

# ch1

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

Indicate how the event affects the elements of the financial statements. Use the following letters to record your answer in the box shown below each element:

Increase – I    Decrease – D    No Effect – N

You do not need to enter amounts.

1. Warren Corporation acquired cash by issuing common stock to investors

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

2. Garza Corporation acquired land by issuing a note payable (a liability)

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

3. Liu Corporation received \$105,000 cash from earning revenue

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

4. Wade Corporation paid its monthly utility bill of \$850

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

5. Lynn Corporation paid \$40,000 to purchase equipment

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

6. Howard Corporation paid a \$3,000 cash dividend to its stockholders

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

7. Hale Company issued a note payable to purchase a truck

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

8. Dare Company paid \$5,000 to one of its creditors to reduce the amount of the obligation

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

9. Wave Company borrowed \$10,000 cash from a bank

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

10. Springer Company estimated that, at the end of the year, the market value of land (which Springer had purchased several months earlier) had increased by \$8,000.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

Indicate how the event affects the elements of the financial statements. Use the following letters to record your answer in the box shown below each element:

Increase – I    Decrease – D    No Effect – N

If the event affected cash flow, indicate whether the cash flow would be classified as an operating activity (OA), investing activity (IA), or financing activity (FA). For example, an event that increased cash and was an investing activity would be shown in the Cash Flow column as I/IA.

11. Farmington Corporation acquired cash by issuing common stock to investors

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

12. Taos Corporation earned cash revenues of \$52,000

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

13. Gomez Corporation paid its monthly utility bill of \$850

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

14. Peru Corporation paid \$40,000 cash to purchase land

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

15. Ling Corporation paid a \$3,000 cash dividend to its owners

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

Indicate how the event affects the elements of the financial statements. If the transaction affects a given element of the financial statements, enter the dollar amount below that financial statement element with a plus to indicate an increase or a minus for a decrease. If the item affects cash flow, indicate whether it is an operating activity, investing activity, or financing activity

16. Dune Corporation acquired \$20,000 cash by issuing common stock to investors

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

17. Hill Corporation earned cash revenues of \$12,000

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

18. Gomez Corporation paid rent for the month in the amount of \$1,400

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

19. Lemars Corporation paid \$60,000 cash to purchase land

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

20. Ling Corporation paid a \$4,000 cash dividend to its owners

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

21. What does the acronym "GAAP" stand for? Name the group that has the primary responsibility for establishing US GAAP.

22. What is meant by "reporting entity?" How does the identification of the reporting entity affect accounting practice?

23. Who are the stakeholders for a business?

24. List four elements of a business's financial statements.

25. What is the meaning of the term, "business liquidation?"

26. How many accounts should a business have?

27. What are the types of claims to a business's assets?

28. What is stockholders' equity?

29. What is the term that is used to describe creditors' claims on the assets of a business?

30. If the total claims by owners of Obe's Gallery are \$60,000 and liabilities are \$25,000, what are total

assets?

31. How does the payment of a liability affect the accounting equation?

32. How does the payment of cash dividends to stockholders affect the accounting equation?

33. What are accounting events? What are transactions?

34. What does the historical cost concept require?

35. Explain the relationship between the reliability concept and the use of historical cost for reporting most of a business's assets.

36. Give two examples of asset use transactions.

37. Give two examples of asset exchange transactions.

38. What are the sources of a business's assets?

39. What does the statement of cash flows tell you about a company?

40. List the three categories of cash receipts and cash payments that are reported on the statement of cash flows.

41. Which financial statement presents a summary of revenues and expenses of a business for a specific period of time, such as a month or year?

42. Which financial statement provides information about how a business obtained and spent cash during an accounting period?

43. If a corporation issued common stock for \$20,000 cash, in which section of the statement of cash flows would this transaction be reported?

44. What is the matching concept, and how does it affect a business's financial statements?

45. What is the effect on total assets of a cash dividend to owners?

46. Generally accepted accounting principles (GAAP) are measurement rules for

- A. managerial accounting.
- B. financial accounting
- C. tax accounting.
- D. determining the market rate of return on a company's stock.

47. Which of the following groups has primary responsibility for establishing generally accepted accounting principles for businesses in the United States?

- A. the US Congress
- B. the Securities and Exchange Commission
- C. the Financial Accounting Standards Board
- D. the Internal Revenue Service

48. Accounting information focused on the needs of external users is

- A. financial accounting.
- B. managerial accounting.
- C. claims accounting.
- D. not-for-profit accounting.

49. A stockholder in a corporation would use \_\_\_\_ to learn about the company.

- A. financial accounting information
- B. managerial accounting information
- C. not-for-profit accounting information

D. both A and C

50. An investor provides resources to a business in exchange for

- A. physical resources.
- B. priority of claims in event of liquidation.
- C. an ownership interest in the business.
- D. a promise that the resources will be repaid at a given date.

51. The claims of a business's creditors are called

- A. assets.
- B. liabilities.
- C. equity.
- D. revenue.

52. A creditor

- A. provides financial resources to a business in exchange for an ownership interest.
- B. provides labor resources to a business.
- C. lends financial resources to a business.
- D. is a resource user.

53. In event of liquidation of a business,

- A. creditors have priority claim on the business's assets.
- B. investors have priority claim on the business's assets.
- C. resource users have priority claim on the business's assets.
- D. stakeholders are assured of receiving the resources they had provided to the business.

54. The broad categories of information reported on a business's financial statements are referred to as

- A. accounts.
- B. elements of the financial statements.
- C. components.
- D. assets.

55. Resources that a business uses to operate the business are called

- A. assets.
- B. equity.
- C. revenues.
- D. liabilities.

56. Liabilities are

- A. claims of creditors.
- B. the owner's interest in the company.
- C. claims of investors.
- D. both A and B.

57. The claims side of the accounting equation

- A. lists the resources that a business owns or controls.
- B. lists the sources of the business's assets.
- C. must balance out to zero.
- D. indicates the amount of profit that a business has earned.

58. The accounting equation may be written,

- A. Revenues - Expenses = Net Income
- B. Assets = Liabilities
- C. Liabilities = Equity
- D. Assets = Claims

59. Retained Earnings is

- A. a part of a company's assets.
- B. a category or type of liability.
- C. a part of stockholders' equity.
- D. a result of asset use transactions.

60. A business's equity comes from

- A. its creditors.
- B. investments by owners.
- C. amounts earned by the business.
- D. both B and C

61. Hanks Corporation acquired \$150,000 cash by issuing common stock to investors. As a result of this event,

- A. retained earnings increased.
- B. assets increased.
- C. liabilities increased.
- D. both B and C.

62. The balance sheet for Raymond Company shows total assets of \$4,000, liabilities of \$1,500, and retained earnings of \$1,200. Based on this information, the amount of common stock must be

- A. \$1,300.
- B. \$5,500.
- C. \$4,200.
- D. \$1,700.

63. As of December 31, 2009, Bueno Company had \$1,000 in liabilities, \$8,000 in common stock, and \$2,500 in retained earnings. The total amount of assets on that date is

- A. \$10,000.
- B. \$12,500.
- C. \$11,500.
- D. \$7,500.

64. During 2010, Cruz Company earned \$5,000 in cash revenue, incurred \$3,200 in cash expenses, and paid \$500 in cash dividends to its owners. Based on this information,
- A. retained earnings increased by \$1,300 during the year.
  - B. net income was \$1,300 for 2010.
  - C. the net cash flow from operating activities was \$1,300 for the year.
  - D. total assets increased by \$1,800 during 2010.
65. A company's retained earnings at the beginning and ending of the accounting period were \$48,000 and \$55,000, respectively. If the company had revenues of \$61,000 and expenses of \$50,000, the amount of cash dividends paid must have been
- A. \$2,000.
  - B. \$9,000.
  - C. \$3,000.
  - D. \$4,000.
66. Rowena Company spent cash to purchase equipment. As a result of this event,
- A. total liabilities increased.
  - B. total assets increased.
  - C. net income increased.
  - D. total assets were unchanged.
67. Ohio Company provided services to a customer for \$1,700 cash. As a result of this event,
- A. total assets decreased.
  - B. total liabilities increased.
  - C. retained earnings increased.
  - D. cash flows from financing activities increased.
68. Which of the following items would be an example of revenue?
- A. cash investments made by owners
  - B. cash received from a bank loan
  - C. cash received from customers for services provided
  - D. all of these
69. An asset decrease resulting from consumption of resources to earn revenue is
- A. a net loss.
  - B. a liability.
  - C. an expense.
  - D. an asset source transaction.
70. In 1998, Parker Corporation purchased land for \$130,000. In 2010, Parker Company had the land appraised, and its value was estimated to be \$190,000. Also during 2010, another company offered Parker \$145,000 for the parcel of land. When the balance sheet is prepared at the end of 2010, at what dollar amount should the land be reported?
- A. \$190,000

- B. \$145,000
- C. \$130,000
- D. None of these

71. Accounting information is said to be reliable if

- A. it is based on recent information.
- B. it was prepared by someone with good credentials in accounting, such as a certified public accountant.
- C. it can be independently verified.
- D. it complies with rules and standards of the Internal Revenue Service.

72. Most assets must be reported on the balance sheet at

- A. their current replacement cost.
- B. fair market value.
- C. an amount estimated by the company's management.
- D. historical cost.

73. An asset source transaction

- A. increases one asset and decreases another.
- B. increases an asset and increases a liability or equity.
- C. increases an asset and decreases a liability or equity.
- D. decreases an asset and increases a liability.

74. Which of the following transactions is an asset source transaction?

- A. acquired office supplies by signing a short-term note payable
- B. paid cash to purchase land
- C. paid cash for operating expenses
- D. paid cash dividends to owners

75. If a company receives cash for providing services to customers, that transaction is

- A. an asset source transaction.
- B. an asset use transaction.
- C. an asset exchange transaction.
- D. either A or C

76. An asset use transaction

- A. increases one asset and decreases another.
- B. decreases an asset and decreases a liability or equity.
- C. increases an asset and decreases a liability or equity.
- D. increases an asset and increases a liability or equity.

