


**Pool Canvas**

Add, modify, and remove questions. Select a question type from the Add Question drop-down list and click **Go** to add questions. Use Creation Settings to establish which default options, such as feedback and images, are available for question creation.

Add   [Creation Settings](#)

**Name** Chapter 1--Introduction to Accounting and Business

**Description**

**Instructions**

[Modify](#)

[◀ Add Question Here](#)

Question 1 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
True  
✓ False

[◀ Add Question Here](#)

Question 2 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
✓ True  
False

[◀ Add Question Here](#)

Question 3 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
✓ True  
False

[◀ Add Question Here](#)

Question 4 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
True  
✓ False

[◀ Add Question Here](#)

Question 5 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
✓ True  
False

[◀ Add Question Here](#)

Question 6 **True/False** **0 points**

[Modify](#) [Remove](#)

**Question** Proprietorships are owned by one owner and provide only services to their customers.

**Answer**  
True  
✓ False

[◀ Add Question Here](#)

Question 7 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
True  
✓ False

[◀ Add Question Here](#)

Question 8 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
✓ True  
False

[◀ Add Question Here](#)

Question 9 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
True  
✓ False

[◀ Add Question Here](#)

Question 10 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
True  
✓ False

[◀ Add Question Here](#)

Question 11 **True/False** **0 points**

[Modify](#) [Remove](#)

**Question** An account receivable is typically classified as a revenue.

**Answer** True  
✓ False

◀ [Add Question Here](#)

Question 12 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** True  
✓ False

◀ [Add Question Here](#)

Question 13 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** ✓ True  
False

◀ [Add Question Here](#)

Question 14 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** True  
✓ False

◀ [Add Question Here](#)

Question 15 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** ✓ True  
False

◀ [Add Question Here](#)

Question 16 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** True  
✓ False

◀ [Add Question Here](#)

Question 17 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** ✓ True  
False

◀ [Add Question Here](#)

Question 18 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** ✓ True  
False

◀ [Add Question Here](#)

Question 19 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** ✓ True  
False

◀ [Add Question Here](#)

Question 20 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** ✓ True  
False

◀ [Add Question Here](#)

Question 21 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** True  
✓ False

◀ [Add Question Here](#)

Question 22 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** ✓ True  
False

Question 23	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>
	<b>Question</b> The accounting equation can be expressed as Assets - Liabilities = Owner's Equity.		
	<b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False		
Question 24	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>
	<b>Question</b> The rights or claims to the assets of a business may be subdivided into rights of creditors and rights of owners.		
	<b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False		
Question 25	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>
	<b>Question</b> The owner's rights to the assets rank ahead of the creditors' rights to the assets.		
	<b>Answer</b> <input type="checkbox"/> True <input checked="" type="checkbox"/> False		
Question 26	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>
	<b>Question</b> If the liabilities owed by a business total \$300,000 and owners equity is equal to \$300,000, then the assets also total \$300,000.		
	<b>Answer</b> <input type="checkbox"/> True <input checked="" type="checkbox"/> False		
Question 27	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>
	<b>Question</b> If total assets decreased by \$30,000 during a specific period and owner's equity decreased by \$35,000 during the same period, the period's change in total liabilities was an \$65,000 increase.		
	<b>Answer</b> <input type="checkbox"/> True <input checked="" type="checkbox"/> False		
Question 28	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>
	<b>Question</b> If total assets increased by \$190,000 during a specific period and liabilities decreased by \$10,000 during the same period, the period's change in total owner's equity was a \$200,000 increase.		
	<b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False		
Question 29	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>
	<b>Question</b> If net income for a proprietorship was \$50,000, the owner withdrew \$20,000 in cash and the owner invested \$10,000 in cash, the capital of the owner increased by \$40,000.		
	<b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False		
Question 30	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>
	<b>Question</b> An account receivable is a claim against a customer arising from a sale on account.		
	<b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False		
Question 31	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>
	<b>Question</b> Paying an account payable increases liabilities and decreases assets.		
	<b>Answer</b> <input type="checkbox"/> True <input checked="" type="checkbox"/> False		
Question 32	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>
	<b>Question</b> Receiving payments on an account receivable increases both equity and assets.		
	<b>Answer</b> <input type="checkbox"/> True <input checked="" type="checkbox"/> False		
Question 33	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>
	<b>Question</b> Cash withdrawals by owners decrease assets and increase equity.		
	<b>Answer</b> <input type="checkbox"/> True <input checked="" type="checkbox"/> False		
Question 34	True/False	0 points	<a href="#">Add Question Here</a>
			<a href="#">Modify</a>   <a href="#">Remove</a>

**Question** Purchasing supplies on account increases liabilities and decreases equity.

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 35 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 36 **True/False** **0 points**

[Modify](#) [Remove](#)

**Question** Revenue is earned only when money is received.

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 37 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 38 **True/False** **0 points**

[Modify](#) [Remove](#)

**Question** The excess of revenue over the expenses incurred in earning the revenue is called capital.

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 39 **True/False** **0 points**

[Modify](#) [Remove](#)

**Question** The principal financial statements of a proprietorship are the income statement, statement of owner's equity, and the balance sheet.

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 40 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 41 **True/False** **0 points**

[Modify](#) [Remove](#)

**Question** A statement of owner's equity reports the changes in the owner's equity for a period of time.

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 42 **True/False** **0 points**

[Modify](#) [Remove](#)

**Question** The statement of cash flows consists of three sections: cash flows from operating activities, cash flows from income activities, and cash flows from equity activities.

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 43 **True/False** **0 points**

[Modify](#) [Remove](#)

**Question** The financial statements of a proprietorship should include the owner's personal assets and liabilities.

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 44 **True/False** **0 points**

[Modify](#) [Remove](#)

**Question** The balance sheet represents the accounting equation.

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 45 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  
 True  
 False

[◀ Add Question Here](#)

Question 46 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** True  
 False

[Add Question Here](#)

Question 47 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  True  
 False

[Add Question Here](#)

Question 48 **True/False** **0 points**

[Modify](#) [Remove](#)

**Question** The main objective for all business is to maximize unrealized profits.

**Answer** True  
 False

[Add Question Here](#)

Question 49 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer**  True  
 False

[Add Question Here](#)

Question 50 **True/False** **0 points**

[Modify](#) [Remove](#)

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

**Answer** True  
 False

[Add Question Here](#)

Question 51 **Matching** **0 points**

[Modify](#) [Remove](#)

**Question** Match each transactions with its effect on the accounting equation. Each letter may be used more than once.

**Answer** Match Question Items

- |   |  |
|---|--|
| C. - A. Received cash for services provided                       |  |
| B. - B. Received utility bill to be paid next month               |  |
| C. - C. Investment of land by owner                               |  |
| E. - D. Paid part of an amount owed to a creditor                 |  |
| D. - E. Paid cash for the purchase of a one year insurance policy |  |
| D. - F. Received payment from a customer on account               |  |
| F. - G. Cash withdrawal by owner                                  |  |
| C. - H. Provided a service to a customer on account               |  |
| A. - I. Purchased supplies on credit                              |  |
| F. - J. Paid wages  |  |
| C. - K. Cash investment by owner                                  |  |
| A. - L. Borrowed money from a bank                                |  |
| D. - M. Purchased equipment for cash                              |  |
| C. - N. Received cash for providing services to customers         |  |
| F. - O. Used up supplies that were already on hand                |  |

**Answer Items**

- A. Increase assets, increase liabilities
- B. Increase liabilities, decrease owner's equity
- C. Increase assets, increase owner's equity
- D. No effect
- E. Decrease assets, decrease liabilities
- F. Decrease assets, decrease owner's equity

[Add Question Here](#)

Question 52 **Matching** **0 points**

[Modify](#) [Remove](#)

**Question** Match the following business types with each business listed below. Each may be used more than once.

**Answer**

**Match Question Items**

**Answer Items**

- |                                |                       |
|--------------------------------|-----------------------|
| A. - A. A tax preparation firm | A. Service firm       |
| A. - B. A law firm             | B. Manufacturing firm |
| A. - C. A health club and spa  | C. Merchandising firm |
| C. - D. An automobile dealer   |                       |
| B. - E. A book publisher       |                       |
| A. - F. A hospital             |                       |
| C. - G. A supermarket          |                       |
| B. - H. A modular homebuilder  |                       |
| C. - I. A men's clothing store |                       |
| B. - J. A dressmaking company  |                       |

[Add Question Here](#)

Question 53 **Matching** **0 points**

[Modify](#) [Remove](#)

**Question** Match each of the following with the transactions below. Each may be used more than once.

**Answer** Match Question Items

- B. - A. A business had revenues of \$825,000 and operating expenses of \$708,000.
- A. - B. A business had revenues of \$430,000 and operating expenses of \$615,000.
- C. - C. Land with an assessed value of \$400,000 for property tax purposes is acquired by a business for \$525,000. Ten years later, the land is sold for \$700,000
- C. - D. A company's ratio of liabilities to owner's equity is 1.50.
- B. - E. Stan Clark's Capital account for January 1, 2010 is \$25,000 and his Capital account for December 31, 2010 is \$24,900. Stan withdraws \$800 during the year.

**Answer Items**

- A. incurred a net loss
- B. realized net income
- C. Not enough information to choose (a) or (b).

- A. - F. Stan Clark's Capital account at January 1, 2011 was \$25,000 and his Capital account at December 31, 2011 was \$23,500. Stan withdraws \$800 during the year.
- B. - G. Jim Starr began his business on January 1, 2011 with a capital account of \$0. Jim withdrew \$2,000 during the year and had an ending capital balance on December 31, 2011 of \$26,050.
- C. - H. A company's ending owner's equity for the year is \$5,000 more than the beginning owner's equity.
- C. - I. A company's cash account was \$25,000 at the beginning of the year and \$47,000 at the end of the year.

[Add Question Here](#)

Question 54 **Matching**

**0 points**

[Modify](#)

[Remove](#)

**Question** Match the following characteristics with the form of business entity that best describes it. Each may be used more than once.

Answer	Match Question Items	Answer Items
A. -	A. Comprises 70% of business entities in the United States	A. Proprietorship
C. -	B. Generates 90% of business revenues	B. Partnership
B. -	C. Owned by two or more individuals	C. Corporation
C. -	D. Organized as a separate legal taxable entity	D. Limited liability company (LLC)
A. -	E. Easy and cheap to organize	
D. -	F. Often used as an alternative to a partnership	
C. -	G. Used by large business	
C. -	H. Has the ability to obtain large amounts of resources	
D. -	I. Offers tax and legal liability advantages for owners	

[Add Question Here](#)

Question 55 **Matching**

**0 points**

[Modify](#)

[Remove](#)

**Question** Match the following characteristics with the financial statement it describes it. Each may be used more than once.

