal $74,240, common stock must be $53,760. The common stock account represents the assets that were obtained through investors. $53,760 is 42% of $128,000.

91) D

If assets total $100,000, claims must also total $100,000. Claims include liabilities, common stock and retained earnings. Because liabilities and retained earnings equal $65,000, common stock must be $35,000. The common stock account represents the assets that were obtained through investors. $35,000 is 35% of $100,000.

92) A

On January 1, Year 2:   
 Assets = Liabilities + Common Stock + Retained Earnings   
 $12,500 = $4,500 + $3,000 + Retained Earnings   
 Retained Earnings = $5,000   
 During Year 2:   
 Beginning retained earnings + Net income − Dividends = Ending retained earnings   
 $5,000 + Net Income − $2,000 = $6,000   
 Net Income = $3,000

93) B

Providing services for cash increases a company's assets (cash) and stockholders’ equity (revenue, which closes to retained earnings).

94) B

Cash, an asset, increased by $1,500 (calculated as receipts of $6,500 − payment of $1,000 − payment of $4,000). Stockholders’ equity also increased by $1,500 (calculated as revenue of $6,500 − dividends of $1,000 − expenses of $4,000).

95) D

Beginning Retained Earnings + Revenue − Expenses − Dividends = Ending Retained Earnings  
 Beginning Retained Earnings + $3,100 − $1,650 − $1,050 = $2,850  
 Beginning Retained Earnings = $2,450

96) A

Beginning Retained Earnings + Revenue − Expenses − Dividends = Ending Retained Earnings   
 Beginning Retained Earnings + $1,500 − $800 − $500 = $3,500   
 Beginning Retained Earnings = $3,300

97) D

Paying cash to purchase land is an asset exchange transaction.

98) A

Borrowing cash is an asset source transaction that increases a business's assets (cash) and increases its liabilities (notes payable).

99) A

An asset exchange transaction is one that increases one asset account and decreases another asset account, resulting in no net change in assets. There are no changes to the company's liabilities and stockholders’ equity either. If one of the asset accounts affected is cash, there will be an effect on cash flows.

100) D

Asset use transactions decrease the total amount of assets and the total amount of claims.

101) C

Purchasing land for cash is an asset exchange transaction that does not affect total assets. Issuing stock to owners is an asset source transaction that increases assets. Borrowing cash from a bank is an asset source transaction that increases assets. Expense transactions do not increase assets.

102) C

Net income is $3,600 (Revenue of $8,000 − Expenses of $4,400). Expenses are economic sacrifices incurred to produce revenue. In this case, the company’s sacrifice was a decrease in assets (Cash). Note that dividends are not expenses. Dividends are not paid in order to produce revenue. Instead they are transfers of wealth from the business to its owners. Purchasing land is not an expense because it is not an economic sacrifice incurred to produce revenue.

103) D

A cash dividend decreases the asset account Cash and decreases the stockholders’ equity account Retained Earnings.

104) B

Providing services for cash increases assets (Cash) and increases stockholders’ equity (Retained Earnings).

105) C

Stockholders’ equity is made up of: Common Stock and Retained Earnings. The statement of changes in stockholders’ equity shows changes in those two accounts over the period.

106) B

Dividends are reported as a deduction from retained earnings on the Statement of Changes in Stockholders’ Equity. The other transactions listed (borrowing cash from the bank, purchasing land for cash and paying off a portion of a note payable) do not affect stockholders’ equity.

107) C

The total stockholder’s equity equals Ending Common Stock + Ending Retained Earnings. First, ending common stock is calculated as: beginning common stock + stock Issued or $305,000 + $90,000 = $395,000 ending common stock. Next, ending retained earnings is calculated as: beginning retained earnings + Net income − Dividends or $16,800 + $50,200 − $7,300 = $59,700 ending retained earnings. Finally, ending common stock of $395,000 + ending retained earnings of $59,700 = total stockholders’ equity of $454,700. Paying back a portion of a note payable does not affect stockholders’ equity and therefore it is not included in the calculation.

108) D

The total stockholder’s equity equals Ending Common Stock + Ending Retained Earnings. First, ending common stock is calculated as: beginning common stock + stock Issued or $300,000 + $90,000 = $390,000 ending common stock. Next, ending retained earnings is calculated as: beginning retained earnings + Net income − Dividends or $15,000 + $50,000 − $8,000 = $57,000 ending retained earnings. Finally, ending common stock of $390,000 + ending retained earnings of $57,000 = total stockholders’ equity of $447,000. Paying back a portion of a note payable does not affect stockholders’ equity and therefore it is not included in the calculation.