77. Which of the following transactions is an asset use transaction?

- A. payment of cash dividends to owners
- B. paying cash to acquire furniture
- C. acquiring cash by issuing stock to owners

D. providing services to customers for cash

78. Which of the following is NOT an asset use transaction?

- A. paying cash dividends
- B. paying cash to purchase land
- C. paying off the principal on a loan
- D. paying salaries to employees

79. Pardee Company earned \$25,000 of cash revenue. What kind of transaction is this?

- A. asset use transaction
- B. asset exchange transaction
- C. asset source transaction
- D. claims source transaction

80. Chen Company paid \$3,000 cash for utility expenses. What kind of transaction is this?

- A. asset source transaction
- B. asset use transaction
- C. asset exchange transaction
- D. claims source transaction

81. If a company's expenses are greater than its revenues for the year,

- A. its assets increased during the period.
- B. the company incurred a net loss during the period.
- C. the company's liabilities must have increased.
- D. the company's stockholders' equity must have decreased during the period.

82. Which of the following items would appear on a balance sheet?

- A. Notes Payable
- B. Dividends
- C. Expenses
- D. Revenues

83. Wayne Company purchased equipment for \$45,000 cash. As a result of this event, Wayne had a

- A. \$45,000 cash outflow from financing activities.
- B. \$45,000 cash inflow from financing activities.
- C. \$45,000 cash outflow from investing activities.
- D. \$45,000 cash outflow from operating activities.

84. Bridges Company earned \$4,000 in cash revenues, paid cash expenses of \$3,450, and paid a cash dividend of \$300 to its owners. It engaged in no other transactions during the period. Which of the following statements is true?

- A. The cash flow from financing activities was \$0.
- B. The net cash flow from operating activities was an inflow or increase of \$550.
- C. The net cash flow from operating activities was an inflow or increase of \$250.

- D. The cash flow from investing activities was an increase of \$250.
85. Which of the following items would appear in the financing activities section of a statement of cash flows?
- A. received cash revenue from customers
  - B. paid cash for dividends
  - C. purchased equipment for cash
  - D. paid cash for utility bill
86. The term "articulation"
- A. requires that asset decreases (expenses) be matched with asset increases (revenues).
  - B. refers to the requirement that separate financial statements be prepared for separate entities.
  - C. means that a business's financial statements are prepared for specified periods of time.
  - D. indicates that there are interrelationships among a business's financial statements.
87. The amount of land owned by a business appears on which financial statement?
- A. income statement
  - B. statement of changes in stockholders' equity
  - C. statement of cash flows
  - D. balance sheet
88. Liabilities are shown on the
- A. income statement.
  - B. statement of changes in stockholders' equity.
  - C. statement of cash flows.
  - D. balance sheet.
89. Dividends paid by a company are shown on the
- A. income statement.
  - B. balance sheet.
  - C. statement of changes in stockholders' equity.
  - D. all of these.
90. Expenses are shown on the
- A. income statement.
  - B. statement of changes in stockholders' equity.
  - C. balance sheet.
  - D. all of these.

Hardin Company began operations in 2010. During the year, the following cash transactions occurred:

1. issued stock for \$40,000
2. borrowed \$24,000 from bank
3. provided services to customers for \$53,000 cash
4. paid back \$8,000 of the loan from the bank

5. paid rent expense, \$9,000
  6. purchased equipment costing \$19,000
  7. paid operating expenses, \$29,000
  8. paid \$4,000 dividend to stockholders
91. What was the cash flow from operating activities?
- A. an inflow of \$4,000
  - B. an inflow of \$19,000
  - C. an inflow of \$11,000
  - D. an inflow of \$15,000
92. What was the cash flow from investing activities?
- A. an outflow of \$15,000
  - B. an outflow of \$19,000
  - C. an inflow of \$65,000
  - D. an outflow of \$23,000
93. What was the cash flow from financing activities?
- A. an inflow of \$60,000
  - B. an inflow of \$52,000
  - C. an inflow of \$36,000
  - D. an inflow of \$48,000
94. What amount of cash did Hardin have at the end of 2010?
- A. \$48,000
  - B. \$56,000
  - C. \$52,000
  - D. \$67,000
95. Assuming that Hardin engaged in no transactions during the year other than those listed above, what was the amount of net income or loss for the year?
- A. \$19,000 net income
  - B. \$15,000 net income
  - C. \$12,000 net income
  - D. \$11,000 net loss
96. Which financial statement reports the results of a business's operations?
- A. income statement
  - B. statement of changes in equity
  - C. balance sheet
  - D. statement of cash flows
97. Which financial statement matches asset increases from operating a business with asset decreases from operating the business?
- A. statement of changes in equity

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

98. STU Company borrowed \$32,000 of cash from a local bank. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Balance Sheet				Income Statement					Statement of Cash Flows	
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=		Net Inc.
A)	32,000	=	32,000	+	NA	32,000	-	NA	=	32,000	NA
B)	32,000	=	NA	+	32,000	NA	-	NA	=	NA	32,000 FA
C)	32,000	=	NA	+	32,000	32,000	-	NA	=	32,000	32,000 FA
D)	32,000	=	32,000	+	NA	NA	-	NA	=	NA	32,000 FA

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

99. Ruiz Company sold land for \$25,000 cash. The original cost of the land was \$25,000. Select the answer that indicates how this event would affect the company's financial statements.

	Balance Sheet				Income Statement					Statement of Cash Flows	
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=		Net Inc.
A)	NA	=	NA	+	NA	NA	-	NA	=	NA	25,000 IA
B)	(25,000)	=	NA	+	(25,000)	NA	-	NA	=	NA	(25,000)IA
C)	25,000	=	25,000	+	NA	NA	-	NA	=	NA	25,000 FA
D)	None of the above.										

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

100. Which of the following could describe the effects of an asset source transaction on a company's financial statements?

	Balance Sheet				Income Statement					Statement of Cash Flows	
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=		Net Inc.
A)	+	=	NA	+	+	NA	-	NA	=	NA	+ OA
B)	+	=	+	+	NA	NA	-	+	=	+	+ IA
C)	+	=	NA	+	+	+	-	NA	=	+	+ OA
D)	None of the above could represent the effects of an asset source transaction.										

- A. Choice A
- B. Choice B

- C. Choice C
- D. Choice D

101. Which of the following could describe the effects of an asset exchange transaction on a company's financial statements?

Balance Sheet					Income Statement					Statement of Cash Flows	
Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.		
A)	+ -	=	NA	+	NA	NA	-	NA	=	NA	- IA
B)	+ -	=	+	+	NA	NA	-	+	=	+	NA
C)	-	=	NA	+	-	NA	-	NA	=	NA	- OA
D)	None of the above could represent the effects of an asset exchange transaction.										

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

102. Which of the following could describe the effects of an asset source transaction on a company's financial statements?

Balance Sheet					Income Statement					Statement of Cash Flows	
Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.		
A)	-	-	NA	+	-	NA	-	NA	-	NA	- OA
B)	-	=	-	+	NA	NA	-	-	=	-	- IA
C)	+	=	NA	+	-	-	-	NA	=	-	- OA
D)	None of the above could represent the effects of an asset source transaction.										

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

103. Bond Company experienced an accounting event that affected its financial statements as indicated below:

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	
+		NA		+	+		NA		+	+ OA

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

- A. paid a cash dividend
- B. earned cash revenue
- C. borrowed money from a bank

D. none of these

104. Illinois Company experienced an accounting event that affected its financial statements as indicated below:

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liab.	+	Equity	Revenues	-	Expenses	=	Net Inc.	
-		NA		-	NA		NA		NA	-FA

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

- A. paid a cash dividend
- B. earned cash revenue
- C. borrowed money from a bank
- D. none of these

105. Radium Company earned \$15,000 of cash revenue. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Balance Sheet					Income Statement					Statement of Cash Flows
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	
A)	15,000	=	NA	+	15,000	NA	-	NA	=	NA	15,000 OA
B)	15,000	=	NA	+	15,000	15,000	-	NA	=	15,000	NA
C)	15,000	=	NA	+	15,000	15,000	-	NA	=	15,000	15,000 OA
D)	15,000	=	15,000	+	NA	15,000	-	NA	=	15,000	15,000 OA

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

106. MNO Company paid \$500 cash for salary expenses. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Balance Sheet					Income Statement					Statement of Cash Flows
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	
A)	NA	-	500	+	(500)	NA	-	500	=	(500)	NA
B)	(500)	=	NA	+	(500)	NA	-	500	=	(500)	(500) OA
C)	(500)	=	NA	+	(500)	NA	-	NA	=	NA	(500) OA
D)	(500)	=	NA	+	(500)	NA	-	500	=	(500)	(500) IA

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

107. Parrot Company paid a \$300 cash dividend. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Balance Sheet				Income Statement					Statement of Cash Flows	
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=		Net Inc.
A)	NA	-	300	+	(300)	NA	-	300	-	(300)	NA
B)	(300)	=	NA	+	(300)	NA	-	300	=	(300)	(300) FA
C)	(300)	=	NA	+	(300)	NA	-	NA	=	NA	(300) FA
D)	(300)	=	NA	+	(300)	NA	-	NA	=	NA	(300) OA

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

108. ABC Company acquired \$23,000 by issuing common stock to investors. Which of the following choices accurately reflects how this event would affect the company's financial statement?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
	A)	23,000	=	NA	+	23,000	NA	-	NA	=	NA
B)	23,000	=	NA	+	23,000	23,000	-	NA	=	23,000	NA
C)	23,000	=	NA	+	23,000	23,000	-	NA	=	23,000	23,000 FA
D)	23,000	=	23,000	+	NA	23,000	-	NA	=	23,000	23,000 OA

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

109. Indicate whether each of the following statements about accounting principles is true or false.

- \_\_\_\_\_ a) If a person owns two businesses, each of the businesses would be treated as a separate reporting entity.
- \_\_\_\_\_ b) Most of a business's assets are reported at their current market value.
- \_\_\_\_\_ c) Accountants rely on the historical cost concept to help ensure the reliability of accounting information.
- \_\_\_\_\_ d) Financial statements are prepared from the perspective of what happens to a business's stockholders.
- \_\_\_\_\_ e) A business's income is measured for a period of time called the accounting period.