Answer	Match Question Items	Answer Items
B. -	A. Reports as of a specific date	A. Income Statement
A. -	B. The first statement prepared	B. Balance Sheet
D. -	C. Has three sections: operating, investing and financing	C. Statement of Owner's Equity
A. -	D. Reports only revenues and expenses	D. Statement of Cash Flows
C. -	E. The second statement prepared	
B. -	F. A formal presentation of the accounting equation	
C. -	G. The connecting link between the income statement and balance sheet	

[Add Question Here](#)

Question 56 **Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** Profit is the difference between

- Answer**
- assets and liabilities
  - the incoming cash and outgoing cash
  - the assets purchased with cash contributed by the owner and the cash spent to operate the business
  - ✓ the amounts received from customers for goods or services and the amounts paid for the inputs used to provide the goods or services.

[Add Question Here](#)

Question 57 **Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** Most businesses in the United States are

- Answer**
- ✓ proprietorships
  - partnerships
  - corporations
  - separate entities

[Add Question Here](#)

Question 58 **Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** Which of the items below is not a business entity?

- Answer**
- ✓ entrepreneurship
  - proprietorship
  - partnership
  - corporation

[Add Question Here](#)

Question 59 **Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** An entity that is organized according to state or federal statutes and in which ownership is divided into shares of stock is a

- Answer**
- proprietorship
  - ✓ corporation
  - partnership
  - governmental unit

[Add Question Here](#)

Question 60 **Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** Financial reports are used by

- Answer**
- management
  - creditors
  - investors
  - ✓ all are correct

Question 61	Multiple Choice	0 points	<a href="#">Add Question Here</a>
	<b>Question</b> Which of the following <b>best</b> describes accounting?		
	<b>Answer</b> records economic data but does not communicate the data to users according to any specific rules. <input checked="" type="checkbox"/> is an information system that provides reports to users regarding economic activities and condition of a business. <input type="checkbox"/> is of no use by individuals outside of the business. <input type="checkbox"/> is used only for filling out tax returns and for financial statements for various type of governmental reporting requirements.		
			<a href="#">Add Question Here</a>
Question 62	Multiple Choice	0 points	<a href="#">Add Question Here</a>
	<b>Question</b> Two common areas of accounting that respectively provide information to internal and external users are:		
	<b>Answer</b> forensic accounting and financial accounting <input checked="" type="checkbox"/> managerial accounting and financial accounting <input type="checkbox"/> managerial accounting and environmental accounting <input type="checkbox"/> financial accounting and tax accounting systems		
			<a href="#">Add Question Here</a>
Question 63	Multiple Choice	0 points	<a href="#">Add Question Here</a>
	<b>Question</b> Which type of accountant typically practices as an individual or as a member of a public accounting firm?		
	<b>Answer</b> <input checked="" type="checkbox"/> Certified Public Accountant <input type="checkbox"/> Certified Payroll Professional <input type="checkbox"/> Certified Internal Auditor <input type="checkbox"/> Certified Management Accountant		
			<a href="#">Add Question Here</a>
Question 64	Multiple Choice	0 points	<a href="#">Add Question Here</a>
	<b>Question</b> All of the following are general-purpose financial statements <b>except</b> :		
	<b>Answer</b> balance sheet <input type="checkbox"/> income statement <input type="checkbox"/> statement of owner's equity <input checked="" type="checkbox"/> cash budget		
			<a href="#">Add Question Here</a>
Question 65	Multiple Choice	0 points	<a href="#">Add Question Here</a>
	<b>Question</b> Which of the following is a manufacturing business?		
	<b>Answer</b> Amazon.com. <input type="checkbox"/> Wal-Mart. <input checked="" type="checkbox"/> Ford Motors. <input type="checkbox"/> Delta Airlines		
			<a href="#">Add Question Here</a>
Question 66	Multiple Choice	0 points	<a href="#">Add Question Here</a>
	<b>Question</b> Which of the following group of companies are all examples of a merchandising business?		
	<b>Answer</b> Delta Airlines, Marriott, Gap <input type="checkbox"/> Gap, Amazon, NIKE <input type="checkbox"/> GameStop, Sony, Dell <input checked="" type="checkbox"/> GameStop, Best Buy, Gap		
			<a href="#">Add Question Here</a>
Question 67	Multiple Choice	0 points	<a href="#">Add Question Here</a>
	<b>Question</b> Which of the following would <b>not</b> normally operate as a service business?		
	<b>Answer</b> Pet Groomers <input checked="" type="checkbox"/> Restaurant <input type="checkbox"/> Lawn Care Company <input type="checkbox"/> Styling Salon		
			<a href="#">Add Question Here</a>
Question 68	Multiple Choice	0 points	<a href="#">Add Question Here</a>
	<b>Question</b> Select the type of business that is most likely to obtain large amounts of resources by issuing stock.		
	<b>Answer</b> Partnership <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Proprietorship <input type="checkbox"/> None are correct.		
			<a href="#">Add Question Here</a>
Question 69	Multiple Choice	0 points	<a href="#">Add Question Here</a>
	<b>Question</b> Which of the following is <b>true</b> in regards to a Limited Liability Company?		
	<b>Answer</b> Makes up 10% of business organizations in the United States. <input type="checkbox"/> Combines the attributes of a partnership and a corporation. <input type="checkbox"/> Provides tax and liability advantages to the owners. <input checked="" type="checkbox"/> All are correct.		
			<a href="#">Add Question Here</a>
Question 70	Multiple Choice	0 points	<a href="#">Add Question Here</a>

**Question** On April 25, Gregg Repair Service extended an offer of \$115,000 for land that had been priced for sale at \$140,000. On May 3, Gregg Repair Service accepted the seller's counteroffer of \$127,000. On June 20, the land was assessed at a value of \$88,000 for property tax purposes. On August 4, Gregg Repair Service was offered \$150,000 for the land by a national retail chain. At what value should the land be recorded in Gregg Repair Service's records?

- Answer**
- \$115,000
  - \$88,000
  - \$140,000
  - ✓ \$127,000

◀ [Add Question Here](#)

Question 71 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following groups are considered to be **internal users** of accounting information?

- Answer**
- Employees and customers
  - Customers and vendors
  - ✓ Employees and managers
  - Government and banks

◀ [Add Question Here](#)

Question 72 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The following are examples of external users of accounting information **except**:

- Answer**
- government
  - customers
  - creditors
  - ✓ all of the above

◀ [Add Question Here](#)

Question 73 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Due to various fraudulent business practices and accounting coverups in the early 2000's, Congress enacted the Sarbanes-Oxley Act of 2002. The Act was responsible for establishing a new oversight board for public accountants called the

- Answer**
- Generally Accepted Accounting Practices for Public Accountants Board.
  - ✓ Public Company Accounting Oversight Board.
  - Congressional Accounting Oversight Board.
  - None are correct.

◀ [Add Question Here](#)

Question 74 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following is the **best** description of accounting's role in business?

- Answer**
- Accounting provides stockholders with information regarding the market value of the company's stocks.
  - ✓ Accounting provides information to managers to operate the business and to other users to make decisions regarding the economic condition of the company.
  - Accounting provides creditors and banks with information regarding the credit risk rating of the company.
  - Accounting is not responsible for providing any form of information to users. That is the role of the Information Systems Department.

◀ [Add Question Here](#)

Question 75 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Managerial accountants would be responsible for providing the following information:

- Answer**
- Tax reports to government agencies.
  - Profit reports to owners and management.
  - ✓ Expansion of a product line report to management.
  - Consumer reports to customers.

◀ [Add Question Here](#)

Question 76 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following is **not** a certification for accountants?

- Answer**
- CIA
  - CMA
  - CISA
  - ✓ All are certifications.

◀ [Add Question Here](#)

Question 77 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following is **not** a characteristic of a corporation?

- Answer**
- Corporations are organized as a separate legal taxable entity
  - Ownership is divided into shares of stock.
  - Corporations experience an ease in obtaining large amounts of resources by issuing stock.
  - ✓ A corporation's resources are limited to their individual owners' resources.

◀ [Add Question Here](#)

Question 78 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following is **not** a role of accounting in business?

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

[◀ Add Question Here](#)Question 79 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

**Question** Which of the following are guidelines for behaving ethically?

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

**Answer**

I and II.  
 II and III.  
 I and III.  
 I, II, and III.

[◀ Add Question Here](#)Question 80 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

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

**Answer**

Indefinitely  
 One year  
 Two years  
 There is no such prohibition.

[◀ Add Question Here](#)Question 81 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

**Question** The initials GAAP stand for

**Answer**

General Accounting Procedures  
 Generally Accepted Plans  
 Generally Accepted Accounting Principles  
 Generally Accepted Accounting Practices

[◀ Add Question Here](#)Question 82 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

**Question** Within the United States, the dominant body in the primary development of accounting principles is the

**Answer**

American Institute of Certified Public Accountants (AICPA)  
 American Accounting Association (AAA)  
 Financial Accounting Standards Board (FASB)  
 Institute of Management Accountants (IMA)

[◀ Add Question Here](#)Question 83 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

**Question** The business entity concept means that

**Answer**

the owner is part of the business entity  
 an entity is organized according to state or federal statutes  
 an entity is organized according to the rules set by the FASB  
 the entity is an individual economic unit for which data are recorded, analyzed, and reported

[◀ Add Question Here](#)Question 84 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

**Question** For accounting purposes, the business entity should be considered separate from its owners if the entity is

**Answer**

a corporation  
 a proprietorship  
 a partnership  
 all of the above

[◀ Add Question Here](#)Question 85 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

**Question** The objectivity concept requires that

**Answer**

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

[◀ Add Question Here](#)Question 86 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

**Question** Denzel Jones owns and operates Crystal Cleaning Company. Recently, Denzel withdrew \$18,000 from Crystal Cleaning, and he contributed \$14,000, in his name, to Habitat for Humanity. The contribution of the \$14,000 should be recorded on the accounting records of which of the following entities?

**Answer**

Crystal Cleaning and Habitat for Humanity  
 Denzel Jones' personal records and Habitat for Humanity  
 Denzel Jones' personal records and Crystal Cleaning  
 Denzel Jones' personal records, Crystal Cleaning, and Habitat for Humanity

[◀ Add Question Here](#)Question 87 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

**Question** Equipment with an estimated market value of \$55,000 is offered for sale at \$75,000. The equipment is acquired for \$20,000 in cash and a note payable of \$40,000 due in 30 days. The amount used in the buyer's accounting records to record this acquisition is

- Answer**
- \$55,000
  - \$60,000
  - \$20,000
  - \$75,000

[Add Question Here](#)

Question 88 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

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

- Answer**
- FASB
  - IRS
  - SEC
  - AICPA

[Add Question Here](#)

Question 89 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following concepts relates to separating the reporting of business and personal economic transactions?

- Answer**
- Cost Concept
  - Unit of Measure Concept
  - Business Entity Concept
  - Objectivity Concept

[Add Question Here](#)

Question 90 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Donner Company is selling a piece of land adjacent to their business. An appraisal reported the market value of the land to be \$120,000. The Focus Company initially offered to buy the land for \$107,000. The companies settled on a purchase price of \$115,000. On the same day, another piece of land on the same block sold for \$122,000. Under the cost concept, what is the amount that will be used to record this transaction in the accounting records?

- Answer**
- \$107,000
  - \$115,000
  - \$120,000
  - \$122,000

[Add Question Here](#)

Question 91 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following is **not** true of accounting principles?