109) D

Purchasing land (a long-lived asset) for cash is an investing activity. Issuing common stock and paying dividends are both financing activities. Cash inflow from interest revenue is an operating activity.

110) A

Beginning cash balance + Increase from operating activities − Decrease from financing activities +/− Increase or decrease from investing activities = Ending cash balance  
 $3,100 + $11,800 − $2,120 +/− Increase or decrease from investing activities = $11,300  
 $1,480 = Decrease from investing activities

111) A

Beginning cash balance + Increase from operating activities − Decrease from financing activities +/− Increase or decrease from investing activities = Ending cash balance  
 $4,000 + $10,000 − $2,000 +/− Increase or decrease from investing activities = $11,000  
 $1,000 = Decrease from investing activities

112) D

Beginning retained earnings + Revenue − Expenses − Dividends = Ending retained earnings  
 $3,800 + $11,200 − Expenses − $800 = $7,100  
 Expenses = $7,100

113) C

Beginning retained earnings + Revenue − Expenses − Dividends = Ending retained earnings  
 $3,500 + $22,000 − Expenses − $1,500 = $7,500  
 Expenses = $16,500

114) C

Assets = Liabilities + Common Stock + Ending Retained Earnings  
 $28,000 = Liabilities + $5,800 + $7,800  
 Liabilities = $14,400

115) A

Assets = Liabilities + Common Stock + Ending Retained Earnings  
 $50,000 = Liabilities + $15,000 + $7,500  
 Liabilities = $27,500

116) B

The balance sheet provides information about a company as of a specific point in time, the other three statements provide information about a period of time such as a month, a quarter, or a year.

117) A

The balance sheet accounts are permanent accounts; they contain information carried forward from one accounting period to the next (that is, the ending account balance of one period becomes the beginning account balance of the next period). Temporary accounts are used to collect retained earnings data applicable to only the current accounting period (that is, revenue, expenses, and dividends). The Dividend account is a temporary account; it collects distributions to stockholders during the current accounting period only.

118) C

Paying cash dividends, and any cash exchanged between a company and its stockholders, is a financing activity.

119) C

The income statement matches asset increases from operations (revenues) with asset decreases from operations (expenses).

120) C

Cash revenue and cash expenses are operating activities. Paying dividends is a financing activity. $2,900 revenue − $1,700 expense = $1,200 cash inflow from operating activities.

121) C

Cash revenue and cash expenses are operating activities. Paying dividends is a financing activity. $1,500 revenue − $1,200 expense = $300 cash inflow from operating activities.

122) D

Providing services to a customer for cash increases assets and stockholders’ equity on the balance sheet. It also increases revenue, and therefore, net income on the income statement.

123) A

Revenue minus expenses equal net income of $1,650 (calculated as $2,900 − $1,250). Total assets increased by $900 (calculated as $2,900 − $1,250 − $750). Cash from operating activities increased by $1,650 (calculated as $2,900 − $1,250). There was a cash outflow from financing activities of $750 (the amount of the cash dividend).

124) D

Revenue minus expenses equal net income of $350 (calculated as $1,950 − $1,600). Total assets increased by $200 (calculated as $1,950 − $1,600 − $150). Cash from operating activities increased by $350 (calculated as $1,950 − $1,600). There was a cash outflow from financing activities of $150 (the amount of the cash dividend).

125) B

Repaying a bank loan is a cash outflow from financing activities that decreases assets (cash) and decreases liabilities (notes payable).

126) C

Beginning retained earnings + Revenues − Expenses − Dividends = Ending retained earnings  
 $750 + $2,900 − Expenses −$650 = $1,600  
 Expenses = $1,400

127) B

Beginning retained earnings + Revenues − Expenses − Dividends = Ending retained earnings   
 $300 + $1,100 − Expenses − $200 = $800   
 Expenses = $400

128) C

$78,000 inflow from consulting services − $19,000 outflow for rent expense − $41,000 outflow for salaries expense = $18,000 cash inflow from operating activities

129) B

$39,000 inflow from consulting services − $9,000 outflow for rent expense − $21,000 outflow for salaries expense = $9,000 cash inflow from operating activities

130) B

Beginning notes payable balance $0 + $27,000 loan − $17,000 repayment = $10,000 ending balance

131) D

Beginning notes payable balance $0 + $25,000 loan − $15,000 repayment = $10,000 ending balance

132) B

$40,000 revenue − $9,500 rent expense − $22,000 salaries expense = $8,500 net income

133) A

$39,000 revenue − $9,000 rent expense − $21,000 salaries expense = $9,000 net income

134) A

Net cash flow from financing activities = $375 inflow from stock − $255 outflow for loan repayment − $110 outflow for dividends = $10.