110.

Indicate whether each of the following statements about accounting information is true or false.

- \_\_\_\_\_ a) Financial accounting is intended to satisfy the information needs of external stakeholders.
- \_\_\_\_\_ b) Financial accounting is used only by banks and brokerage firms.
- \_\_\_\_\_ c) Generally accepted accounting principles are developed by the United States Congress.

- \_\_\_\_\_ d) Managerial accounting is intended to satisfy the information needs of internal users.
- \_\_\_\_\_ e) Financial statements are prepared to meet the information needs of managers.

111. Indicate whether each of the following statements about the types of transactions is true or false.

- \_\_\_\_\_ a) An asset source transaction results in an increase in total assets and a decrease in claims.
- \_\_\_\_\_ b) The issuance of stock to owners for cash is an asset exchange transaction.
- \_\_\_\_\_ c) Purchasing equipment for cash is an asset exchange transaction.
- \_\_\_\_\_ d) Paying a dividend to stockholders is an asset use transaction.
- \_\_\_\_\_ e) Loaning money to another company is an asset exchange transaction.

112. Indicate whether each of the following statements about the income statement is true or false.

- \_\_\_\_\_ a) The income statement matches asset increases from operating a business with asset decreases from operation of the business.
- \_\_\_\_\_ b) The income statement measures income for a given period of time.
- \_\_\_\_\_ c) An income statement can be prepared for a period shorter than a year, such as a quarter.
- \_\_\_\_\_ d) An asset decrease from operating a business is a revenue.
- \_\_\_\_\_ e) A net loss occurs when expenses are greater than revenues.

113. Indicate whether each of the following statements about the balance sheet is true or false.

- \_\_\_\_\_ a) The balance sheet shows revenues, expenses, and the calculation of net income.
- \_\_\_\_\_ b) The balance sheet demonstrates that  $\text{Assets} = \text{Claims to Assets}$
- \_\_\_\_\_ c) A business's balance sheet reports amounts for its assets, liabilities, and equity.
- \_\_\_\_\_ d) Assets are reported on the balance sheet in order of amount.
- \_\_\_\_\_ e) The amount of dividends that a business paid during the year would be reported on its balance sheet.

114. Indicate whether each of the following statements about the statement of cash flows is true or false.

- \_\_\_\_\_ a) A cash receipt from issuing common stock would be reported as a cash flow from investing activities.

- \_\_\_\_\_ b) A cash receipt from borrowing funds is reported as a cash flow from financing activities.
- \_\_\_\_\_ c) Cash receipts from customers are reported on the statement of cash flows as operating activities.
- \_\_\_\_\_ d) The net increase in cash on the statement of cash flows equals the amount of net income reported on a business's income statement.
- \_\_\_\_\_ e) A cash payment to purchase equipment is an investing activity.

115. Indicate whether each of the following statements about the statement of changes in stockholders' equity is true or false.

- \_\_\_\_\_ a) The statement of changes in stockholders' equity reports the effects of transactions on stockholders' equity during the accounting period.
- \_\_\_\_\_ b) The amount of net income for the accounting period appears on the statement of changes in stockholders' equity.
- \_\_\_\_\_ c) The statement of changes in stockholders' equity reports changes in retained earnings but not changes in common stock.
- \_\_\_\_\_ d) The amount of dividends paid during a period is added to beginning Retained Earnings in calculating ending Retained Earnings.
- \_\_\_\_\_ e) The total amount of stockholders' equity reported on the statement of changes in stockholders' equity is also reported on the balance sheet.

116. Indicate whether each of the following statements about financial statements is true or false.

- \_\_\_\_\_ a) A cash dividend that a business paid to its stockholders is shown on the statement of cash flows.
- \_\_\_\_\_ b) A cash dividend to stockholders is shown on the statement of changes in stockholders' equity.
- \_\_\_\_\_ c) A cash dividend to stockholders will be shown on the income statement.
- \_\_\_\_\_ d) Among other things, the balance sheet shows how a company got its cash.
- \_\_\_\_\_ e) All changes in retained earnings should be shown on the income statement.

117. Indicate whether each of the following statements about assets is true or false.

- \_\_\_\_\_ a) As long as a company has more assets than liabilities, it will be able to pay its bills on time.
- \_\_\_\_\_ b) Assets are economic resources for a business entity.
- \_\_\_\_\_ c) Equity can be viewed as a source of assets.
- \_\_\_\_\_ d) Assets are shown on the balance sheet at their fair market value (i.e., what they would be worth if sold "today").

\_\_\_\_\_ e) A purchase of land for cash will not change the total amount of a business's total assets.

118. Indicate whether each of the following statements about equity is true or false.

- \_\_\_\_\_ a) Operating expenses reported on the income statement increase retained earnings.
- \_\_\_\_\_ b) Common Stock and Retained Earnings are reported on the balance sheet as part of stockholders' equity.
- \_\_\_\_\_ c) Retained earnings is increased by loans received from a bank.
- \_\_\_\_\_ d) Dividends paid to stockholders decrease retained earnings.
- \_\_\_\_\_ e) Owners' equity equals the difference between assets and liabilities.

119. Indicate whether each of the following statements about retained earnings is true or false.

- \_\_\_\_\_ a) A dividend paid to stockholders decreases retained earnings.
- \_\_\_\_\_ b) Cash received from issuing common stock increases retained earnings.
- \_\_\_\_\_ c) The amount of retained earnings at the end of an accounting period must equal the amount of net income for the period.
- \_\_\_\_\_ d) Retained earnings is a liability.
- \_\_\_\_\_ e) Net income from the income statement increases the amount of retained earnings.

120. Accounting is an information system that reports on the activities of an organization.

True False

121. The Financial Accounting Standards Board is the primary authority for establishing accounting standards for businesses in the United States.

True False

122. A business and a person who owns the business are separate reporting entities.

True False

123. The sources of a business's assets are liabilities and distributions to owners.

True False

124. A business's creditors have a priority claim to its assets in the event of liquidation.

True False

125. Investors in a business expect to receive a share of the income earned by the business.

True False

126. Investors and creditors use accounting information to identify the businesses they wish to provide resources to.

True False

127. Accounts are subclassifications of the various elements of the financial statements.

True False

128. The account, "Land," is a subclassification of the "Liabilities" element of the financial statements.

True False

129. A business's equity is the future obligations of the entity.

True False

130. Both liabilities and equity are sources of a business's assets.

True False

131. The accounting equation may be written, "Assets = Claims" or "Assets = Liabilities + Equity."

True False

132. A business can obtain resources through its earnings activities.

True False

133. The historical cost concept requires that most assets be reported at the amount paid for them.

True False

134. The accounting term "reliability" means that information is consistent from one accounting period to the next.

True False

135. An asset source transaction increases a business's assets and the claims to assets.

True False

136. Issuance of common stock is an asset use transaction.

True False

137. An asset exchange transaction does not affect the total amount of assets of an entity.

True False

138. An asset exchange transaction does not affect the total amount of liabilities and equity of a business.

True False

139. The difference between asset increases and asset decreases from operating a business is called income or earnings.

True False

140. The four financial statements prepared by a business are not interrelated.

True False

141. The income statement matches expenses and revenues.

True False

142. Net income is an increase in assets as a result of operating a business.

True False

143. Dividends that a company pays to its stockholders are treated as an expense of the business.

True False

144. The balance sheet reports a business's assets and the claims to those assets.

True False

145. Rodriguez Company was founded in 2010. It acquired \$40,000 cash by issuing stock to investors and an additional \$20,000 cash by borrowing from creditors. During 2010, it received \$9,000 cash revenues and paid \$22,000 in cash expenses. The company then went out of business.

Required:

a) Explain the term, "business liquidation."

b) What amount of cash did Rodriguez Company have on hand immediately before going out of business?

c) What amount of cash will Rodriguez's creditors receive?

d) What amount of cash will Rodriguez's stockholders receive?

146. Each of the following requirements is independent of the others.
- Bruno Corporation has liabilities of \$80,000 and equity of \$110,000. What is the amount of Bruno's assets? \_\_\_\_\_
  - Wilder Company has assets of \$320,000 and liabilities of \$100,000. What is the amount of equity? \_\_\_\_\_
  - Limon Company has assets of \$90,000 and liabilities of \$40,000. What is the amount of claims?  
\_\_\_\_\_

147. Reno Company experienced the following events during 2009:

- issued common stock for cash
- purchased land by paying cash
- borrowed cash
- provided services to customers for cash
- repaid part of the cash borrowed in event 1
- paid operating expenses with cash
- paid a dividend to stockholders

Required:

Indicate how each of these events affects the accounting equation by writing the letter I for increase, the letter D for decrease, and NA for no effect under each of the components of the accounting equation. The first is done for you as an example.

Event number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock +	Retained Earnings
1	I	NA	I	NA
2				
3				
4				
5				
6				
7				

148. The following events occurred for Rez Company during 2010, its first year in operation:
- issued stock to investors for \$35,000 cash
  - borrowed \$15,000 cash from the local bank

3. provided services to its customers and received \$22,000 cash
4. paid expenses of \$18,000
5. paid \$12,000 cash for land
6. paid dividend of \$2,000 to stockholders
7. repaid \$2,000 of the loan listed in item 2

Required:

Show the effects of the above transactions on the accounting equation, below. Include dollar amounts of increases and decreases. The first is done for you. After entering all the events, calculate the total amounts of assets, liabilities, and equity at the end of the year.

Event number	Assets	=	Liabilities	+	Equity
1	+\$35,000				+\$35,000
2					
3					
4					
5					
6					
7					
<b>Total</b>					

149.

Porter Company experienced the following events during 2009:

1. Acquired \$40,000 cash by issuing common stock
2. Borrowed \$10,000 cash from a creditor
3. Provided services to customers for \$25,000 cash
4. Paid \$18,000 cash for operating expenses
5. Paid a cash dividend of \$1,000 to stockholders
6. Purchased equipment with cash, \$6,000

Required:

- a) Show how each of these events affects the accounting equation. Show amounts and increases or decreases, using + for increases and - for decreases and NA for no effect. The first event is done as an example.
- b) Calculate the total amount of assets, liabilities, common stock, and retained earnings at the end of the period.