- Answer**
- Financial accountants follow generally accepted accounting principles (GAAP).
  - Following GAAP allows accounting information users to compare one company to another.
  - A new accounting principle can be adopted with stockholders approval.
  - The Financial Accounting Standards Board (FASB) has primary responsibility for developing accounting principles.

[Add Question Here](#)

Question 92 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Assets are

- Answer**
- always greater than liabilities.
  - either cash or accounts receivables
  - the same as expenses because they are acquired with cash
  - financed by the owner and/or creditors

[Add Question Here](#)

Question 93 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Debts owed by a business are referred to as

- Answer**
- accounts receivables
  - equities
  - owner's equity
  - liabilities

[Add Question Here](#)

Question 94 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The accounting equation may be expressed as

- Answer**
- Assets = Equities - Liabilities
  - Assets + Liabilities = Owner's Equity
  - Assets = Revenues less Liabilities
  - Assets - Liabilities = Owner's Equity

[Add Question Here](#)

Question 95 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following is **not** an asset?

- Answer**
- Investments
  - Cash
  - Inventory
  - Owner's Equity

Question 96	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Add Question Here</a> <a href="#">Modify</a>   <a href="#">Remove</a>
<p><b>Question</b> The assets and liabilities of the company are \$175,000 and \$40,000, respectively. Owner's equity should equal</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>\$215,000</li> <li>✓ \$135,000</li> <li>\$175,000</li> <li>\$40,000</li> </ul>			
Question 97	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Add Question Here</a> <a href="#">Modify</a>   <a href="#">Remove</a>
<p><b>Question</b> If total liabilities decreased by \$55,000 during a period of time and owner's equity increased by \$60,000 during the same period, the amount and direction (increase or decrease) of the period's change in total assets is</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>\$115,000 increase</li> <li>✓ \$5,000 increase</li> <li>\$5,000 decrease</li> <li>\$115,000 decrease</li> </ul>			
Question 98	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Add Question Here</a> <a href="#">Modify</a>   <a href="#">Remove</a>
<p><b>Question</b> Which of the following is <b>not</b> a business transaction?</p> <p><b>Answer</b> ✓</p> <ul style="list-style-type: none"> <li>make a sales offer</li> <li>sell goods for cash</li> <li>receive cash for services to be rendered later</li> <li>pay for supplies</li> </ul>			
Question 99	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Add Question Here</a> <a href="#">Modify</a>   <a href="#">Remove</a>
<p><b>Question</b> A business paid \$7,000 to a creditor in payment of an amount owed. The effect of the transaction on the accounting equation was to</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>increase one asset, decrease another asset</li> <li>✓ decrease an asset, decrease a liability</li> <li>increase an asset, increase a liability</li> <li>increase an asset, increase owner's equity</li> </ul>			
Question 100	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Add Question Here</a> <a href="#">Modify</a>   <a href="#">Remove</a>
<p><b>Question</b> Earning revenue</p> <p><b>Answer</b> ✓</p> <ul style="list-style-type: none"> <li>increases assets, increases owner's equity.</li> <li>increases assets, decreases owner's equity</li> <li>increases one asset, decreases another asset</li> <li>decreases assets, increases liabilities</li> </ul>			
Question 101	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Add Question Here</a> <a href="#">Modify</a>   <a href="#">Remove</a>
<p><b>Question</b> The monetary value charged to customers for the performance of services sold is called a(n)</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>asset</li> <li>net income</li> <li>capital</li> <li>✓ revenue</li> </ul>			
Question 102	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Add Question Here</a> <a href="#">Modify</a>   <a href="#">Remove</a>
<p><b>Question</b> Revenues are reported when</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>a contract is signed</li> <li>cash is received from the customer</li> <li>work is begun on the job</li> <li>✓ work is completed on the job</li> </ul>			
Question 103	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Add Question Here</a> <a href="#">Modify</a>   <a href="#">Remove</a>
<p><b>Question</b> Expenses are recorded when</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>cash is paid for services rendered</li> <li>a bill is received in advance of services rendered</li> <li>✓ assets are used in the process of earning revenue</li> <li>none of these</li> </ul>			
Question 104	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Add Question Here</a> <a href="#">Modify</a>   <a href="#">Remove</a>
<p><b>Question</b> Goods purchased on account for future use in the business, such as supplies, are called</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>prepaid liabilities</li> <li>revenues</li> <li>✓ prepaid expenses</li> <li>liabilities</li> </ul>			
<a href="#">Add Question Here</a>			

- Question 105 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** The asset created by a business when it makes a sale on account is termed
- Answer**
- accounts payable
  - prepaid expense
  - unearned revenue
  - accounts receivable
- [Add Question Here](#)
- Question 106 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** The debt created by a business when it makes a purchase on account is referred to as an
- Answer**
- account payable
  - account receivable
  - asset
  - expense payable
- [Add Question Here](#)
- Question 107 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** If total assets decreased by \$88,000 during a period of time and owner's equity increased by \$65,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total liabilities is
- Answer**
- \$23,000 increase
  - \$88,000 decrease
  - \$153,000 increase
  - \$153,000 decrease
- [Add Question Here](#)
- Question 108 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** Owner's withdrawals
- Answer**
- increase expenses
  - decrease expenses
  - increase cash
  - decrease owner's equity
- [Add Question Here](#)
- Question 109 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** How does paying a liability in cash affect the accounting equation?
- Answer**
- assets increase; liabilities decrease
  - assets increase; liabilities increase
  - assets decrease; liabilities decrease
  - liabilities decrease; owner's equity increases
- [Add Question Here](#)
- Question 110 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** How does receiving a bill to be paid next month for services rendered affect the accounting equation?
- Answer**
- assets decrease; owner's equity decreases
  - assets increase; liabilities increase
  - liabilities increase; owner's equity increases
  - liabilities increase; owner's equity decreases
- [Add Question Here](#)
- Question 111 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** How does the purchase of equipment by signing a note affect the accounting equation?
- Answer**
- assets increase; assets decrease
  - assets increase; liabilities decrease
  - assets increase; liabilities increase
  - assets increase; owner's equity increases
- [Add Question Here](#)
- Question 112 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** Land, originally purchased for \$20,000, is sold for \$75,000 in cash. What is the effect of the sale on the accounting equation?
- Answer**
- assets increase \$75,000; owner's equity increases \$75,000
  - assets increase \$55,000; owner's equity increases \$55,000
  - assets increase \$75,000; liabilities decrease \$20,000; owner's equity increases \$55,000
  - assets increase \$20,000; no change for liabilities; owner's equity increases \$75,000
- [Add Question Here](#)
- Question 113 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** Allen Marks is the sole owner and operator of Great Marks Company. As of the end of its accounting period, December 31, 2011, Great Marks Company has assets of \$940,000 and liabilities of \$300,000. During 2012, Allen Marks invested an additional \$65,000 and withdrew \$45,000 from the business. What is the amount of net income during 2012, assuming that as of December 31, 2012, assets were \$995,000, and liabilities were \$270,000?
- Answer**
- \$ 65,000
  - \$ 50,000
  - \$105,000
  - \$370,000

[◀ Add Question Here](#)Question 114 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** Transactions affecting owner's equity include

- Answer**
- owner's investments and payment of liabilities
  - owner's investments and owner's withdrawals, revenues, and expenses
  - owner's investments, revenues, expenses, and collection of accounts receivable
  - owner's withdrawals, revenues, expenses, and purchase of supplies on account

[◀ Add Question Here](#)Question 115 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** Clifford Moore is starting his computer programming business and has deposited in initial investment of \$15,000 into the business cash account. Identify how the accounting equation will be affected.

- Answer**
- Increase Assets (Cash) and increase Liabilities (Accounts Payable)
  - Increase Assets (Cash) and increase Owner's Equity (Clifford Moore, Capital)
  - Increase Assets (Accounts Receivable) and decrease Liabilities (Accounts Payable)
  - Increase Assets (Cash) and increase Assets (Accounts Receivable)

[◀ Add Question Here](#)Question 116 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** Gomez Service Company paid their first installment on their Notes Payable in the amount of \$2,000. How will this transaction affect the accounting equation?

- Answer**
- Increase Liabilities (Notes Payable) and decrease Assets (Cash)
  - Decrease Assets (Cash) and decrease Owner's equity (Note Payable Expense)
  - Decrease Assets (Cash) and decrease Assets (Notes Receivable)
  - Decrease Assets (Cash) and decrease Liabilities (Notes Payable)

[◀ Add Question Here](#)Question 117 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** Ramon Ramos has withdrawn \$750 from Ramos Repair Company's cash account to deposit in his personal account. How does this transaction affect Ramos Repair Company's accounting equation?

- Answer**
- Increase Assets (Accounts Receivable) and decrease Assets (Cash)
  - Decrease Assets (Cash) and decrease Owner's Equity (Owner's Withdrawal)
  - Decrease Assets (Cash) and decrease Liabilities (Accounts Payable)
  - Increase Assets (Cash) and decrease Owner's Equity (Owner's Withdrawal)

[◀ Add Question Here](#)Question 118 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** Which of the following is **not** a business transaction?

- Answer**
- Erin deposits \$15,000 in a bank account in the name of Erin's Lawn Service.
  - Erin provided services to customers earning fees of \$600.
  - Erin purchased hedge trimmers for her lawn service agreeing to pay the supplier next month.
  - Erin pays her monthly personal credit card bill.

[◀ Add Question Here](#)Question 119 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** The financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or year, is called a(n)

- Answer**
- prior period statement
  - statement of owner's equity
  - income statement
  - balance sheet

[◀ Add Question Here](#)Question 120 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** Which of the following financial statements reports information as of a specific date?

- Answer**
- income statement
  - statement of owner's equity
  - statement of cash flows
  - balance sheet

[◀ Add Question Here](#)Question 121 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. The statement of owner's equity (OE), the balance sheet (B), and the income statement (I) are prepared in a certain order to obtain information needed for the next statement. In what order are these three statements prepared?

- Answer**
- I,OE, B
  - B, I, OE
  - OE, I, B
  - B,OE, I

[◀ Add Question Here](#)Question 122 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

**Question** Liabilities are reported on the

- Answer**
- income statement
  - statement of owner's equity
  - statement of cash flows
  - balance sheet

[◀ Add Question Here](#)

Question 123 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Cash investments made by the owner to the business are reported on the statement of cash flows in the

- Answer**
- financing activities section
  - investing activities section
  - operating activities section
  - supplemental statement

[◀ Add Question Here](#)

Question 124 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The year-end balance of the owner's capital account appears in

- Answer**
- both the statement of owner's equity and the income statement
  - only the statement of owner's equity
  - both the statement of owner's equity and the balance sheet
  - both the statement of owner's equity and the statement of cash flows

[◀ Add Question Here](#)

Question 125 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

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

- Answer**
- the Income Statement.
  - the Balance Sheet.
  - the Statement of Cash Flows.
  - cannot be determined.

[◀ Add Question Here](#)

Question 126 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** If the owner wanted to know how money flowed into and out of the company, what financial statement would she use?

- Answer**
- Income Statement
  - Statement of Cash Flows
  - Balance Sheet
  - None are correct.