135) C

Net cash flow from financing activities = $325 inflow from stock − $220 outflow for loan repayment − $100 outflow for dividends = $5

136) C

Retained Earnings in the first year of operations is zero until revenues, expenses and dividends are closed to retained earnings.

137) B

Retained Earnings in the first year of operations is zero until revenues, expenses and dividends are closed to retained earnings.

138) D

Stockholders’ equity = Common stock + Retained earnings  
 At end of Year 1:  
 Stockholders’ equity = $1,250 common stock issued + ($0 beginning balance + $900 revenue − $310 expenses − $110 dividend) = $1,730

139) D

Stockholders’ equity = Common stock + Retained earnings  
 At end of Year 1:  
 Stockholders’ equity = $950 common stock issued + ($0 beginning balance + $650 revenue − $250 expenses − $50 dividend) = $1,300

140) C

$600 beginning balance + $1,250 revenue − $560 expenses − $200 dividends = $1,090

141) A

$350 beginning balance + $750 revenue − $360 expenses − $100 dividends = $640

142) D

Year 1 ending balance of assets = $1,900 + $1,370 + $1,550 − $440 − $240 = $4,140.  
 Year 1 ending balance of assets becomes Year 2 beginning balance of Assets.  
 $4,140 beginning balance + $1,275 − $885 + $1,700 − $740 − $290 = $5,200

143) A

Year 1 ending balance of assets = $950 + $420 + $650 − $250 − $50 = $1,720.  
 Year 1 ending balance of assets becomes Year 2 beginning balance of Assets.  
 $1,720 beginning balance + $325 − $220 + $750 − $360 − $100 = $2,115

144) C

$750 inflow from revenue − $280 outflow for expenses = $470 inflow

145) A

$650 inflow from revenue − $250 outflow for expenses = $400 inflow

146) D

Paying cash for dividends and receiving cash for common stock are financing activities. Selling land for cash is an investing activity.

147) A

$9,200 cash inflow from issuing stock − $900 cash outflow for dividends = $8,300 net cash inflow from financing activities

148) D

$9,000 cash inflow from issuing stock − $250 cash outflow for dividends = $8,750 net cash inflow from financing activities

149) D

Paying cash for rent expense decreases assets (cash) and decreases stockholders’ equity (expenses decrease retained earnings). Liabilities are not affected. It is reported as a cash outflow from operating activities on the statement of cash flows.

150) D

Paying cash to purchase land is an asset exchange transaction that decreases one asset (cash) and increases another asset (land); therefore, there is no overall effect on total assets, total liabilities, or total stockholders’ equity. It is reported as a cash outflow from investing activities on the statement of cash flows.

151) D

$1,250 cash inflow from issuing stock − $1,825 cash outflow for loan repayment − $1,540 cash outflow for dividends = $2,115 cash outflow from financing activities

152) A

$1,000 cash inflow from issuing stock − $2,600 cash outflow for loan repayment − $1,280 cash outflow for dividends = $2,880 cash outflow from financing activities

153) D

$0 beginning balance + $4,500 (cash) + $2,950 (cash) + $3,850 (cash) − $2,550 (cash) − $550 (cash) = $8,200

154) A

$0 beginning balance + $6,000 (cash) + $4,400 (cash) + $6,200 (cash) − $4,800 (cash) − $800 (cash) = $11,000

155) B

$0 beginning balance + $3,650 revenue − $2,510 expense − $510 dividends = $630

156) D

$0 beginning balance + $6,200 revenue − $4,800 expense − $800 dividends = $600

157) A

$2,500 beginning balance − $1,510 loan repayment = $990

158) B

$4,400 beginning balance − $2,600 loan repayment = $1,800

159) D

$530 beginning balance + $2,100 revenue − $860 expenses = $1,770

160) A

$500 beginning balance + $1,200 revenue − $800 expenses = $900

161) A

Expenses and revenues are reported on the income statement. Only permanent accounts are reported on the balance sheet. Net income is reported on the statement of stockholders’ equity, but expenses are not.

162) D

Although the dividend account is a temporary account, dividends are not included on the income statement. They are, however, reported as a deduction from retained earnings on the statement of changes in stockholders’ equity and as a cash outflow from financing activities on the statement of cash flows.