Event Number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock	Retained Earnings
1	+ \$40,000	NA	+ \$40,000	NA
2				
3				
4				
5				
6				
Totals				

150. At the beginning of 2010, Gonzales Company's accounting records had the general ledger accounts and balances shown in the table below. During 2010, the following transactions occurred:

1. received \$80,000 cash for providing services to customers
2. paid rent expense, \$10,000
3. purchased land for \$9,000 cash
4. paid \$5,000 on note payable
5. paid operating expenses, \$52,000
6. paid cash dividend, \$6,000

Required:

a) Record the transactions in the appropriate general ledger accounts. Record the amounts of revenue, expense, and dividends in the Retained Earnings column, providing appropriate titles for these accounts in the last column of the table.

Gonzales Company Accounting Equation								
Event	Assets		=	Liabilities	-	Stockholders' Equity		Acct. Titles for RE
	Cash	Land				Notes Payable	Common Stock	
Balance 1/1/07	\$16,000	\$40,000		\$10,000		\$32,000	\$14,000	
1								
2								
3								
4								
5								
6								

b) What is the amount of total assets as of December 31, 2010?

c) What is the amount of total stockholders' equity as of December 31, 2010?

151. Indicate how each of the following transactions affects assets by entering + if assets increase, - if assets decrease, and NA if the total amount of assets is not affected.

- \_\_\_\_\_ 1. Purchased land for cash
- \_\_\_\_\_ 2. Borrowed cash from bank
- \_\_\_\_\_ 3. Provided services to customers for cash
- \_\_\_\_\_ 4. Issued stock to investors
- \_\_\_\_\_ 5. Paid operating expenses
- \_\_\_\_\_ 6. Paid cash dividends to stockholders
- \_\_\_\_\_ 7. Repaid bank loan

152. Classify each of the following events as an asset source (AS), asset use (AU), or asset exchange (AX).

- \_\_\_\_\_ a. issued common stock for cash
- \_\_\_\_\_ b. borrowed cash from bank
- \_\_\_\_\_ c. performed services and collected cash from customers
- \_\_\_\_\_ d. paid cash for operating expenses
- \_\_\_\_\_ e. purchased land by paying cash
- \_\_\_\_\_ f. repaid bank loan with cash
- \_\_\_\_\_ g. paid dividends to company owners

153. Fuller Company was formed in 2010 and experienced the following accounting events during the year:

- 1. issued common stock for \$20,000 cash.
- 2. earned cash revenue of \$30,000.
- 3. paid cash expenses of \$26,000.

These were the only events that affected the company during the year.

Required:

- a) Write the accounting equation and record the effects of each accounting event under the appropriate general ledger account heading.
- b) Prepare an income statement for 2010 and a balance sheet as of December 31, 2010.

154. Tracy Corporation reported the following cash transactions for the year ending December 31, 2010, its first year in operation:

1. issued common stock for \$60,000 cash
2. borrowed \$10,000 cash from a local bank
3. purchased land for \$40,000
4. provided services to clients for \$70,000 cash
5. paid operating expenses of \$62,000
6. paid \$3,000 cash dividends to stockholders

Required:

- a) What are the total assets for Tracy Corporation at December 31, 2010?
- b) What is the total equity for Tracy at December 31, 2010?
- c) Prepare an income statement for 2010.

155. Use the following information to prepare an income statement for Burleson Company for the year ended December 31, 2009.

1. revenue from services, \$28,000
2. paid \$10,000 cash for land
3. paid operating expenses, \$21,000
4. paid dividends to stockholders, \$4,000
5. issued \$6,000 of common stock for cash

156.

The following events are for Berea Company for 2010, its first year in business. Assume that all involve receipt or payment of cash.

1. acquired \$25,000 cash by issuing stock to owners
2. borrowed \$7,000 cash from creditors
3. provided services to customers and received \$50,000
4. paid operating expenses amounting to \$38,000
5. purchased land for \$10,000
6. paid a dividend of \$5,000 to owners

Required:

- a) Show the effects of each of these events on the accounting equation shown below, showing dollar amounts of increases and decreases; calculate totals for each account at the end of the period.

Event number.	Assets =		Liabilities +	Equity	
	Cash +	Land =	Notes Payable +	Common Stock +	Retained Earnings
1					
2					
3					
4					
5					
6					
Totals					

b) Prepare an income statement and balance sheet for 2010.

157. Fill in the missing information by identifying dollar amounts a, b, c, and d. All transactions were for cash.

<b>Income Statement</b>	
Revenue	\$ a
Expenses	<u>35,000</u>
Net income	<u>\$ b</u>
<b>Statement of changes in stockholders' equity</b>	
Beginning common stock	\$0
Add: issuance of common stock	<u>50,000</u>
Ending common stock	\$50,000
Beginning retained earnings	\$0
Add: net income	<u>5,800</u>
Ending retained earnings	<u>\$ c</u>
Total equity	<u>\$ d</u>

158. The following transactions apply to Springfield Consulting Services in 2010:

1. issued stock to investors, \$40,000
2. borrowed cash from bank, \$10,000
3. purchased land for cash, \$12,000
4. provided services to customers for cash, \$60,000
5. paid \$8,000 for rent
6. paid \$35,000 for salaries

7. paid \$2,000 for supplies used during the year
8. paid \$5,000 dividends to owners
9. repaid \$4,000 of loan described in item 2

Required: Prepare a statement of cash flows for 2010. The company started operations on January 1, 2010.

159. Frey Company was founded January 1, 2010. During 2010, the company experienced the following events:
1. earned cash revenue of \$50,000.
  2. paid cash expenses of \$41,000.
  3. issued common stock for \$30,000 cash.
  4. paid cash dividend of \$2,000 to owners.

Required:

a) Write an accounting equation and record effects of each accounting event under appropriate general ledger account headings, showing dollar amounts of increases and decreases and totals at the end of the year.

b) Prepare the 2010 income statement and balance sheet for Frey Company.

160. Indicate how each of the following events would be classified on the statement of cash flows: as operating activities (OA), investing activities (IA), financing activities (FA), or not applicable (NA)
- \_\_\_\_\_ 1. received cash from issuance of common stock
  - \_\_\_\_\_ 2. borrowed cash from bank
  - \_\_\_\_\_ 3. paid rent expense
  - \_\_\_\_\_ 4. purchased building for cash
  - \_\_\_\_\_ 5. provided services to customers for cash
  - \_\_\_\_\_ 6. paid cash dividend to stockholders

161. The following events are for Fun Travel Services for the year 2010, the first year of operations. Assume that all transactions involve the receipt or payment of cash.

- 1) The business acquired \$20,000 from stock issued to owners.
- 2) Creditors loaned the company \$7,000.

- 3) The company provided services to its customers and received \$35,000.
- 4) The company paid expenses amounting to \$23,000.
- 5) Purchased land for \$9,000.
- 6) The company paid a dividend of \$3,000 to its owners.

Required:

- a) Show the effects of the above transactions on the accounting equation. Use appropriate elements and account headings.
- b) Prepare a balance sheet and income statement for year 2010.

162. The following transactions apply to Copeland's Fitness Center for 2009.

- 1) Started the business by issuing \$18,000 of common stock for cash
- 2) Provided services to clients and received \$28,000 cash
- 3) Borrowed \$6,500 from the bank for the business
- 4) Paid \$4,500 for rent of equipment
- 5) Paid \$6,000 of salary expense
- 6) Cash dividends of \$11,500 were paid to the stockholders

Required:

- a) What are the total assets of the business at the end of 2009?
- b) Prepare a Statement of Cash Flows for 2009.

163.

Fill in the blanks indicated by the alphabetic letters in the following financial statements. Assume that the company started operations on January 1, 2009 and that all transactions were for cash.

**Income Statement**

Revenue	\$11,000
Expense	<u>    a</u>
Net income	<u>    b</u>

**Statement of Changes in Equity**

Beginning Common stock	\$ -0-
Plus: Stock Issued	<u>20,000</u>
Ending Common stock	\$20,000

Beginning Retained Earnings	-0-
Add: Net Income	<u>    c</u>
Less: Dividends	<u>    d</u>
Ending Retained Earnings	<u>\$4,000</u>
Total Equity	<u>    e</u>

**Balance Sheet**

Assets	
Cash	\$    f
Land	<u>    5,000</u>
Total Assets	<u>\$30,000</u>

Liabilities	
Equity	
Common Stock	20,000
Retained Earnings	h
Total Equity	<u>    i</u>
Total Liabilities and Equity	<u>\$30,000</u>

**Statement of Cash Flows**

Cash Flows from Operating Activities	
Cash Receipt from Revenue	\$11,000
Cash Payment for Expense	<u>    j</u>
Net Cash Flow from Operating Activities	k
Cash Flows From Investing Activities	
Cash Paid for Land	(5,000)
Cash Flow from Financing Activities	
Cash Receipts from Borrowed Funds	l
Cash Receipts from Stock issue	20,000
Cash Paid for Dividends	<u>(3,000)</u>
Net Cash Flows from Financing Activities	<u>23,000</u>
Net Increase in Cash	<u>\$25,000</u>

164. The MBR Company began operations on January 1, 2010, and on that date, \$15,000 of common stock was issued for cash. In addition, MBR borrowed \$10,000 from the bank. The company provided services to its customers during 2010 and received \$18,000 cash. During the year, it paid \$20,000 cash for land, \$5,000 for salaries, and \$3,000 for cash dividends to the owners.

Required:

- a) Draw an accounting equation and record the effects of each transaction under the appropriate heading. (Use specific accounting titles below the major headlines)
- b) Prepare an income statement and a balance sheet for the 2010 accounting period.

165. During 2010, STU Company earned \$6,000 of cash revenue and paid \$4,100 of cash expenses and \$300 in dividends to the company's owners. Enter each of these three events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA).

	Balance Sheet				Income Statement					Statement of Cash Flows	
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=		Net Inc.
a)											
b)											
c)											

166.