[◀ Add Question Here](#)

Question 127 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The asset section of the Balance Sheet normally presents assets in

- Answer**
- alphabetical order.
  - order of largest to smallest dollar amounts.
  - in the order what will be converted into cash.
  - any order.

[◀ Add Question Here](#)

Question 128 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Countries outside the U.S. use financial accounting standards issued by the:

- Answer**
- LLC
  - SEC
  - IASB
  - GAAP

[◀ Add Question Here](#)

Question 129 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** All of the following statements regarding the ratio of liabilities to owner's equity are true **except**:

- Answer**
- A ratio of 1 indicates that liabilities equal owner's equity.
  - Corporations can use this ratio but substitute total stockholders' equity for total owner's equity.
  - The higher this ratio is, the better able a business is to withstand poor business conditions and pay creditors.
  - The lower this ratio is, the better able a business is to withstand poor business conditions and pay creditors.

[◀ Add Question Here](#)

Question 130 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The unit of measure concept:

- Answer**
- is only used in the financial statements of manufacturing companies.
  - is not important when applying the cost concept.
  - requires that different units be used for assets and liabilities.
  - requires that economic data be reported in yen in Japan or dollars in the U.S.

[◀ Add Question Here](#)

Question 131 **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** Discuss internal and external users of accounting information. What areas of accounting provide them with information? Give an example of the type of report each type of user might use.

**Answer** Internal users of accounting information include managers and employees. The area of accounting that provides internal users with information is called managerial accounting or management accounting. An example of a report that might be used internally is a customer profitability report.

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

[◀ Add Question Here](#)

Question 132 **Essay**

**0 points**

[Modify](#) | [Remove](#)

**Question** Companies like Enron, WorldCom, and Tyco International, Ltd. have been caught in the midst of ethical lapses that led to fines, firings, and criminal and/or civil prosecution. List and briefly describe three factors that are responsible for what went wrong in these companies.

**Answer** The three factors are: (1) individual character, (2) firm culture, and (3) laws and enforcement. Honesty, integrity, and fairness in the face of pressure to hide the truth are important characteristics of an ethical business person. The behavior and attitude of senior management sets the firm's culture. In firms like Enron, senior managers created a culture of greed and indifference to the truth. That culture flowed down to lower-level managers, who took shortcuts and lied to cover financial frauds. The lack of laws and enforcement has been blamed as a contributing factor to financial reporting abuses. As a result, new laws such as the Sarbanes-Oxley Act of 2002 (SOX) established a new oversight body for the accounting profession, known as the Public Company Accounting Oversight Board (PCAOB), which enhanced corporate accountability, financial disclosures, and independence.

[◀ Add Question Here](#)

Question 133 **Essay**

**0 points**

[Modify](#) | [Remove](#)

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

**Answer**

1. Identify users.
2. Assess users' information needs.
3. Design the accounting information system to meet users' needs.
4. Record economic data about business activities and events.
5. Prepare accounting reports for users.

[◀ Add Question Here](#)

Question 134 **Essay**

**0 points**

[Modify](#) | [Remove](#)

**Question** What is the major difference between the objective of financial accounting and the objective of managerial accounting?

**Answer** The objective of financial accounting is to provide information for the decision-making needs of external users. The objective of managerial accounting is to provide information for internal users.

[◀ Add Question Here](#)

Question 135 **Essay**

**0 points**

[Modify](#) | [Remove](#)

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

**Answer** Accounting reports would become unstable and unreliable.

[◀ Add Question Here](#)

Question 136 **Essay**

**0 points**

[Modify](#) | [Remove](#)

**Question** On May 7, Carpet Barn Company offered to pay \$95,000 for land that had a selling price of \$110,000. On May 15, Carpet Barn accepted a counteroffer of \$103,000. On June 5, the land was assessed at a value of \$120,000 for property tax purposes. On December 10, Carpet Barn Company was offered \$145,000 for the land by another company. At what value should the land be recorded in Carpet Barn Company's records?

**Answer** \$103,000

[◀ Add Question Here](#)

Question 137 **Essay**

**0 points**

[Modify](#) | [Remove](#)

**Question** Donner Company is selling a piece of land adjacent to their business. An appraisal reported the market value of the land to be \$120,000. The Focus Company initially offered to buy the land for \$107,000. The companies settled on a purchase price of \$115,000. On the same day, another piece of land on the same block sold for \$122,000. Under the cost concept, what is the amount that will be used to record this transaction in the accounting records?

**Answer** \$115,000

[◀ Add Question Here](#)

Question 138 **Essay**

**0 points**

[Modify](#) | [Remove](#)

**Question** Explain the meaning of the business entity concept.

**Answer** The business entity concept limits the economic data in an accounting system to data related directly to the activities of the business. In other words, the business is viewed as an entity separate from its owners, creditors, or other businesses

[◀ Add Question Here](#)

Question 139 **Essay**

**0 points**

[Modify](#) | [Remove](#)

**Question** Darnell Company purchased \$88,000 of computer equipment from Joseph Company. Darnell Company paid for the equipment using cash that had been obtained from the initial investment by Donnie Darnell.

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

**Answer** Darnell Company and Joseph Company

[◀ Add Question Here](#)

Question 140 **Essay**

**0 points**

[Modify](#) | [Remove](#)

**Question** Explain the meaning of:

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

- Answer** (a) The objectivity concept requires that the amounts recorded in the accounting records be based on objective evidence. In exchanges between a buyer and a seller, both try to get the best price. Only the final agreed-upon amount is objective enough to be recorded in the accounting records.
- (b) The unit of measure concept requires that economic data be recorded in dollars. Money is a common unit of measurement for reporting financial data and reports.

[Add Question Here](#)

**Question 141 Essay 0 points**

[Modify](#) [Remove](#)

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

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

**Answer** a)  $\$450,000 = \$125,000 + \mathbf{\$325,000}$   
 b)  $(\$450,000 + \$65,000) = (\$125,000 + \$35,000) + \mathbf{\$355,000}$

[Add Question Here](#)

**Question 142 Essay 0 points**

[Modify](#) [Remove](#)

**Question** Determine the missing amount "X" for each of the following:

Assets	Liabilities	Owner's Equity
a. \$85,700	\$40,000	X
b. X	\$66,570	\$145,000
c. \$57,900	X	\$34,000

**Answer** a.  $\$85,700 - 40,000 = \$45,700$   
 b.  $\$66,570 + 145,000 = \$211,570$   
 c.  $\$57,900 - 34,000 = \$23,900$

[Add Question Here](#)

**Question 143 Essay 0 points**

[Modify](#) [Remove](#)

**Question** Krammer Company has liabilities equal to one fourth of the total assets. Krammer's owner's equity is \$30,000. Using the accounting equation, what is the amount of liabilities for Krammer?

**Answer** Assets = Liabilities + Owner's Equity  
 $4x = x + \$30,000$   
 $3x = \$30,000$   
 $x = \$10,000$  in liabilities

[Add Question Here](#)

**Question 144 Essay 0 points**

[Modify](#) [Remove](#)

**Question** Daniels Company is owned and operated by Thomas Daniels. The following selected transactions were completed by Daniels Company during May:

- Received cash from owner as additional investment \$55,000.
- Paid creditors on account \$7,000.
- Billed customers for services on account, \$2,565.
- Received cash from customers on accounts \$8,450.
- Paid cash to owner for personal use, \$2,500.
- Received the utility bill \$160, to be paid next month.

Indicate the effect of each transaction on the accounting equation:

- By Account type - (A)assets, (L)liabilities, (O)owner's (E)equity, (R)revenue, and (E)expense
- Name of Account for the entry
- The amount by of the transaction.
- Indicate the specific item within the account equation element that is affected.

Note: Each transaction has two entries.

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

**Answer**

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

[Add Question Here](#)

**Question 145 Essay 0 points**

[Modify](#) [Remove](#)

**Question** Use the accounting equation to answer each of the independent questions below:

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

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

- Answer**
- a.  $\$75,000 - \$38,000 = \$37,000$  beginning of year liabilities  
 $(\$75,000 + 18,000) - (\$37,000 + 4,000) = \$52,000$  end of year owner's equity
- b.  $\$44,000 + \$66,000 = \$110,000$  beginning of year assets  
 $(\$110,000 + 10,000) - (\$44,000 - 5,000) = \$81,000$  end of year owner's equity

[Add Question Here](#)

Question 146 **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** Collins Landscape Company purchased various landscaping supplies on account to be used for landscape designs for their customers. How will this business transaction affect the accounting equation?

**Answer** Increase Assets (Supplies) and increase Liabilities (Accounts Payable)

[Add Question Here](#)

Question 147 **Essay** **0 points**

[Modify](#) [Remove](#)

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

**Answer** Under the business entity concept, economic data is limited to the direct activities of the business. The business is viewed as separate from its owner. Therefore, when Bob buys a personal automobile, it is not listed on the books of Johnson's Carpet Cleaning, unless Bob invests it in the business. In this case, the loan is a personal debt and not a liability of the company and the cash is from Bob's personal account and not the company's account.

[Add Question Here](#)

Question 148 **Essay** **0 points**

[Modify](#) [Remove](#)

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

	Assets	Liabilities	Owner's Equity
a. Don Kar withdrew \$500 cash for food.			
b. Shiny Kar Company sold 2 cars for a total of \$55,000 on account.			
c. The cost of the cars sold in (b) above was \$40,000.			
d. Shiny Kar received \$35,000 payment for a car previously sold on account.			
e. Shiny Kar paid \$450 for advertising.			
f. Shiny Kar purchased \$150 of cleaning supplies on account.			

**Answer**

	Assets	Liabilities	Owner's Equity
a.	-\$500	NC	-\$500
b.	+\$55,000	NC	+\$55,000
c.	-\$40,000	NC	-\$40,000
d.	NC	NC	NC
e.	-\$450	NC	-\$450
f.	\$150	\$150	NC

[Add Question Here](#)

Question 149 **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** Ramierez Company received their first electric bill in the amount of \$60 which will be paid next month. How will this transaction affect the accounting equation?

**Answer** Increase Liabilities (Accounts Payable) and decrease Owner's Equity (Utilities Expense)

[Add Question Here](#)

Question 150 **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** Jonathan Martin is the owner and operator of Martin Consultants. At December 31, 2011, Martin Consultants has assets of \$430,000 and liabilities of \$205,000. Using the accounting equation and considering each case independently, determine the following:

- a. Jonathan Martin, capital, as of December 31, 2011.  
 b. Jonathan Martin, capital, as of December 31, 2012, assuming that assets increased by \$12,000 and liabilities increased by \$15,000 in 2012.  
 c. Jonathan Martin, capital, as of December 31, 2012, assuming that assets decreased by \$8,000 and liabilities increased by \$14,000 during 2012.

- Answer**
- a.  $\$430,000 - 205,000 = \$225,000$   
 b.  $(\$430,000 + 12,000) - (\$205,000 + 15,000) = \$222,000$   
 c.  $(\$430,000 - \$8,000) - (\$205,000 + 14,000) = \$203,000$

[Add Question Here](#)

Question 151 **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** Simpson Auto Body Repair purchased \$20,000 of Machinery. The company paid \$8,000 in cash at the time of the purchase and signed a promissory note for the remainder to be paid in four monthly installments.