163) B

Liabilities is an element on the balance sheet. Liabilities do not appear on the income statement, statement of cash flows, or the statement of changes in stockholders' equity.

164) C

Earning cash revenue increases assets (cash) and equity (retained earnings) on the balance sheet. It increases both revenue and net income on the income statement and is reported as a cash inflow from operating activities on the statement of cash flows.

165) B

Paying cash for expenses decreases assets (cash) and decreases equity (retained earnings) on the balance sheet. It increases expenses which decreases net income on the income statement and is reported as a cash outflow from operating activities on the statement of cash flows.

166) C

Paying cash dividends decreases assets (cash) and decreases equity (retained earnings) on the balance sheet. It does not affect the income statement but is reported as a cash outflow from financing activities on the statement of cash flows.

167) C

Paying cash dividends decreases assets (cash) and decreases equity (retained earnings) on the balance sheet. It does not affect the income statement but is reported as a cash outflow from financing activities on the statement of cash flows.

168) A

Issuing common stock increases assets (cash) and stockholders’ equity (common stock). It does not affect the income statement but is reported as a cash inflow from financing activities on the statement of cash flows.

169) D

Borrowing cash increases assets (cash) and increases liabilities (notes payable). It does not affect the income statement but is reported as a cash inflow from financing activities on the statement of cash flows.

170) A

Selling land for cash increases one asset (cash) and decreases another asset (land), so it does not affect overall assets, liabilities or stockholders’ equity. It does not affect the income statement but is reported as a cash inflow from investing activities on the statement of cash flows.

171) C

An asset source transaction increases assets and can either increase liabilities (in the case of borrowing cash) or stockholders’ equity (in the case of issuing stock or earning revenue). It may or may not affect revenue and net income. If the asset that increases is cash, it is reported as a cash inflow on the statement of cash flows and can be either an operating or a financing activity.

172) A

An asset exchange transaction increases one asset and decreases another asset. It does not affect liabilities or stockholders’ equity. It does not affect the income statement and can be reported as a cash inflow or outflow on the statement of cash flow as either an operating or an investing activity.

173) A

An asset use transaction decreases assets and decreases either liabilities (in the case of repaying debt) or stockholders’ equity (in the case of paying dividends or expenses). It may or may not increase expenses and decrease net income. If the asset that decreased is cash, it will be reported as an outflow from financing or operating activities on the statement of cash flows.

174) B

Earning cash revenue must have been the event that affected the financial statements as indicated because it increased revenue and net income on the income statement and was reported as a cash inflow from operating activities on the statement of cash flows.

175) A

Issuing common stock would increase assets (cash) and increase stockholders’ equity (common stock). It would not affect net income but would be reported as a cash inflow from financing activities on the statement of cash flows.

176) B

Incurring a cash expense would decrease assets (cash) and decrease stockholders’ equity (retained earnings). It would increase expenses and decrease net income and would be reported as a cash outflow from operating activities on the statement of cash flows.

177) D

Investing in land would be an asset exchange transaction that would increase one asset (land) and decrease another asset (cash). Therefore, it would have no net impact on assets. It would not affect the income statement but would be reported as a cash outflow from investing activities on the statement of cash flows.

178) A

When Northern Corporation purchases land from South Company, Northern's cash balance will decrease and South's cash balance will increase. Northern will report it as a cash outflow from investing activities, and Southern will report it as a cash inflow from investing activities.

179) D

An asset source transaction is any transaction that results in a net increase in assets. It could be accompanied by an increase in liabilities (as in the case of borrowing cash), an increase in stockholders’ equity with no effect on the income statement (as in the case of issuing common stock), or an increase in stockholders’ equity that does increase net income (as in the case of earning revenue). It could be reported as either a financing activity or an operating activity on the statement of cash flows.

180) A

The decrease in assets indicates that assets have been used. The decrease in liabilities indicates that the assets were used to pay off debt.

181) D

The increase in assets and liabilities indicates that the Company has borrowed $50,000 from creditors.

182) A

Net income is calculated by subtracting the expenses of a business from the revenues earned during the period. Net income in this scenario is calculated by subtracting the $15,000 in cash expenses from the $20,000 in cash revenues to arrive at net income of $5,000. The $100,000 cash contribution from Jessica Jones will have no impact on net income for the period.

183) C

No recording is necessary for changes in market value that result in an increase in the value of a long-term asset.