During 2010, WXY Company issued common stock to stockholders for \$6,000, purchased land for \$1,600 cash, and paid cash dividends of \$500 to the company's owners. Enter each of these three events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA).



# ch1 KEY

Indicate how the event affects the elements of the financial statements. Use the following letters to record your answer in the box shown below each element:

Increase – I    Decrease – D    No Effect – N

You do not need to enter amounts.

*Edmonds - Chapter 001*

1. Warren Corporation acquired cash by issuing common stock to investors

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(I) (N) (I) (N) (N) (N) (I)

*Difficulty: Medium  
Edmonds - Chapter 001 #1  
Learning Objective: 9*

2. Garza Corporation acquired land by issuing a note payable (a liability)

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(I) (I) (N) (N) (N) (N) (N)

*Difficulty: Easy  
Edmonds - Chapter 001 #2  
Learning Objective: 9*

3. Liu Corporation received \$105,000 cash from earning revenue

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(I) (N) (I) (I) (N) (I) (I)

*Difficulty: Medium  
Edmonds - Chapter 001 #3  
Learning Objective: 9*

- 4.

Wade Corporation paid its monthly utility bill of \$850

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(D) (N) (D) (N) (I) (D) (D)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #4*  
*Learning Objective: 9*

5. Lynn Corporation paid \$40,000 to purchase equipment

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(N) (N) (N) (N) (N) (N) (D)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #5*  
*Learning Objective: 9*

6. Howard Corporation paid a \$3,000 cash dividend to its stockholders

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(D) (N) (D) (N) (N) (N) (D)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #6*  
*Learning Objective: 9*

7. Hale Company issued a note payable to purchase a truck

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(I) (I) (N) (N) (N) (N) (N)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #7*  
*Learning Objective: 9*

8.

Dare Company paid \$5,000 to one of its creditors to reduce the amount of the obligation

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(D) (D) (N) (N) (N) (N) (D)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #8*  
*Learning Objective: 9*

9. Wave Company borrowed \$10,000 cash from a bank

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(I) (I) (N) (N) (N) (N) (I)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #9*  
*Learning Objective: 9*

10. Springer Company estimated that, at the end of the year, the market value of land (which Springer had purchased several months earlier) had increased by \$8,000.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(N) (N) (N) (N) (N) (N) (N)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #10*  
*Learning Objective: 9*

Indicate how the event affects the elements of the financial statements. Use the following letters to record your answer in the box shown below each element:

Increase – I    Decrease – D    No Effect – N

If the event affected cash flow, indicate whether the cash flow would be classified as an operating activity (OA), investing activity (IA), or financing activity (FA). For example, an event that increased cash and was an investing activity would be shown in the Cash Flow column as I/IA.

*Edmonds - Chapter 001*

11.

Farmington Corporation acquired cash by issuing common stock to investors

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(I) (N) (I) (N) (N) (N) (I/FA)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #11*  
*Learning Objective: 8*  
*Learning Objective: 9*

12. Taos Corporation earned cash revenues of \$52,000

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(I) (N) (I) (I) (N) (I) (I/OA)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #12*  
*Learning Objective: 8*  
*Learning Objective: 9*

13. Gomez Corporation paid its monthly utility bill of \$850

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(D) (N) (D) (N) (I) (D) (D/OA)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #13*  
*Learning Objective: 8*  
*Learning Objective: 9*

14. Peru Corporation paid \$40,000 cash to purchase land

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(N) (N) (N) (N) (N) (N) (D/IA)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #14*  
*Learning Objective: 8*  
*Learning Objective: 9*

15. Ling Corporation paid a \$3,000 cash dividend to its owners

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

(D) (N) (D) (N) (N) (N) (D/FA)

*Difficulty: Medium*  
*Edmonds - Chapter 001 #15*  
*Learning Objective: 8*  
*Learning Objective: 9*

Indicate how the event affects the elements of the financial statements. If the transaction affects a given element of the financial statements, enter the dollar amount below that financial statement element with a plus to indicate an increase or a minus for a decrease. If the item affects cash flow, indicate whether it is an operating activity, investing activity, or financing activity

*Edmonds - Chapter 001*

16. Dune Corporation acquired \$20,000 cash by issuing common stock to investors

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

Assets + \$20,000; Equity + \$20,000; + \$20,000 cash flow from financing activities

*Difficulty: Medium*  
*Edmonds - Chapter 001 #16*  
*Learning Objective: 8*  
*Learning Objective: 9*

17. Hill Corporation earned cash revenues of \$12,000

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

Assets + \$12,000; Equity + \$12,000; Revenues + \$12,000; Net Income + \$12,000; + \$12,000 cash flow from operating activities

*Difficulty: Medium*  
*Edmonds - Chapter 001 #17*  
*Learning Objective: 8*  
*Learning Objective: 9*

18. Gomez Corporation paid rent for the month in the amount of \$1,400

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

Assets -\$1,400; Equity - \$1,400; Expense + \$1,400; Net Income - \$1,400; - \$1,400 cash flow from

operating activities

*Difficulty: Medium*  
*Edmonds - Chapter 001 #18*  
*Learning Objective: 8*  
*Learning Objective: 9*

19. Lemars Corporation paid \$60,000 cash to purchase land

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

-\$60,000 cash flow from investing activities. All other items unchanged

*Difficulty: Medium*  
*Edmonds - Chapter 001 #19*  
*Learning Objective: 8*  
*Learning Objective: 9*

20. Ling Corporation paid a \$4,000 cash dividend to its owners

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Statement of Cash Flows

Assets -\$4,000; Equity -\$4,000; -\$4,000 cash flow from financing activities

*Difficulty: Medium*  
*Edmonds - Chapter 001 #20*  
*Learning Objective: 8*  
*Learning Objective: 9*

21. What does the acronym "GAAP" stand for? Name the group that has the primary responsibility for establishing US GAAP.

GAAP stands for Generally Accepted Accounting Principles. The Financial Accounting Standards Board has primary responsibility for establishing US GAAP.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #21*  
*Learning Objective: 1*

22. What is meant by "reporting entity?" How does the identification of the reporting entity affect accounting practice?

The reporting entity is a business, other organization or individual, the activities of which are disclosed in financial reporting. The financial reports adopt the perspective of the reporting entity. For example, the financial statements of a business are reported from the perspective of the business.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #22*  
*Learning Objective: 2*

23. Who are the stakeholders for a business?

The parties that are interested in operations of the business and who need and use information about the business.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #23*  
*Learning Objective: 3*

24. List four elements of a business's financial statements.

Students should choose from: assets, liabilities, equity, contributed capital, revenue, expenses, distributions, net income, gains, and losses.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #24*  
*Learning Objective: 3*

25. What is the meaning of the term, "business liquidation?"

Liquidation of a business means that a business ceases operation, sells its assets, and returns the proceeds to creditors and investors.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #25*  
*Learning Objective: 3*

26. How many accounts should a business have?

The number of accounts for a business depends on the size and complexity of the business, the amount of detail that managers want to report in the company's financial statements, and the level of detailed information that managers need to do their jobs.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #26*  
*Learning Objective: 3*

27. What are the types of claims to a business's assets?

The types of claims are liabilities (creditors' claims) and equity (the claims of investors).

*Difficulty: Easy*  
*Edmonds - Chapter 001 #27*  
*Learning Objective: 4*

28. What is stockholders' equity?

Stockholders' equity is the investor claims to the assets of the business. It might also be viewed as the amount of the business's assets that were financed from investor sources. Stockholders' equity generally includes common stock and retained earnings.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #28*  
*Learning Objective: 4*

29. What is the term that is used to describe creditors' claims on the assets of a business?

Liabilities

*Difficulty: Easy*  
*Edmonds - Chapter 001 #29*  
*Learning Objective: 4*

30. If the total claims by owners of Obe's Gallery are \$60,000 and liabilities are \$25,000, what are total assets?

\$85,000

*Difficulty: Medium*  
*Edmonds - Chapter 001 #30*  
*Learning Objective: 4*

31. How does the payment of a liability affect the accounting equation?

Decrease assets, decrease liabilities

*Difficulty: Easy*  
*Edmonds - Chapter 001 #31*  
*Learning Objective: 5*

32. How does the payment of cash dividends to stockholders affect the accounting equation?

Decrease assets, decrease equity

*Difficulty: Easy*  
*Edmonds - Chapter 001 #32*  
*Learning Objective: 5*

33. What are accounting events? What are transactions?

An accounting event is an economic occurrence that changes an enterprise's assets, liabilities, or stockholders' equity. A transaction is an event that involves transferring something of value between two entities.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #33*  
*Learning Objective: 3*

34. What does the historical cost concept require?

That most assets be reported at the amount paid for them

*Difficulty: Easy*  
*Edmonds - Chapter 001 #34*  
*Learning Objective: 6*

35. Explain the relationship between the reliability concept and the use of historical cost for reporting most of a business's assets.

Accounting information is considered reliable if it can be independently verified by two or more people. The historical cost of assets is verifiable; the current or market value for many assets would be difficult to verify (would not be reliable).

*Difficulty: Medium*  
*Edmonds - Chapter 001 #35*  
*Learning Objective: 6*

36. Give two examples of asset use transactions.

Choose from: Paid loan, paid expense, and paid dividends to stockholders

37. Give two examples of asset exchange transactions.

An asset exchange transaction increases one asset and decreases another. Examples that students might suggest are the purchase of equipment for cash and the sale of land for cash.

38. What are the sources of a business's assets?

Sources for a business's assets are: investments by the owners, borrowing, and earnings activities (profitable operations).

39. What does the statement of cash flows tell you about a company?

How the company obtained and used cash during the accounting period

40. List the three categories of cash receipts and cash payments that are reported on the statement of cash flows.

Operating activities, Investing activities, Financing activities

41. Which financial statement presents a summary of revenues and expenses of a business for a specific period of time, such as a month or year?

Income Statement

42. Which financial statement provides information about how a business obtained and spent cash during an accounting period?

Statement of Cash Flows

43. If a corporation issued common stock for \$20,000 cash, in which section of the statement of cash flows would this transaction be reported?