- (a) How will the purchase affect the accounting equation?  
 (b) How will the payment of the first monthly installment affect the accounting equation?

- Answer**
- (a) Increase Total Assets by a net amount of \$12,000 (increase Machinery \$20,000 and decrease Cash \$8,000) and increase Liabilities by \$12,000 (Notes Payable \$12,000)
- (b) Decrease Assets by \$3,000 (decrease Cash) and decrease Liabilities by \$3,000 (decrease Notes Payable)

[Add Question Here](#)

Question 152 **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** On July 1 of the current year, the assets and liabilities of John Wong, DVM, are as follows: Cash, \$15,000; Accounts Receivable, \$12,300; Supplies, \$3,100; Land, \$35,000; Accounts Payable, \$8,700. What is the amount of owner's equity (John Wong's capital) as of July 1 of the current year?

**Answer**  
 \$56,700

$$(\$15,000 \text{ Cash} + \$12,300 \text{ Accounts Receivable} + \$3,100 \text{ Supplies} + \$35,000 \text{ Land}) - \$8,700 \text{ Accounts Payable} = \$56,700$$

[◀ Add Question Here](#)Question 153 **Essay****0 points**[Modify](#) [Remove](#)**Question** Indicate how the following transactions affect the accounting equation:

- (a) The purchase of supplies on account.
- (b) The purchase of supplies for cash.
- (c) A withdraw by the owner to pay personal expenses.
- (d) Revenues received in cash.
- (e) Revenues received on account.

**Answer**

- (a) Assets increase; liabilities increase
- (b) No effect
- (c) Assets decrease; owner's equity decreases
- (d) Assets increase; owner's equity increases
- (e) Assets increase; owner's equity increases

[◀ Add Question Here](#)Question 154 **Essay****0 points**[Modify](#) [Remove](#)**Question** Discuss the characteristics of a LLC (Limited liability company).

**Answer** A Limited liability company (LLC) combines the attributes of a partnership and a corporation. It is often used as an alternative to a partnership because it has tax and legal liability advantages for owners.

[◀ Add Question Here](#)Question 155 **Essay****0 points**[Modify](#) [Remove](#)

**Question** Kim Hsu is the owner of Hsu's Financial Services. At the end of its accounting period, December 31, 2011, Hsu's has assets of \$575,000 and owner's equity of \$335,000. Using the accounting equation and considering each case independently, determine the following amounts.

- a. Hsu's liabilities as of December 31, 2011.
- b. Hsu's liabilities as of December 31, 2012, assuming that assets increased by \$56,000 and owner's equity decreased by \$32,000.
- c. Net income or net loss during 2012, assuming that as of December 31, 2012, assets were \$592,000, liabilities were \$450,000, and there were no additional investments or withdrawals.

**Answer**

- a.  $\$575,000 - \$335,000 = \$240,000$
- b.  $(\$575,000 + \$56,000) - (\$335,000 - \$32,000) = \$328,000$
- c.  $\$592,000 - \$450,000 = \$142,000$   
 $\$335,000 - \$142,000 = \$193,000$  net loss

[◀ Add Question Here](#)Question 156 **Essay****0 points**[Modify](#) [Remove](#)

**Question** a. A vacant lot acquired for \$83,000 cash is sold for \$127,000 in cash. What is the effect of the sale on the total amount of the seller's (1) assets, (2) liabilities, and (3) owner's equity?

b. Assume that the seller owes \$52,000 on a loan for the land. After receiving the \$127,000 cash in (a), the seller pays the \$52,000 owed. What is the effect of the payment on the total amount of the seller's (1) assets, (2) liabilities, and (3) owner's equity?

**Answer**

- a.
  - (1) Total assets increased \$44,000.
  - (2) No change in liabilities.
  - (3) Owner's equity increased \$44,000.
- b.
  - (1) Total assets decreased \$52,000.
  - (2) Total liabilities decreased \$52,000.
  - (3) No change in owner's equity.

[◀ Add Question Here](#)Question 157 **Essay****0 points**[Modify](#) [Remove](#)**Question** Indicate whether each of the following represents an asset, liability, or owner's equity:

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

**Answer**

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

[◀ Add Question Here](#)Question 158 **Essay****0 points**[Modify](#) [Remove](#)

**Question** The Austin Land Company sold land for \$85,000 in cash. The land was originally purchased for \$65,000. At the time of the sale, \$40,000 was still owed to Regions Bank. After the sale, The Austin Land Company paid off the loan. Explain the effect of the sale and the payoff of the loan on the accounting equation.

**Answer**

- Total assets decrease \$20,000 (Cash increases by \$45,000; Land decreases by \$65,000)
- Total liabilities decrease \$40,000 (Note payoff to Regions)
- Owner's equity increases \$20,000 (Sales price - cost of the land)

[◀ Add Question Here](#)Question 159 **Essay****0 points**[Modify](#) [Remove](#)

**Question** Given the following:

Beginning capital	\$ 70,000
Ending capital	\$ 48,000
Owner's withdrawals	\$ 21,000

Calculate net income or net loss.

<b>Answer</b>	Ending capital	\$48,000
	Beginning capital	70,000
	Decrease in capital	\$22,000
	Less: Owner's withdrawals	21,000
	Net loss	\$ 1,000

[◀ Add Question Here](#)

Question 160 **Essay**

**0 points**

[Modify](#) [Remove](#)

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

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	64,000	Franklin, Capital	27,000
Accounts Payable	12,000	Interest Income	3,000
Salaries & Wages Expense	40,000	Prepaid Rent	2,000
Income Taxes Payable	5,000	Income Taxes Expense	18,000
Notes Payable	20,000	Rent Expense	20,000

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

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

[◀ Add Question Here](#)

Question 161 **Essay**

**0 points**

[Modify](#) [Remove](#)

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

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	64,000	Franklin, Capital	27,000
Accounts Payable	12,000	Interest Income	3,000
Salaries & Wages Expense	40,000	Prepaid Rent	2,000
Income Taxes Payable	5,000	Income Taxes Expense	18,000
Notes Payable	20,000	Rent Expense	20,000

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

**Answer** \$37,000  
 (\$12,000 Accounts Payable + \$5,000 Income Taxes Payable + \$20,000 Notes Payable = \$37,000)

[◀ Add Question Here](#)

Question 162 **Essay**

**0 points**

[Modify](#) [Remove](#)

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

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	64,000	Franklin, Capital	27,000
Accounts Payable	12,000	Interest Income	3,000
Salaries & Wages Expense	40,000	Prepaid Rent	2,000
Income Taxes Payable	5,000	Income Taxes Expense	18,000
Notes Payable	20,000	Rent Expense	20,000

Based on this information, is Franklin Company profitable? Explain your answer.

**Answer** (\$165,000 Fees Earned + \$3,000 Interest Income) - (\$40,000 Salaries & Wages Expense + \$44,000 Selling Expenses + \$18,000 Income Taxes Expense + \$20,000 Rent Expense) = \$46,000 Net Income

Franklin Company had net income for the period of \$46,000. Since revenues exceeded expenses for the period, the company would be considered profitable.

[◀ Add Question Here](#)

Question 163 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** The assets and liabilities of Amos Moving Services at March 31, 2011, the end of the current year, and its revenue and expenses for the year are listed below. The capital of the owner was \$180,000 at April 1, 2010, the beginning of the current year. Mr. Amos invested an additional \$25,000 in the business during the year.

Accounts Payable	\$1,200	Miscellaneous Expense	\$230
Accounts Receivable	\$10,340	Office Expense	\$1,240
Cash	\$32,320	Supplies	\$1,670
Fees Earned	\$84,350	Wages Expense	\$23,550
Land	\$47,000	Drawing	\$16,570
Building	\$157,630		

Prepare an income statement for the current year ended March 31, 2011.

**Answer**

	Amos Moving Services	
	Income Statement	
	For the Year Ended March 31, 2011	
Fees Earned		\$84,350

Expenses:	Wages Expense	\$23,550	
	Office Expense	1,240	
	Miscellaneous Expense	<u>230</u>	
	Total Expenses		<u>25,020</u>
Net Income			<u>\$59,330</u>

[Add Question Here](#)

Question 164 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** The assets and liabilities of Amos Moving Services at March 31, 2011, the end of the current year, and its revenue and expenses for the year are listed below. The capital of the owner was \$180,000 at April 1, 2010, the beginning of the current year. Mr. Amos invested an additional \$25,000 in the business during the year.

Accounts Payable	\$1,200	Miscellaneous Expense	\$230
Accounts Receivable	\$10,340	Office Expense	\$1,240
Cash	\$32,320	Supplies	\$1,670
Fees Earned	\$84,350	Wages Expense	\$23,550
Land	\$47,000	Drawing	\$16,570
Building	\$157,630		

Prepare a statement of owner's equity for the current year ended March 31, 2011.

**Answer**

Amos Moving Services Statement of Owner's Equity For the Year Ended March 31, 2011			
Amos, capital, April 1, 2010			\$180,000
Additional investment by owner during year		\$25,000	
Net Income for the year		<u>59,330</u>	
Subtotal		\$84,330	
Less withdrawals		<u>16,570</u>	
Increase in owner's equity			<u>67,760</u>
Amos, capital March 31, 2011			<u>\$247,760</u>

[Add Question Here](#)

Question 165 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** The assets and liabilities of Amos Moving Services at March 31, 2011, the end of the current year, and its revenue and expenses for the year are listed below. The capital of the owner was \$180,000 at April 1, 2010, the beginning of the current year. Mr. Amos invested an additional \$25,000 in the business during the year.

Accounts Payable	\$1,200	Miscellaneous Expense	\$230
Accounts Receivable	\$10,340	Office Expense	\$1,240
Cash	\$32,320	Supplies	\$1,670
Fees Earned	\$84,350	Wages Expense	\$23,550
Land	\$47,000	Drawing	\$16,570
Building	\$157,630		

Prepare a balance sheet for the current year ended March 31, 2011.

**Answer**

Amos Moving Services Balance Sheet March 31, 2011			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$32,320	Accounts Payable	\$ 1,200
Accounts Receivable	10,340		
Supplies	1,670		
Land	47,000		
Building	<u>157,630</u>		
Total Assets	<u>\$248,960</u>	<b>Owner's Equity</b>	
		Amos, Capital	<u>247,760</u>
		Total Liabilities and Owner's Equity	<u>\$248,960</u>

[Add Question Here](#)

Question 166 **Essay**

**0 points**

[Modify](#) [Remove](#)

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

Cash receipts:	
Cash received from customers	\$83,990
Cash received from additional investment by owner	25,000
Cash payments:	
Cash paid for expenses	\$27,000
Cash paid for land	47,000
Cash paid for supplies	410
Drawing	5,000
The cash balance as of January 1, 2012	\$40,600

Prepare a statement of cash flows for Alex Design Services for the year ended December 31, 2012.