184) C

As shown below the only amount that would balance the accounting equation is $700.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| 500 + 800 | = | 200 | + | 400 |  | ? = 700 |

185) C

According to the accounting equation the total amount of cash in the business is $400.Therefore the company cannot pay $600 dividend.Note there is no cash in the retained earnings account.Retained earnings represents a source of assets not an amount of cash.Also, the $400 of cash is insufficient to pay the total liabilities of $800 or even a $600 partial payment of them.

186) D

Retained earnings represents the portion of assets that have been generated through earnings.Since dividends are a distribution of asset that have been generated through earnings, the company cannot pay more than $400 of dividends, regardless of the fact that it has $600 cash.Since the company has $600 cash it cannot pay off its $1,000 note payable.However, it can make a $600 partial payment on the $1,000 note payable.The repayment of debt is limited by the $600 amount of cash the company has, not the $400 amount of its retained earnings.

187) A

Begin by recording the events in the accounting equation and the determine the amount of the account balances as of December 31, Year 2.The correct result is as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | |
| **Cash** | **+** | **Land** | **=** | **Notes Payable** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| 600 | + | 2,200 | = | 1,000 | + | 1,400 | + | 400 |
| (500) | + |  | = | (500) | + |  | + |  |
| 700 | + |  | = |  | + |  | + | 700 |
| (400) | + |  | = |  | + |  | + | (400) |
| (100) | + |  | = |  | + |  | + | (100) |
| 300 | + | 2,200 | = | 500 | + | 1,400 | + | 600 |

Finally, divide the ending balance of notes payable by the total amount of assets $500 ÷ ($300 + $2,200) = 20%  
   
 Be sure you understand the following terminology.When a business acquires assets from a **creditor**, the company is said to have incurred a **liability**.Normally, the company has to sign an agreement that specifies, among other things, when the liability must be repaid.The agreement is frequently called a **note payable**.

188) B

Begin by recording the events in the accounting equation and the determine the amount of the account balances as of December 31, Year 2.The correct result is as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** | | | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | |
| **Cash** | **+** | **Land** | **=** | **Notes Payable** | **+** | **Common Stock** | **+** | **Retained Earnings** |
| 600 | + | 2,200 | = | 1,000 | + | 1,400 | + | 400 |
| (500) | + |  | = | (500) | + |  | + |  |
| 700 | + |  | = |  | + |  | + | 700 |
| (400) | + |  | = |  | + |  | + | (400) |
| (100) | + |  | = |  | + |  | + | (100) |
| 300 | + | 2,200 | = | 500 | + | 1,400 | + | 600 |

Finally, divide the ending balance of retained earnings by the total amount of assets $600 ÷ ($300 + $2,200) = 24%

189) B

The stockholders reap the reward of a profitable business and suffer the consequences of losses incurred.In this case the business earned $2,000 ($4,000 Revenue− $2,000 Expenses). As a result, the stockholders would receive $8,000 in the liquidation ($6,000 original investment + $2,000 retained earnings).

190) C

The stockholders reap the reward of a profitable business and suffer the consequences of losses incurred.In this case the business incurred a $60,000 loss ($120,000 Revenue− $180,000 Expenses).As a result, the stockholders would receive zero.The $60,000 loss would more than wipe out their $50,000 investment.Indeed, even the creditor would suffer a $10,000 loss.At the end of the Year 1 there would only be $35,000 cash left in the business ($50,000 from investors + $45,000 from the bank, $120,000 from revenue− $180,000 of expenses).While creditors have first priority in a business liquation, they cannot receive assets that the business does not have.In this case, even though the creditors put $45,000 in the business, they would only receive $35,000 back. While creditors get first claim on assets, they are still at risk of losing some or all of the assets loaned to a business.First claim increase security but it does not eliminate risk.

191) A

Net income is $800 (Revenue of $3,000− Expenses of $2,200).Expenses are economic sacrifices incurred to produce revenue.In this case, the company’s sacrifice was a decrease in assets (cash).Note that dividends are not expenses.Dividends are not paid in order to produce revenue. Instead they are transfers of wealth from the business to its owners.

192) D

Kilgore has two assets at the end of the accounting period.The amount of cash is $1,400 ($5,000 from stock issue + $3,000 from revenue - $4,000 to buy land - $400 to pay dividends - $2,200 to pay expenses).Land is shown on the balance sheet at its historical cost.The amount of the market value would not be shown on the balance sheet.Therefore, the amount of land is $4,000.Total assets are $5,400 ($1,400 cash + $4,000 land).