## Financing activities

*Difficulty: Easy*  
*Edmonds - Chapter 001 #43*  
*Learning Objective: 8*

44. What is the matching concept, and how does it affect a business's financial statements?

The matching concept requires that expenses be matched with revenues. In preparing the income statement, asset increases from operating the business (revenues) are matched with asset decreases from operating the business (expenses). If revenues are greater than expenses, the business reports net income; if expenses exceed revenues, the difference is a net loss.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #44*  
*Learning Objective: 8*

45. What is the effect on total assets of a cash dividend to owners?

Decrease in total assets

*Difficulty: Easy*  
*Edmonds - Chapter 001 #45*  
*Learning Objective: 8*  
*Learning Objective: 9*

46. Generally accepted accounting principles (GAAP) are measurement rules for

- A. managerial accounting.
- B.** financial accounting
- C. tax accounting.
- D. determining the market rate of return on a company's stock.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #46*  
*Learning Objective: 1*

47. Which of the following groups has primary responsibility for establishing generally accepted accounting principles for businesses in the United States?

- A. the US Congress
- B. the Securities and Exchange Commission
- C.** the Financial Accounting Standards Board
- D. the Internal Revenue Service

*Difficulty: Easy*  
*Edmonds - Chapter 001 #47*  
*Learning Objective: 1*

48. Accounting information focused on the needs of external users is

- A.** financial accounting.
- B. managerial accounting.
- C. claims accounting.
- D. not-for-profit accounting.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #48*  
*Learning Objective: 1*

49. A stockholder in a corporation would use \_\_\_\_ to learn about the company.

- A.** financial accounting information
- B. managerial accounting information
- C. not-for-profit accounting information
- D. both A and C

*Difficulty: Easy*  
*Edmonds - Chapter 001 #49*  
*Learning Objective: 1*

50. An investor provides resources to a business in exchange for

- A. physical resources.
- B. priority of claims in event of liquidation.
- C.** an ownership interest in the business.
- D. a promise that the resources will be repaid at a given date.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #50*  
*Learning Objective: 3*

51. The claims of a business's creditors are called

- A. assets.
- B.** liabilities.
- C. equity.
- D. revenue.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #51*  
*Learning Objective: 3*

52. A creditor

- A. provides financial resources to a business in exchange for an ownership interest.
- B. provides labor resources to a business.
- C.** lends financial resources to a business.
- D. is a resource user.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #52*  
*Learning Objective: 3*

53. In event of liquidation of a business,

- A.** creditors have priority claim on the business's assets.
- B. investors have priority claim on the business's assets.
- C. resource users have priority claim on the business's assets.
- D. stakeholders are assured of receiving the resources they had provided to the business.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #53*  
*Learning Objective: 3*

54. The broad categories of information reported on a business's financial statements are referred to as

- A. accounts.
- B.** elements of the financial statements.
- C. components.
- D. assets.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #54*  
*Learning Objective: 3*

55. Resources that a business uses to operate the business are called

- A.** assets.
- B. equity.
- C. revenues.
- D. liabilities.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #55*  
*Learning Objective: 3*

56. Liabilities are

- A.** claims of creditors.
- B. the owner's interest in the company.
- C. claims of investors.
- D. both A and B.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #56*  
*Learning Objective: 4*

57. The claims side of the accounting equation

- A. lists the resources that a business owns or controls.
- B.** lists the sources of the business's assets.
- C. must balance out to zero.
- D. indicates the amount of profit that a business has earned.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #57*  
*Learning Objective: 4*

58. The accounting equation may be written,

- A. Revenues - Expenses = Net Income
- B. Assets = Liabilities
- C. Liabilities = Equity
- D.** Assets = Claims

*Difficulty: Easy*  
*Edmonds - Chapter 001 #58*  
*Learning Objective: 4*

59. Retained Earnings is

- A. a part of a company's assets.
- B. a category or type of liability.
- C.** a part of stockholders' equity.

D. a result of asset use transactions.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #59*  
*Learning Objective: 4*

60. A business's equity comes from

- A. its creditors.
- B. investments by owners.
- C. amounts earned by the business.
- D.** both B and C

*Difficulty: Easy*  
*Edmonds - Chapter 001 #60*  
*Learning Objective: 4*

61. Hanks Corporation acquired \$150,000 cash by issuing common stock to investors. As a result of this event,

- A. retained earnings increased.
- B.** assets increased.
- C. liabilities increased.
- D. both B and C.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #61*  
*Learning Objective: 5*

62. The balance sheet for Raymond Company shows total assets of \$4,000, liabilities of \$1,500, and retained earnings of \$1,200. Based on this information, the amount of common stock must be

- A.** \$1,300.
- B. \$5,500.
- C. \$4,200.
- D. \$1,700.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #62*  
*Learning Objective: 5*

63. As of December 31, 2009, Bueno Company had \$1,000 in liabilities, \$8,000 in common stock, and \$2,500 in retained earnings. The total amount of assets on that date is

- A. \$10,000.
- B. \$12,500.
- C.** \$11,500.
- D. \$7,500.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #63*  
*Learning Objective: 5*

64. During 2010, Cruz Company earned \$5,000 in cash revenue, incurred \$3,200 in cash expenses, and paid \$500 in cash dividends to its owners. Based on this information,

- A.** retained earnings increased by \$1,300 during the year.
- B. net income was \$1,300 for 2010.

- C. the net cash flow from operating activities was \$1,300 for the year.
- D. total assets increased by \$1,800 during 2010.

*Difficulty: Hard*  
*Edmonds - Chapter 001 #64*  
*Learning Objective: 5*

65. A company's retained earnings at the beginning and ending of the accounting period were \$48,000 and \$55,000, respectively. If the company had revenues of \$61,000 and expenses of \$50,000, the amount of cash dividends paid must have been

- A. \$2,000.
- B. \$9,000.
- C. \$3,000.
- D.** \$4,000.

*Difficulty: Hard*  
*Edmonds - Chapter 001 #65*  
*Learning Objective: 5*

66. Rowena Company spent cash to purchase equipment. As a result of this event,

- A. total liabilities increased.
- B. total assets increased.
- C. net income increased.
- D.** total assets were unchanged.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #66*  
*Learning Objective: 5*

67. Ohio Company provided services to a customer for \$1,700 cash. As a result of this event,

- A. total assets decreased.
- B. total liabilities increased.
- C.** retained earnings increased.
- D. cash flows from financing activities increased.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #67*  
*Learning Objective: 5*

68. Which of the following items would be an example of revenue?

- A. cash investments made by owners
- B. cash received from a bank loan
- C.** cash received from customers for services provided
- D. all of these

*Difficulty: Medium*  
*Edmonds - Chapter 001 #68*  
*Learning Objective: 5*

69. An asset decrease resulting from consumption of resources to earn revenue is

- A. a net loss.
- B. a liability.
- C.** an expense.

D. an asset source transaction.

*Difficulty: Medium*  
*Edmonds - Chapter 001 #69*  
*Learning Objective: 5*

70. In 1998, Parker Corporation purchased land for \$130,000. In 2010, Parker Company had the land appraised, and its value was estimated to be \$190,000. Also during 2010, another company offered Parker \$145,000 for the parcel of land. When the balance sheet is prepared at the end of 2010, at what dollar amount should the land be reported?

- A. \$190,000
- B. \$145,000
- C.** \$130,000
- D. None of these

*Difficulty: Easy*  
*Edmonds - Chapter 001 #70*  
*Learning Objective: 6*

71. Accounting information is said to be reliable if

- A. it is based on recent information.
- B. it was prepared by someone with good credentials in accounting, such as a certified public accountant.
- C.** it can be independently verified.
- D. it complies with rules and standards of the Internal Revenue Service.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #71*  
*Learning Objective: 6*

72. Most assets must be reported on the balance sheet at

- A. their current replacement cost.
- B. fair market value.
- C. an amount estimated by the company's management.
- D.** historical cost.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #72*  
*Learning Objective: 6*

73. An asset source transaction

- A. increases one asset and decreases another.
- B.** increases an asset and increases a liability or equity.
- C. increases an asset and decreases a liability or equity.
- D. decreases an asset and increases a liability.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #73*  
*Learning Objective: 7*

74. Which of the following transactions is an asset source transaction?

- A.** acquired office supplies by signing a short-term note payable
- B. paid cash to purchase land
- C. paid cash for operating expenses

D. paid cash dividends to owners

*Difficulty: Medium  
Edmonds - Chapter 001 #74  
Learning Objective: 7*

75. If a company receives cash for providing services to customers, that transaction is

- A. an asset source transaction.
- B. an asset use transaction.
- C. an asset exchange transaction.
- D. either A or C

*Difficulty: Easy  
Edmonds - Chapter 001 #75  
Learning Objective: 7*

76. An asset use transaction

- A. increases one asset and decreases another.
- B. decreases an asset and decreases a liability or equity.
- C. increases an asset and decreases a liability or equity.
- D. increases an asset and increases a liability or equity.

*Difficulty: Easy  
Edmonds - Chapter 001 #76  
Learning Objective: 7*

77. Which of the following transactions is an asset use transaction?

- A. payment of cash dividends to owners
- B. paying cash to acquire furniture
- C. acquiring cash by issuing stock to owners
- D. providing services to customers for cash

*Difficulty: Easy  
Edmonds - Chapter 001 #77  
Learning Objective: 7*

78. Which of the following is NOT an asset use transaction?

- A. paying cash dividends
- B. paying cash to purchase land
- C. paying off the principal on a loan
- D. paying salaries to employees

*Difficulty: Medium  
Edmonds - Chapter 001 #78  
Learning Objective: 7*

79. Pardee Company earned \$25,000 of cash revenue. What kind of transaction is this?

- A. asset use transaction
- B. asset exchange transaction
- C. asset source transaction
- D. claims source transaction

*Difficulty: Medium*

80. Chen Company paid \$3,000 cash for utility expenses. What kind of transaction is this?

- A. asset source transaction
- B.** asset use transaction
- C. asset exchange transaction
- D. claims source transaction

Difficulty: Medium  
Edmonds - Chapter 001 #80  
Learning Objective: 7

81. If a company's expenses are greater than its revenues for the year,

- A. its assets increased during the period.
- B.** the company incurred a net loss during the period.
- C. the company's liabilities must have increased.
- D. the company's stockholders' equity must have decreased during the period.