**Answer**

Alex Design Services Statement of Cash Flows For the Year Ended December 31, 2012	
Cash flows from operating activities:	
Cash received from customers	\$83,990
Deduct cash payments for expenses and supplies	<u>(27,410)</u>
Net cash flows from operating expenses	\$56,580
Cash flows from investing activities:	

Cash paid for land	(47,000)
Cash from financing activities:	
Cash investment received from owner	25,000
Deduct cash withdrawals from owner	(5,000)
Net cash flows from financing activities	<u>20,000</u>
Net increase in cash during year	\$ 29,580
Cash as of January 1, 2012	<u>40,600</u>
Cash as of December 31, 2012	<u>\$70,180</u>

[Add Question Here](#)

Question 167 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** The total assets and the total liabilities of a business at the beginning and at the end of the year appear below. During the year, the owner had withdrawn \$60,000 for personal use and had made an additional investment of \$45,000 in the business.

	Assets	Liabilities
Beginning of year	\$305,000	\$200,000
End of year	365,000	230,000

Calculate the net income for the year.

**Answer** \$45,000

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

Based on the change in asset and liabilities, owner's equity increased by \$30,000 for the year. Owner investment - owner withdrawal = \$15,000 decrease in equity, making the net income \$45,000 (\$15,000 + \$30,000).

[Add Question Here](#)

Question 168 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** What information does the Income Statement give to business users?

**Answer** The Income Statement reports the revenues and expenses for a period of time. The result is either a Net Income or a Net Loss.

[Add Question Here](#)

Question 169 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** What are the three sections of the Statement of Cash Flows?

**Answer** Operating Activities, Investing Activities, and the Financing Activities

[Add Question Here](#)

Question 170 **Essay**

**0 points**

[Modify](#) [Remove](#)

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

- A. Balance Sheet
- B. Income Statement
- C. Statement of Cash Flows
- D. Statement of Owner's Equity

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

Answer	#	Answer	Account
	1.	D (If Cash, also C.)	Withdrawals
	2.	B	Revenues
	3.	A	Supplies
	4.	A	Land
	5.	A	Accounts Payable
	6.	A	Accounts Receivable
	7.	C	Operating Activities
	8.	B	Wages Expense
	9.	D (If Indirect, also C.)	Net Income
	10.	A & C	Cash

[Add Question Here](#)

Question 171 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** Name and describe the four primary financial statements for a proprietorship.

**Answer** 1. Income Statement: A summary of the revenue and expenses *for a specific period of time*, such as a month or a year.

2. Statement of Owner's Equity: A summary of the changes in the owner's equity that have occurred *during a specific period of time*, such as a month or a year.

3. Balance Sheet: A list of the assets, liabilities, and owner's equity *as of a specific date*, usually at the close of the last day of a month or a year.

4. Statement of Cash Flows: A summary of the cash receipts and cash payments for a *specific period of time*, such as a month or a year.

[Add Question Here](#)Question 172 **Essay****0 points**[Modify](#) [Remove](#)**Question** There are four transactions that affect Owner's equity.

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

**Answer** (a) Owner investment and revenues  
 (b) Owner withdrawals and expenses

[Add Question Here](#)Question 173 **Essay****0 points**[Modify](#) [Remove](#)**Question** The assets and liabilities of S&P Day Spa at December 31, 2011 and its revenue and expenses for the year are listed below. The capital of the owner was \$68,000 at January 1, 2011. The owner invested an additional \$10,000 during the year.

Accounts Payable	\$4,375	Spa Operating Expense	\$23,760
Accounts Receivable	\$8,490	Office Expense	\$2,470
Cash	\$13,980	Spa Supplies	\$9,230
Fees Earned	\$98,435	Wages Expense	\$26,580
Spa Furniture & Equipment	\$56,000	Drawing	\$38,170
Computers	\$2,130		

Prepare an income statement for the current year ended December 31, 2011.

**Answer**

S&P Day Spa Income Statement For the Year Ended December 31, 2011			
	Fees Earned		\$98,435
	Expenses:		
	Wages Expense	\$26,580	
	Spa Operating Expense	23,760	
	Office Expense	<u>2,470</u>	
	Total Expenses		52,810
	Net Income		<u>\$45,625</u>

[Add Question Here](#)Question 174 **Essay****0 points**[Modify](#) [Remove](#)**Question** The assets and liabilities of S&P Day Spa at December 31, 2011 and its revenue and expenses for the year are listed below. The capital of the owner was \$68,000 at January 1, 2011. The owner invested an additional \$10,000 during the year.

Accounts Payable	\$4,375	Spa Operating Expense	\$23,760
Accounts Receivable	\$8,490	Office Expense	\$2,470
Cash	\$13,980	Spa Supplies	\$9,230
Fees Earned	\$98,435	Wages Expense	\$26,580
Spa Furniture & Equipment	\$56,000	Drawing	\$38,170
Computers	\$2,130		

Prepare a statement of owner's equity for the current year ended December 31, 2011.

**Answer**

S&P Day Spa Statement of Owner's Equity For the Year Ended December 31, 2011			
	Owner capital, January 1, 2011		\$68,000
	Additional investment by owner during year	\$10,000	
	Net Income for the year	<u>45,625</u>	
	Subtotal	\$55,625	
	Less withdrawals	<u>38,170</u>	
	Increase in owner's equity		17,455
	Owner capital December 31, 2011		<u>\$85,455</u>

[Add Question Here](#)Question 175 **Essay****0 points**[Modify](#) [Remove](#)**Question** The assets and liabilities of S&P Day Spa at December 31, 2011 and its revenue and expenses for the year are listed below. The capital of the owner was \$68,000 at January 1, 2011. The owner invested an additional \$10,000 during the year.

Accounts Payable	\$4,375	Spa Operating Expense	\$23,760
Accounts Receivable	\$8,490	Office Expense	\$2,470
Cash	\$13,980	Spa Supplies	\$9,230
Fees Earned	\$98,435	Wages Expense	\$26,580
Spa Furniture & Equipment	\$56,000	Drawing	\$38,170
Computers	\$2,130		

Prepare a balance sheet for the year ended December 31, 2011.

**Answer**

S&P Day Spa Balance Sheet December 31, 2011			
Assets		Liabilities	
Cash	\$13,980	Accounts Payable	\$ 4,375
Accounts Receivable	8,490		
Spa Supplies	9,230		
Computers	2,130	<b>Owner's Equity</b>	
Spa Furniture & Equipment	<u>56,000</u>	Owner Capital	85,455
Total Assets	<u>\$89,830</u>	Total Liabilities and Owner's Equity	<u>\$89,830</u>

[Add Question Here](#)Question 176 **Essay****0 points**[Modify](#) [Remove](#)

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

Cash receipts:	
Cash received from customers	\$57,360
Cash received from bank loan	15,000
Cash payments:	
Cash paid for operating expenses	\$12,120
Cash paid for equipment	18,070
Cash paid for party supplies	9,480
Drawing	12,000
The cash balance as of January 1, 2011	\$15,580

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

**Answer**

Lopez Wedding Planning Statement of Cash Flows For the Year Ended December 31, 2011	
Cash flows from operating activities:	
Cash received from customers	\$57,360
Deduct cash payments for expenses and supplies	<u>(21,600)</u>
Net cash flows from operating expenses	\$35,760
Cash flows from investing activities:	
Cash paid for equipment	(18,070)
Cash from financing activities:	
Cash received from bank loan	15,000
Deduct cash withdrawals from owner	<u>(12,000)</u>
Net cash flows from financing activities	3,000
Net increase in cash during year	\$ 20,690
Cash as of January 1, 2011	15,580
Cash as of December 31, 2011	<u>\$36,270</u>

[Add Question Here](#)

Question 177 **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** Explain the interrelationship between the Balance Sheet and the Statement of Cash Flows.

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

[Add Question Here](#)

Question 178 **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** The following data were taken from Harrison Company's balance sheet:

	Dec. 31, 2012	Dec. 31, 2011
Total liabilities	\$150,000	\$105,000
Total owner's equity	75,000	60,000

a. Compute the ratio of liabilities to owner's equity.

b. Has the creditors' risk increased or decreased from December 31, 2011, to December 31, 2012?

**Answer** a. 12/31/2012:  $\$150,000 / 75,000 = 2.0$   
12/31/2011:  $\$105,000 / 60,000 = 1.75$

b. Decreased

[Add Question Here](#)

Question 179 **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** Company G has a ratio of liabilities to stockholders' equity of 0.12 and 0.28 for 2010 and 2011, respectively. In contrast, Company M has a ratio of liabilities to stockholders' equity of 1.13 and 1.29 for the same period.

REQUIRED:

Based on this information, which company's creditors are more at risk and why? Should the creditors of either company fear the risk of nonpayment?

**Answer** Company M's creditors are more at risk than are Company G's creditors. The lower the ratio of liabilities to owner's equity, the better able the company is to withstand poor business conditions and pay its obligations to creditors. Without additional information, it appears that the creditors of either company are well protected against the risk of nonpayment, because the ratios are relatively low for both. However, the fact that both ratios are increasing over the period should be monitored for downturns in business conditions.

[Add Question Here](#)

Question 180 **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** Given the following data:

	Dec. 31, 2012	Dec. 31, 2011
Total liabilities	\$118,750	\$104,000
Total owner's equity	95,000	80,000

a. Compute the ratio of liabilities to owner's equity for each year.

b. Has the creditors' risk increased or decreased from December 31, 2011, to December 31, 2012?

**Answer** a.

	Dec. 31, 2012	Dec. 31, 2011
Total liabilities	\$118,750	\$104,000
Total owner's equity	95,000	80,000
Ratio of liabilities to owner's equity	1.250	1.30
	( $\$118,750 / \$95,000$ )	( $\$104,000 / \$80,000$ )

b. Decreased

[Add Question Here](#)

Question 181 **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** For each of the following companies, identify whether they are a service, merchandising, or manufacturing business.

<b>A.</b>	<b>Dillard's</b>
<b>B.</b>	<b>Time Warner Cable</b>
<b>C.</b>	<b>General Motors</b>
<b>D.</b>	<b>Blockbuster</b>
<b>E.</b>	<b>Applebee's</b>
<b>F.</b>	<b>Sony</b>
<b>G.</b>	<b>Best Buy</b>
<b>H.</b>	<b>Banana Republic</b>
<b>I.</b>	<b>H &amp; R Block</b>

**Answer**

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

[◀ Add Question Here](#)

Question 182 **Essay**

**0 points**

[Modify](#) [Remove](#)

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

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

**Answer**

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

[◀ Add Question Here](#)

Question 183 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** Determine the missing amount for each of the following:

<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
(a)	\$13,000	\$16,000
\$55,000	(b)	\$34,000
\$39,000	\$ 17,000	(c)

**Answer**  
 (a)\$29,000  
 (b)\$21,000  
 (c)\$22,000

[◀ Add Question Here](#)

Question 184 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** Identify each of the following as an (1) increase in owner's equity, or a (2) decrease in owner's equity.