193) B

Clayton has two assets at the end of the accounting period.The amount of cash is $5,000 ($6,000 beginning balance + $1,500 borrowed + $6,500 from revenue − $4,000 to pay expenses− $5,000 to purchase land).Land shown on the balance sheet is $12,000 ($7,000 beginning balance + $5,000 purchased).Total assets is $17,000 ($5,000 cash + $12,000 land).Liabilities amount to $3,500 ($2,000 beginning balance + $1,500 borrowed).Retained earnings is $10,500 ($8,000 beginning balance + $6,500 revenue − $4,000 expenses).

194) B

Recall that the $6,000 increase in the cash balance is caused by financing, investing, and operating activities. Focus on how each of these activities changed the cash balance. The cash balance increased by $3,000 due to financing activities and decreased by $2,000 due to the investing activities. This explains $1,000 ($3,000 inflow − $2,000 outflow) of the $6,000 net increase in the cash balance. The remaining $5,000 ($6,000 − $1,000) of the total $6,000 increase must have been caused by a net increase in the cash flow from operating activities.

195) C

Investing activities include the purchase or sale of long-term assets. The only transaction affecting investing activities is the purchase of land. Therefore, there was a $4,000 cash outflow for investing activities shown on the statement of cash flows for the purchase of land.

196) D

The amount of net income is $2,000 (Revenue $5,000 − Expenses $3,000). The only transaction affecting investing activities is the purchase of land. Therefore, there was a $7,000 cash outflow for the purchase of land shown on the statement of cash flows. Liabilities are $6,000 ($2,000 beginning balance + $4,000 borrowed).

197) C

Since this is the first year of operation, the beginning balance in the retained earnings account is zero. Also, since the question specifies the **before closing** balance, none of the Year 1 information from the temporary accounts has been transferred to the retained earnings account.Therefore, at this point the retained earnings balance is zero.

198) B

Since this is the first year of operation, the beginning balance in the retained earnings account is zero.At the end of Year 1 the balances in the revenue, expense, and dividend accounts is transferred (closed) to the retained earnings account.Accordingly, the Year 1 after closing balance in the retained earnings account would be $1,000 ($5,000 revenue − $3,000 expenses − $1,000 dividends).

199) A

Revenue, expense, and dividend accounts are temporary accounts that are independent from the retained earnings account.The balances in these temporary accounts are transferred (closed) to the retained earnings account at the end of the accounting period, in this case December 31, Year 2. Therefore, the balance in retained earnings on January 31, Year 2 is $5,500.

200) TRUE

This is true. Resource providers include creditors and investors.

201) TRUE

This is true. Businesses transform resources into goods and services, such as cars, that are desirable to consumers.

202) FALSE

This is false. A business creates value by earning income, so earnings or income describe that value, not assets.

203) FALSE

This is false. Creditors have priority in business liquidations. This means the business uses its assets first to settle the obligations to the creditors. Any assets remaining after the creditors have been paid are then distributed to the investors.

204) TRUE

This is true. The types of resources needed by a business are financial, physical, and labor resources.

205) TRUE

This is true. Financial accounting information is usually less detailed than managerial accounting information.

206) TRUE

This is true. The Financial Accounting Standards Board is charged with establishing accounting standards for US businesses. It is not an agency of the US government, but rather a privately funded organization.

207) TRUE

This is true. A business must report its income, assets, liabilities and stockholders’ equity separate from the owner of that business.

208) FALSE

This is false. The information reported in financial statements is organized into ten categories known as elements. Detailed information about the elements is maintained in records commonly called accounts.

209) TRUE

This is true. Liabilities represent the future obligations of a business entity.

210) FALSE

This is false. There are three sources of assets. First, a business can borrow assets from creditors. The second source of assets is investors. The third source of assets is operations.

211) FALSE

This is false. If a business retains the assets, it commits to use those assets for the benefit of the stockholders. This increase in the business’s commitments to its stockholders is normally called retained earnings.

212) TRUE

This is true. Once an asset is recorded, it is not adjusted for increases in market value.

213) TRUE

This is true. An asset source transaction increases a business's assets and either liabilities or stockholders’ equity, which make up claims to assets.

214) TRUE

This is true. Borrowing money from the bank is an example of an asset source transaction because the asset cash increases as well as the liability notes payable.

215) FALSE

This is false. Because asset use transactions result in a decrease in total assets, total claims must decrease as well.

216) FALSE

This is false. All four financial statements are interconnected.

217) FALSE

This is false. A business's temporary accounts include revenues, expenses, and dividends. Dividends do not appear on the income statement.