Difficulty: Medium  
Edmonds - Chapter 001 #81  
Learning Objective: 8

82. Which of the following items would appear on a balance sheet?

- A.** Notes Payable
- B. Dividends
- C. Expenses
- D. Revenues

Difficulty: Medium  
Edmonds - Chapter 001 #82  
Learning Objective: 8

83. Wayne Company purchased equipment for \$45,000 cash. As a result of this event, Wayne had a

- A. \$45,000 cash outflow from financing activities.
- B. \$45,000 cash inflow from financing activities.
- C.** \$45,000 cash outflow from investing activities.
- D. \$45,000 cash outflow from operating activities.

Difficulty: Medium  
Edmonds - Chapter 001 #83  
Learning Objective: 8

84. Bridges Company earned \$4,000 in cash revenues, paid cash expenses of \$3,450, and paid a cash dividend of \$300 to its owners. It engaged in no other transactions during the period. Which of the following statements is true?

- A. The cash flow from financing activities was \$0.
- B.** The net cash flow from operating activities was an inflow or increase of \$550.
- C. The net cash flow from operating activities was an inflow or increase of \$250.
- D. The cash flow from investing activities was an increase of \$250.

Difficulty: Medium  
Edmonds - Chapter 001 #84

85. Which of the following items would appear in the financing activities section of a statement of cash flows?

- A. received cash revenue from customers
- B.** paid cash for dividends
- C. purchased equipment for cash
- D. paid cash for utility bill

Difficulty: Medium  
Edmonds - Chapter 001 #85  
Learning Objective: 8

86. The term "articulation"

- A. requires that asset decreases (expenses) be matched with asset increases (revenues).
- B. refers to the requirement that separate financial statements be prepared for separate entities.
- C. means that a business's financial statements are prepared for specified periods of time.
- D.** indicates that there are interrelationships among a business's financial statements.

Difficulty: Medium  
Edmonds - Chapter 001 #86  
Learning Objective: 8

87. The amount of land owned by a business appears on which financial statement?

- A. income statement
- B. statement of changes in stockholders' equity
- C. statement of cash flows
- D.** balance sheet

Difficulty: Easy  
Edmonds - Chapter 001 #87  
Learning Objective: 8

88. Liabilities are shown on the

- A. income statement.
- B. statement of changes in stockholders' equity.
- C. statement of cash flows.
- D.** balance sheet.

Difficulty: Easy  
Edmonds - Chapter 001 #88  
Learning Objective: 8

89. Dividends paid by a company are shown on the

- A. income statement.
- B. balance sheet.
- C.** statement of changes in stockholders' equity.
- D. all of these.

Difficulty: Medium  
Edmonds - Chapter 001 #89  
Learning Objective: 8

90. Expenses are shown on the

- A.** income statement.
- B. statement of changes in stockholders' equity.
- C. balance sheet.
- D. all of these.

*Difficulty: Easy*  
*Edmonds - Chapter 001 #90*  
*Learning Objective: 8*

Hardin Company began operations in 2010. During the year, the following cash transactions occurred:

1. issued stock for \$40,000
2. borrowed \$24,000 from bank
3. provided services to customers for \$53,000 cash
4. paid back \$8,000 of the loan from the bank
5. paid rent expense, \$9,000
6. purchased equipment costing \$19,000
7. paid operating expenses, \$29,000
8. paid \$4,000 dividend to stockholders

*Edmonds - Chapter 001*

91. What was the cash flow from operating activities?

- A. an inflow of \$4,000
- B. an inflow of \$19,000
- C. an inflow of \$11,000
- D.** an inflow of \$15,000

*Difficulty: Hard*  
*Edmonds - Chapter 001 #91*  
*Learning Objective: 8*

92. What was the cash flow from investing activities?

- A. an outflow of \$15,000
- B.** an outflow of \$19,000
- C. an inflow of \$65,000
- D. an outflow of \$23,000

*Difficulty: Hard*  
*Edmonds - Chapter 001 #92*  
*Learning Objective: 8*

93. What was the cash flow from financing activities?

- A. an inflow of \$60,000
- B.** an inflow of \$52,000
- C. an inflow of \$36,000
- D. an inflow of \$48,000

*Difficulty: Hard*  
*Edmonds - Chapter 001 #93*  
*Learning Objective: 8*

94. What amount of cash did Hardin have at the end of 2010?

- A. \$48,000
- B. \$56,000
- C. \$52,000
- D. \$67,000

*Difficulty: Medium*  
*Edmonds - Chapter 001 #94*  
*Learning Objective: 8*

95. Assuming that Hardin engaged in no transactions during the year other than those listed above, what was the amount of net income or loss for the year?

- A. \$19,000 net income
- B. \$15,000 net income
- C. \$12,000 net income
- D. \$11,000 net loss

*Difficulty: Medium*  
*Edmonds - Chapter 001 #95*  
*Learning Objective: 8*

96. Which financial statement reports the results of a business's operations?

- A. income statement
- B. statement of changes in equity
- C. balance sheet
- D. statement of cash flows

*Difficulty: Medium*  
*Edmonds - Chapter 001 #96*  
*Learning Objective: 8*

97. Which financial statement matches asset increases from operating a business with asset decreases from operating the business?

- A. statement of changes in equity
- B. balance sheet
- C. income statement
- D. statement of cash flows

*Difficulty: Medium*  
*Edmonds - Chapter 001 #97*  
*Learning Objective: 8*

98. STU Company borrowed \$32,000 of cash from a local bank. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Balance Sheet				Income Statement					Statement of Cash Flows	
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=		Net Inc.
A)	32,000	-	32,000	+	NA	32,000	-	NA	-	32,000	NA
B)	32,000	-	NA	+	32,000	NA	-	NA	-	NA	32,000 FA
C)	32,000	=	NA	+	32,000	32,000	-	NA	=	32,000	32,000 FA
D)	32,000	=	32,000	+	NA	NA	-	NA	=	NA	32,000 FA

- A. Choice A

- B. Choice B
- C. Choice C
- D. Choice D**

*Difficulty: Medium*  
*Edmonds - Chapter 001 #98*  
*Learning Objective: 9*

99. Ruiz Company sold land for \$25,000 cash. The original cost of the land was \$25,000. Select the answer that indicates how this event would affect the company's financial statements.

	Balance Sheet				Income Statement					Statement of Cash Flows	
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=		Net Inc.
A)	NA	-	NA	+	NA	NA	-	NA	-	NA	25,000 IA
B)	(25,000)	-	NA	+	(25,000)	NA	-	NA	-	NA	(25,000)IA
C)	25,000	=	25,000	+	NA	NA	-	NA	=	NA	25,000 FA
D)	None of the above.										

- A. Choice A**
- B. Choice B
- C. Choice C
- D. Choice D

*Difficulty: Hard*  
*Edmonds - Chapter 001 #99*  
*Learning Objective: 9*

100. Which of the following could describe the effects of an asset source transaction on a company's financial statements?

	Balance Sheet				Income Statement					Statement of Cash Flows	
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=		Net Inc.
A)	+	=	NA	+	+	NA	-	NA	=	NA	+ OA
B)	+	=	+	+	NA	NA	-	+	=	+	+ IA
C)	+	=	NA	+	+	+	-	NA	=	+	+ OA
D)	None of the above could represent the effects of an asset source transaction.										

- A. Choice A
- B. Choice B
- C. Choice C**
- D. Choice D

*Difficulty: Hard*  
*Edmonds - Chapter 001 #100*  
*Learning Objective: 7*  
*Learning Objective: 9*

101.

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

Balance Sheet					Income Statement					Statement of Cash Flows	
Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.		
A)	+ -	=	NA	+	NA	NA	-	NA	=	NA	- IA
B)	+ -	=	+	+	NA	NA	-	+	=	+	NA
C)	-	=	NA	+	-	NA	-	NA	=	NA	- OA
D)	None of the above could represent the effects of an asset exchange transaction.										

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

*Difficulty: Hard*  
*Edmonds - Chapter 001 #101*  
*Learning Objective: 7*  
*Learning Objective: 9*

102. Which of the following could describe the effects of an asset source transaction on a company's financial statements?

Balance Sheet					Income Statement					Statement of Cash Flows	
Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.		
A)	-	-	NA	+	-	NA	-	NA	-	NA	- OA
B)	-	=	-	+	NA	NA	-	-	=	-	- IA
C)	+	=	NA	+	-	-	-	NA	=	-	- OA
D)	None of the above could represent the effects of an asset source transaction.										

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

*Difficulty: Medium*  
*Edmonds - Chapter 001 #102*  
*Learning Objective: 7*  
*Learning Objective: 9*

103. Bond Company experienced an accounting event that affected its financial statements as indicated below:

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	
					.					
+		NA		+	+		NA		+	+ OA

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

- A. paid a cash dividend
- B. earned cash revenue

- C. borrowed money from a bank
- D. none of these

*Difficulty: Medium*  
*Edmonds - Chapter 001 #103*  
*Learning Objective: 9*

104. Illinois Company experienced an accounting event that affected its financial statements as indicated below:

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liab.	+	Equity	Revenues	-	Expenses	=	Net Inc.	
-		NA		-	NA		NA		NA	-FA

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

- A. paid a cash dividend
- B. earned cash revenue
- C. borrowed money from a bank
- D. none of these

*Difficulty: Medium*  
*Edmonds - Chapter 001 #104*  
*Learning Objective: 9*

105. Radium Company earned \$15,000 of cash revenue. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Balance Sheet					Income Statement					Statement of Cash Flows
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	
A)	15,000	=	NA	+	15,000	NA	-	NA	=	NA	15,000 OA
B)	15,000	=	NA	+	15,000	15,000	-	NA	=	15,000	NA
C)	15,000	=	NA	+	15,000	15,000	-	NA	=	15,000	15,000 OA
D)	15,000	=	15,000	+	NA	15,000	-	NA	=	15,000	15,000 OA

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

*Difficulty: Medium*  
*Edmonds - Chapter 001 #105*  
*Learning Objective: 9*

106.