- (a) Fees Earned
- (b) Wages Expense
- (c) Withdrawal
- (d) Lawn Care Revenue
- (e) Investment
- (f) Supplies Expense

**Answer**

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

[◀ Add Question Here](#)

Question 185 **Essay**

**0 points**

[Modify](#) [Remove](#)

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

	<u>A</u>	<u>L</u>	<u>OE</u>
(a) Received cash from owner as an additional investment	_____	_____	_____
(b) Purchased supplies on account	_____	_____	_____
(c) Paid rent for the current month	_____	_____	_____
(d) Received cash for services sold to customers	_____	_____	_____
(e) Returned some defective supplies purchased in (b)	_____	_____	_____
(f) Paid insurance premiums in advance	_____	_____	_____
(g) Paid cash to creditor for purchases in (b)	_____	_____	_____

- (h) Charged customers for services sold on account \_\_\_\_\_
- (i) Paid cash to a customer as a refund for an overcharge \_\_\_\_\_
- (j) Received cash on account from customers \_\_\_\_\_
- (k) Owner withdrew cash for personal use \_\_\_\_\_
- (l) Recorded the cost of supplies used during the year \_\_\_\_\_
- (m) Received invoice for electricity used \_\_\_\_\_
- (n) Paid wages \_\_\_\_\_
- (o) Purchased a truck for cash \_\_\_\_\_

**Answer**

	<u>A</u>	<u>L</u>	<u>OE</u>
(a)	+		+
(b)	+	+	
(c)	-		-
(d)	+		+
(e)	-	-	
(f)	+,-		
(g)	-	-	
(h)	+		+
(i)	-		-
(j)	+,-		
(k)	-		-
(l)	-		-
(m)		+	-
(n)	-		-
(o)	+,-		

[Add Question Here](#)

**Question 186 Essay 0 points**

[Modify](#) [Remove](#)

**Question** Schultz Tax Services, a tax preparation business had the following transactions during the month of June:  
*Example: Received cash the owner Schultz, \$25,000.*

1. Received cash for providing accounting services, \$3,000.
2. Billed customers on account for providing services, \$7,000.
3. Paid advertising expense, \$800.
4. Received cash from customers on account, \$3,800.
5. Owner made a withdrawal, \$1,500.
6. Received telephone bill, \$220.
7. Paid telephone bill, \$220.

**Required:**

- 1) In the table below, state the accounts affected by each transaction.
- 2) Indicate the effect on the accounting equation of each transaction.

	<b>Assets</b>	<b>= Liabilities</b>	<b>+ Owner's Equity</b>
1.	Cash +25,000		+25,000
2.			
3.			
4.			
5.			
6.			
7.			
8.			

**Answer**

	<b>Assets</b>	<b>= Liabilities</b>	<b>+ Owner's Equity</b>
Ex	Cash +25,000		+25,000
1.	Cash + 3,000		Revenues + 3,000
2.	A/R + 7,000		Revenues + 7,000
3.	Cash -800		Expenses - 800
4.	Cash + 3,800 A/R -3,800		
5.	Cash -1,500		Drawing -1,500
6.		A/P + 220	Expenses -220
7.	Cash -220	A/P -220	

[Add Question Here](#)

**Question 187 Essay 0 points**

[Modify](#) [Remove](#)

**Question** From the following list of accounts taken from Lamar's accounting records, identify those that would appear on the Income Statement.

- (a) Rent Expense
- (b) Land
- (c) Capital
- (d) Fees Earned
- (e) Withdrawal
- (f) Wages Expense
- (g) Investment

**Answer** (a), (d), (f)

[Add Question Here](#)

**Question 188 Essay 0 points**

[Modify](#) [Remove](#)

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

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

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

[Add Question Here](#)

## Question 189 Essay

0 points

[Modify](#) [Remove](#)

**Question** Indicate whether each of the following activities would be reported on the Statement of Cash Flows as an Operating Activity, an Investing Activity, a Financing Activity, or does not appear on the Cash Flow Statement.

- (a) Cash paid for building
- (b) Cash paid to suppliers
- (c) Cash paid for owner's withdrawal
- (d) Cash received from customers
- (e) Cash received from the owner's investment
- (f) Cash received from the sale of a building
- (g) Borrowed cash from a bank

**Answer**

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

[Add Question Here](#)

## Question 190 Essay

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**Question** For each of the following, determine the amount of net income or net loss for the year.

- (a) Revenues for the year totaled \$88,500 and expenses totaled \$40,500. The owner made an additional investment of \$15,000 during the year.
- (b) Revenues for the year totaled \$175,000 and expenses totaled \$220,500. The owner withdrew \$40,000 during the year.
- (c) Revenues for the year totaled \$109,000 and expenses totaled \$46,000. The owner invested an additional \$12,000 and withdrew \$16,000 during the year.
- (d) Revenues for Konner Co. totaled \$223,800 and expenses totaled \$221,300. Cash withdrawals of \$35,000 were paid during the year.

**Answer**

- (a) \$48,000 net income (\$88,500 - \$40,500)
- (b) \$45,500 net loss (\$175,000 - \$220,500)
- (c) \$63,000 net income (\$109,000 - \$46,000)
- (d) \$2,500 net income (\$223,800 - \$221,300)

[Add Question Here](#)

## Question 191 Essay

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[Modify](#) [Remove](#)

**Question** The total assets and total liabilities of Paul's Pools, a proprietorship, at the beginning and at the end of the current fiscal year are as follows:

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

- (a) Determine the amount of net income earned during the year. The owner did not invest any additional assets in the business during the year and made no withdrawals.
- (b) Determine the amount of net income during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the owner withdrew \$53,000 in cash during the year (no additional investments).
- (c) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the owner invested an additional \$35,000 in cash in the business in June of the current fiscal year (no withdrawals).
- (d) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the owner invested an additional \$12,000 in cash in August of the current fiscal year and made twelve monthly cash withdrawals of \$1,500 each during the year.

**Answer**

(a)	Owner's equity at end of year (\$475,000 - \$130,000)	\$345,000
	Owner's equity at beginning of year (\$280,000 - \$205,000)	<u>75,000</u>
	Net income	<u>\$270,000</u>
(b)	Increase in owner's equity as in (a)	\$270,000
	Add withdrawals	<u>53,000</u>
	Net income	<u>\$323,000</u>
(c)	Increase in owner's equity as in (a)	\$270,000
	Deduct additional investment	<u>35,000</u>
	Net income	<u>\$235,000</u>
(d)	Increase in owner's equity as in (a)	\$270,000
	Add withdrawals (\$1,500 x 12)	<u>18,000</u>
		<u>\$288,000</u>
	Deduct additional investment	<u>12,000</u>
	Net income	<u>\$276,000</u>

[Add Question Here](#)

## Question 192 Essay

0 points

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**Question** Selected transaction data of a business for September are summarized below. Determine the following amounts for September: (a) total revenue, (b) total expenses, (c) net income.

Service sales charged to customers on account during September	\$33,000
Cash received from cash customers for services performed in September	28,000
Cash received from customers on account during September:	
Services performed and charged to customers prior to September	13,000
Services performed and charged to customers during September	18,000
Expenses incurred prior to September and paid during September	6,500
Expenses incurred and paid in September	36,250
Expenses incurred in September but not paid in September	5,000
Expenses for supplies used and insurance (not included above) applicable to September	2,000

**Answer**

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

[Add Question Here](#)

## Question 193 Essay

0 points

[Modify](#) [Remove](#)

**Question** On March 1, 2011, the amount of Norton Cook's capital in Cook's Catering Company was \$150,000. During March, he withdrew \$31,000 from the business. The amounts of the various assets, liabilities, revenues, and expenses are as follows:

Accounts payable	\$ 10,250
Accounts receivable	45,950
Cash	19,390
Fees earned	60,500
Insurance expense	1,275
Land	85,400
Miscellaneous expense	1,210
Prepaid insurance	3,000
Rent expense	9,000
Salary expense	20,300
Supplies	900
Supplies expense	525
Utilities expense	2,800

Present, in good form, (a) an income statement for March, (b) a statement of owner's equity for March, and (c) a balance sheet as of March 31.

**Answer** (a)

Cook's Catering Company  
Income Statement  
For the Month Ended March 31, 2011

Fees earned	\$60,500
Operating expenses:	
Salary expense	\$20,300
Rent expense	9,000
Utilities expense	2,800
Supplies expense	525
Insurance expense	1,275
Miscellaneous expense	1,210
Total operating expenses	<u>35,110</u>
Net income	<u>\$25,390</u>

(b)

Cook's Catering Company  
Statement of Owner's Equity  
For the Month Ended March 31, 2011

Norton Cook, capital, March 1, 2011	\$150,000
Net income for the month	\$ 25,390
Less withdrawals	<u>31,000</u>
Decrease in owner's equity	<u>5,610</u>
Norton Cook, capital, March 31, 2011	<u>\$144,390</u>

(c)

Cook's Catering Company  
Balance Sheet  
March 31, 2011

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 19,390	Accounts payable	\$ 10,250
Accounts receivable	45,950		
Prepaid insurance	3,000	<u>Owner's Equity</u>	
Supplies	900	Norton Cook, capital	144,390
Land	<u>85,400</u>	Total liabilities and	
Total assets	<u>\$154,640</u>	owner's equity	<u>\$154,640</u>

[◀ Add Question Here](#)

## Question 194 Essay

0 points

[Modify](#) [Remove](#)

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

Simpson Designers  
Income Statement  
For the Month Ended April 30, 2011

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

Simpson Designers  
Statement of Owner's Equity  
For the Month Ended April 30, 2011

Lori Simpson, capital, April 1, 2011		0
Investment on April 1, 2011	\$35,000	
Net income for April	<u>(d)</u>	
	\$ (e)	
Less withdrawals	<u>6,000</u>	
Increase in owner's equity		<u>(f)</u>
Lori Simpson, capital, April 30, 2011		<u>\$38,100</u>

Simpson Designers  
Balance Sheet  
April 30, 2011

<u>Assets</u>			<u>Liabilities</u>	
Cash		\$ (g)	Accounts payable	\$ (i)
Supplies		8,100	<u>Owner's Equity</u>	
Land		(h)	Lori Simpson, capital	(j)
Total assets		<u>\$55,900</u>	Total liabilities and owner's equity	<u>\$(k)</u>

Simpson Designers  
Statement of Cash Flows  
For the Month Ended April 30, 2011

Cash flows from operating activities:				
Cash received from customers			\$23,000	
Deduct cash payments for expenses and payments to creditors			<u>4,200</u>	
Net cash flow from operating activities				\$ 18,800
Cash flows from investing activities:				
Cash payments for acquisition of land				(17,000)
Cash flows from financing activities:				
Cash received as owner's investment			\$ (l)	
Deduct cash withdrawal by owner			<u>(m)</u>	
Net cash flow from financing activities				(n)
Net cash flow and April 30, 2011 cash balance				<u>\$(o)</u>

Place your answers in the space provided below. Hint: Use the interrelationships among the financial statements to solve this problem.

- (a) \_\_\_\_\_  
 (b) \_\_\_\_\_  
 (c) \_\_\_\_\_  
 (d) \_\_\_\_\_  
 (e) \_\_\_\_\_  
 (f) \_\_\_\_\_  
 (g) \_\_\_\_\_  
 (h) \_\_\_\_\_  
 (i) \_\_\_\_\_  
 (j) \_\_\_\_\_  
 (k) \_\_\_\_\_  
 (l) \_\_\_\_\_  
 (m) \_\_\_\_\_  
 (n) \_\_\_\_\_  
 (o) \_\_\_\_\_

<b>Answer</b>	(a)	\$ 6,400
	(b)	\$17,900
	(c)	\$ 9,100
	(d)	\$ 9,100
	(e)	\$44,100
	(f)	\$38,100
	(g)	\$30,800
	(h)	\$17,000
	(i)	\$17,800
	(j)	\$38,100
	(k)	\$55,900
	(l)	\$35,000 given
	(m)	\$ 6,000
	(n)	\$29,000
	(o)	\$30,800

[◀ Add Question Here](#)

Question 195 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** Eric Wood, CPA, was organized on January 1, 2011, as a proprietorship. List the errors that you find in the following financial statements and prepare the corrected statements for the three months ended March 31, 2011.

Eric Wood, CPA Income Statement For the Three Months Ended March 31, 2011				
Fees earned				\$42,000
Operating expenses:				
Salary expense			\$9,735	
Rent expense			5,200	
Advertising expense			3,950	
Utilities expense			3,225	
Miscellaneous expense			4,000	
Answering service expense			2,550	
Supplies expense			<u>4,000</u>	
Total operating expenses				<u>28,000</u>
Net income				<u>\$14,000</u>

Eric Wood, CPA Statement of Owner's Equity March 31, 2011				
Eric Wood, capital, January 1, 2011				\$ 0
Investment on January 1, 2011			\$20,000	
Net income for the 3 months			<u>14,000</u>	
			36,000	
Less withdrawals			<u>5,000</u>	
Increase in owner's equity				<u>31,000</u>
Eric Wood, capital, March 31, 2011				<u>\$31,000</u>

Balance Sheet For the Three Months Ended March 31, 2011				
<u>Assets</u>			<u>Owner's Equity</u>	
Land	\$13,000	Eric Wood, Capital		\$31,000
Cash	10,860	<u>Liabilities</u>		
Accounts payable	2,670	Accounts receivable		<u>2,225</u>

Supplies	925	Total liabilities and	
Total assets	<u>\$33,225</u>	owner's equity	<u>\$33,225</u>

**Answer** Errors in the Eric Wood, CPA, financial statements include the following:

- (1) Miscellaneous expense is incorrectly listed after utilities expense in the income statement. Miscellaneous expense should be listed as the last expense, regardless of the amount.
- (2) The operating expenses are incorrectly added. Instead of \$28,000, the total should be \$32,660.
- (3) Because operating expenses are incorrectly added, the net income is incorrect. It should be listed as \$9,340.
- (4) The statement of owner's equity should be for a period of time instead of a specific date. That is, the statement of owner's equity should be reported "For the Three Months Ended March 31, 2011."
- (5) The amount of the owners' equity is incorrect. It should be \$24,340.
- (6) The name of the company is missing from the balance sheet heading.
- (7) The balance sheet should be as of "March 31, 2011," not "For the Three Months Ended March 31, 2011."
- (8) Cash, not Land, should be the first asset listed in the balance sheet.
- (9) Accounts Payable is incorrectly listed as an asset in the balance sheet. Accounts Payable should be listed as a liability.
- (10) Liabilities should be listed in the balance sheet ahead of owner's equity.
- (11) Accounts Receivable is incorrectly listed as a liability in the balance sheet. Accounts Receivable should be listed as an asset.
- (12) The total assets and the total liabilities and owner's equity do not foot.

Correctly prepared financial statements for Eric Wood, CPA, are shown below.

Eric Wood, CPA Income Statement For the Three Months Ended March 31, 2011			
Fees earned			\$42,000
Operating expenses:			
Salary expense	\$9,735		
Rent expense	5,200		
Advertising expense	3,950		
Utilities expense	3,225		
Answering service expense	2,550		
Supplies expense	4,000		
Miscellaneous expense	<u>4,000</u>		
Total operating expenses			<u>32,660</u>
Net income			<u>\$9,340</u>

Eric Wood, CPA Statement of Owner's Equity For the Three Months Ended March 31, 2011			
Eric Wood, capital, January 1, 2011			\$ 0
Investment on January 1, 2011	\$20,000		
Net income for three months	<u>9,340</u>		
			<u>\$29,340</u>
Less withdrawals	<u>5,000</u>		
Increase in owner's equity			<u>24,340</u>
Eric Wood, capital, March 31, 2011			<u>\$24,340</u>

Eric Wood, CPA Balance Sheet March 31, 2011			
<u>Assets</u>		<u>Liabilities</u>	
Cash	\$10,860	Accounts payable	\$ 2,670
Accounts receivable	2,225	<u>Owner's Equity</u>	
Supplies	925	Eric Wood, Capital	<u>24,340</u>
Land	<u>13,000</u>	Total liabilities and	
Total assets	<u>\$27,010</u>	owner's equity	<u>\$27,010</u>

[◀ Add Question Here](#)

Question 196 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** Using the following accounts and their amounts, prepare in good format an Income Statement for Bright Futures Company, month ended August 31, 2011:

Telephone Expense	\$1,150
Cash	\$3,000
Accounts Payable	\$1,540
Jason Bright, Drawing	\$800
Fees Earned	\$15,700
Rent Expense	\$1,400
Supplies	\$140
Accounts Receivable	\$1,500
Computer Equipment	\$20,000
Jason Bright, Capital	\$14,320
Wages Expense	\$4,800
Utilities Expense	\$750
Notes Payable	\$2,400
Office Expense	\$420

**Answer**

Bright Futures Company Income Statement For Month Ended August 31, 2011			
Fees Earned			\$15,700
Expenses:			
Wages Expense	\$4,800		
Rent Expense	1,400		
Telephone Expense	1,150		
Utilities Expense	750		
Office Expense	<u>420</u>		
Total Expenses			<u>8,520</u>
Net Income			<u>\$ 7,180</u>

[◀ Add Question Here](#)

Question 197 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** Using the following accounts and their amounts, prepare in good format a Statement of Owner's Equity for Bright Futures Company, month ended August 31, 2011:

Telephone Expense	\$1,150
Cash	\$3,000
Accounts Payable	\$1,540
Jason Bright, Drawing	\$800
Fees Earned	\$15,700
Rent Expense	\$1,400
Supplies	\$140
Accounts Receivable	\$1,500
Computer Equipment	\$20,000
Jason Bright, Capital	\$14,320
Wages Expense	\$4,800
Utilities Expense	\$750
Notes Payable	\$2,400
Office Expense	\$420

**Answer**

		Bright Futures Company	
		Statement of Owner's Equity	
		For Month Ended August 31, 2011	
Jason Bright, Capital, August 1, 2011			\$ 14,320
Net Income			<u>7,180</u>
	Subtotal		\$ 21,500
Less: Withdrawals			<u>800</u>
Jason Bright, Capital August 31, 2011			\$ 20,700

[Add Question Here](#)

Question 198 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** Using the following accounts and their amounts, prepare in good format a Balance Sheet for Bright Futures Company, month ended August 31, 2011:

Telephone Expense	\$1,150
Cash	\$3,000
Accounts Payable	\$1,540
Jason Bright, Drawing	\$800
Fees Earned	\$15,700
Rent Expense	\$1,400
Supplies	\$140
Accounts Receivable	\$1,500
Computer Equipment	\$20,000
Jason Bright, Capital	\$14,320
Wages Expense	\$4,800
Utilities Expense	\$750
Notes Payable	\$2,400
Office Expense	\$420

**Answer**

		Bright Futures Company	
		Balance Sheet	
		August 31, 2011	
		Assets	
Cash			\$ 3,000
Accounts Receivable			1,500
Supplies			140
Computer Equipment			<u>20,000</u>
	Total Assets		\$ 24,640
		Total Liabilities and Owner's Equity	
		Liabilities:	
Accounts Payable			\$ 1,540
Notes Payable			<u>2,400</u>
	Total Liabilities		\$ 3,940
Jason Bright, Capital			<u>20,700</u>
	Total Liabilities and Owner's Equity		\$ 24,640

[Add Question Here](#)

Question 199 **Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** The account balances of Trendsetter Travel Services at December 31, 2011 are listed below:

Accounts Payable	\$12,000	J. Trendsetter, Capital 1/1/11	\$10,000
Accounts Receivable	6,000	Supplies	1,000
Cash	18,000	Taxes Expense	1,300
Computer Equipment	21,000	Utilities Expense	8,000
Fees Earned	70,000	Wages Expense	25,000
Rent Expense	10,000	Supplies Expense	1,700

Prepare an income statement, statement of owner's equity, and a balance sheet as of December 31, 2011.

**Answer**

		Trendsetter Travel Services	
		Income Statement	
		For the Year Ended December 31, 2011	
Fees Earned			\$ 70,000
Operating Expenses:			
	Wages Expense	\$ 25,000	
	Rent Expense	10,000	
	Utilities Expense	8,000	
	Supplies Expense	1,700	
	Taxes Expense	<u>1,300</u>	
	Total Operating Expenses		\$46,000
Net Income			<u>\$24,000</u>

Trendsetter Travel Services

Statement of Owner's Equity  
For the Year Ended December 31, 2011

J. Trendsetter, Capital 1/1/11	\$10,000
Net Income for the year	<u>24,000</u>
J. Trendsetter, Capital, 12/31/11	<u>\$34,000</u>

Trendsetter Travel Services  
Balance Sheet  
December 31, 2011

Assets		Liabilities	
Cash	\$18,000	Accounts Payable	\$12,000
Accounts Receivable	6,000		
Computer Equipment	21,000	<b>Owner's Equity</b>	
Supplies	<u>1,000</u>	J. Trendsetter, Capital	<u>34,000</u>
Total Assets	<u>\$ 46,000</u>	Total Liabilities and Owner's Equity	<u>\$46,000</u>

[◀ Add Question Here](#)

Question 200 **Essay**

**0 points**

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**Question** The accountant for Flagger Company prepared the following list of account balances from the company's records for the year ended December 31, 2011:

Fees Earned	\$165,000	Cash	\$ 30,000
Accounts Receivable	14,000	Selling Expenses	44,000
Equipment	42,000	Flagger, Capital	36,000
Accounts Payable	12,000	Interest Income	3,000
Salaries & Wages Expense	40,000	Rent Expense	51,000
Income Taxes Payable	5,000	Prepaid Rent	2,000
Notes Payable	20,000	Income Taxes Expense	18,000

Prepare an Income Statement for Flagger Company in good form.

**Answer**

Flagger Company  
Income Statement  
For the Year Ended December 31, 2011

Revenues:			
Fees earned	\$ 165,000		
Interest income	<u>3,000</u>		\$ 168,000
Expenses:			
Rent expense	\$ 51,000		
Salaries & wages expense	40,000		
Selling expenses	44,000		
Income taxes expense	<u>18,000</u>		<u>153,000</u>
Net income			\$ 15,000 =====

[◀ Add Question Here](#)

OK