MNO Company paid \$500 cash for salary expenses. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Balance Sheet				Income Statement					Statement of Cash Flows	
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=		Net Inc.
A)	NA	-	500	+	(500)	NA	-	500	-	(500)	NA
B)	(500)	-	NA	+	(500)	NA	-	500	-	(500)	(500) OA
C)	(500)	=	NA	+	(500)	NA	-	NA	=	NA	(500) OA
D)	(500)	=	NA	+	(500)	NA	-	500	=	(500)	(500) IA

- A. Choice A  
**B.** Choice B  
C. Choice C  
D. Choice D

*Difficulty: Medium*  
*Edmonds - Chapter 001 #106*  
*Learning Objective: 9*

107. Parrot Company paid a \$300 cash dividend. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Balance Sheet				Income Statement					Statement of Cash Flows	
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=		Net Inc.
A)	NA	-	300	+	(300)	NA	-	300	-	(300)	NA
B)	(300)	=	NA	+	(300)	NA	-	300	=	(300)	(300) FA
C)	(300)	=	NA	+	(300)	NA	-	NA	=	NA	(300) FA
D)	(300)	=	NA	+	(300)	NA	-	NA	=	NA	(300) OA

- A. Choice A  
B. Choice B  
**C.** Choice C  
D. Choice D

*Difficulty: Medium*  
*Edmonds - Chapter 001 #107*  
*Learning Objective: 9*

108. ABC Company acquired \$23,000 by issuing common stock to investors. Which of the following choices accurately reflects how this event would affect the company's financial statement?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	23,000	=	NA	+	23,000	NA	-	NA	=	NA	23,000 FA
B)	23,000	=	NA	+	23,000	23,000	-	NA	=	23,000	NA
C)	23,000	=	NA	+	23,000	23,000	-	NA	=	23,000	23,000 FA
D)	23,000	=	23,000	+	NA	23,000	-	NA	=	23,000	23,000 OA

- A.** Choice A  
B. Choice B  
C. Choice C  
D. Choice D

*Difficulty: Medium*

109. Indicate whether each of the following statements about accounting principles is true or false.
- a) If a person owns two businesses, each of the businesses would be treated as a separate reporting entity.
  - b) Most of a business's assets are reported at their current market value.
  - c) Accountants rely on the historical cost concept to help ensure the reliability of accounting information.
  - d) Financial statements are prepared from the perspective of what happens to a business's stockholders.
  - e) A business's income is measured for a period of time called the accounting period.

a) T b) F c) T d) F e) T

*Difficulty: Medium*  
Edmonds - Chapter 001 #109  
Learning Objective: 2  
Learning Objective: 6  
Learning Objective: 8

110. Indicate whether each of the following statements about accounting information is true or false.
- a) Financial accounting is intended to satisfy the information needs of external stakeholders.
  - b) Financial accounting is used only by banks and brokerage firms.
  - c) Generally accepted accounting principles are developed by the United States Congress.
  - d) Managerial accounting is intended to satisfy the information needs of internal users.
  - e) Financial statements are prepared to meet the information needs of managers.

a) T b) F c) F d) T e) F

*Difficulty: Easy*  
Edmonds - Chapter 001 #110  
Learning Objective: 1

111. Indicate whether each of the following statements about the types of transactions is true or false.
- a) An asset source transaction results in an increase in total assets and a decrease in claims.
  - b) The issuance of stock to owners for cash is an asset exchange transaction.
  - c) Purchasing equipment for cash is an asset exchange transaction.
  - d) Paying a dividend to stockholders is an asset use transaction.
  - e) Loaning money to another company is an asset exchange transaction.

a) F b) F c) T d) T e) T

*Difficulty: Medium*  
Edmonds - Chapter 001 #111  
Learning Objective: 7

112. Indicate whether each of the following statements about the income statement is true or false.
- a) The income statement matches asset increases from operating a business with asset decreases from operation of the business.
  - b) The income statement measures income for a given period of time.
  - c) An income statement can be prepared for a period shorter than a year, such as a quarter.
  - d) An asset decrease from operating a business is a revenue.
  - e) A net loss occurs when expenses are greater than revenues.

a) T b) T c) T d) F e) T

113. Indicate whether each of the following statements about the balance sheet is true or false.

- a) The balance sheet shows revenues, expenses, and the calculation of net income.
- b) The balance sheet demonstrates that Assets = Claims to Assets
- c) A business's balance sheet reports amounts for its assets, liabilities, and equity.
- d) Assets are reported on the balance sheet in order of amount.
- e) The amount of dividends that a business paid during the year would be reported on its balance sheet.

a) F b) T c) T d) F e) F

114. Indicate whether each of the following statements about the statement of cash flows is true or false.

- a) A cash receipt from issuing common stock would be reported as a cash flow from investing activities.
- b) A cash receipt from borrowing funds is reported as a cash flow from financing activities.
- c) Cash receipts from customers are reported on the statement of cash flows as operating activities.
- d) The net increase in cash on the statement of cash flows equals the amount of net income reported on a business's income statement.
- e) A cash payment to purchase equipment is an investing activity.

a) F b) T c) T d) F e) T

115. Indicate whether each of the following statements about the statement of changes in stockholders' equity is true or false.

- a) The statement of changes in stockholders' equity reports the effects of transactions on stockholders' equity during the accounting period.
- b) The amount of net income for the accounting period appears on the statement of changes in stockholders' equity.
- c) The statement of changes in stockholders' equity reports changes in retained earnings but not changes in common stock.
- d) The amount of dividends paid during a period is added to beginning Retained Earnings in calculating ending Retained Earnings.
- e) The total amount of stockholders' equity reported on the statement of changes in stockholders' equity is also reported on the balance sheet.

a) T b) T c) F d) F e) T

116.

Indicate whether each of the following statements about financial statements is true or false.

- a) A cash dividend that a business paid to its stockholders is shown on the statement of cash flows.

- \_\_\_\_\_ b) A cash dividend to stockholders is shown on the statement of changes in stockholders' equity.
- \_\_\_\_\_ c) A cash dividend to stockholders will be shown on the income statement.
- \_\_\_\_\_ d) Among other things, the balance sheet shows how a company got its cash.
- \_\_\_\_\_ e) All changes in retained earnings should be shown on the income statement.

a) T b) T c) F d) F e) F

*Difficulty: Medium*  
*Edmonds - Chapter 001 #116*  
*Learning Objective: 8*

117. Indicate whether each of the following statements about assets is true or false.

- \_\_\_\_\_ a) As long as a company has more assets than liabilities, it will be able to pay its bills on time.
- \_\_\_\_\_ b) Assets are economic resources for a business entity.
- \_\_\_\_\_ c) Equity can be viewed as a source of assets.
- \_\_\_\_\_ d) Assets are shown on the balance sheet at their fair market value (i.e., what they would be worth if sold "today").
- \_\_\_\_\_ e) A purchase of land for cash will not change the total amount of a business's total assets.

a) F b) T c) T d) F e) T

*Difficulty: Medium*  
*Edmonds - Chapter 001 #117*  
*Learning Objective: 1*  
*Learning Objective: 5*  
*Learning Objective: 8*

118. Indicate whether each of the following statements about equity is true or false.

- \_\_\_\_\_ a) Operating expenses reported on the income statement increase retained earnings.
- \_\_\_\_\_ b) Common Stock and Retained Earnings are reported on the balance sheet as part of stockholders' equity.
- \_\_\_\_\_ c) Retained earnings is increased by loans received from a bank.
- \_\_\_\_\_ d) Dividends paid to stockholders decrease retained earnings.
- \_\_\_\_\_ e) Owners' equity equals the difference between assets and liabilities.

a) F b) T c) F d) T e) T

*Difficulty: Medium*  
*Edmonds - Chapter 001 #118*  
*Learning Objective: 8*

119. Indicate whether each of the following statements about retained earnings is true or false.

- \_\_\_\_\_ a) A dividend paid to stockholders decreases retained earnings.
- \_\_\_\_\_ b) Cash received from issuing common stock increases retained earnings.
- \_\_\_\_\_ c) The amount of retained earnings at the end of an accounting period must equal the amount of net income for the period.
- \_\_\_\_\_ d) Retained earnings is a liability.
- \_\_\_\_\_ e) Net income from the income statement increases the amount of retained earnings.

a) T b) F c) F d) F e) T

*Difficulty: Hard*  
*Edmonds - Chapter 001 #119*  
*Learning Objective: 3*  
*Learning Objective: 8*

120. Accounting is an information system that reports on the activities of an organization.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 001 #120  
Learning Objective: 1*

121. The Financial Accounting Standards Board is the primary authority for establishing accounting standards for businesses in the United States.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 001 #121  
Learning Objective: 1*

122. A business and a person who owns the business are separate reporting entities.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 001 #122  
Learning Objective: 2*

123. The sources of a business's assets are liabilities and distributions to owners.

**FALSE**

*Difficulty: Medium  
Edmonds - Chapter 001 #123  
Learning Objective: 3*

124. A business's creditors have a priority claim to its assets in the event of liquidation.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 001 #124  
Learning Objective: 3*

125. Investors in a business expect to receive a share of the income earned by the business.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 001 #125  
Learning Objective: 3*

126. Investors and creditors use accounting information to identify the businesses they wish to provide resources to.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 001 #126  
Learning Objective: 3*

127. Accounts are subclassifications of the various elements of the financial statements.

**TRUE**

*Difficulty: Medium  
Edmonds - Chapter 001 #127  
Learning Objective: 3*

128. The account, "Land," is a subclassification of the "Liabilities" element of the financial statements.

**FALSE**

*Difficulty: Medium  
Edmonds - Chapter 001 #128  
Learning Objective: 3*

129. A business's equity is the future obligations of the entity.

**FALSE**

*Difficulty: Easy  
Edmonds - Chapter 001 #129  
Learning Objective: 4*

130. Both liabilities and equity are sources of a business's assets.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 001 #130  
Learning Objective: 4*

131. The accounting equation may be written, "Assets = Claims" or "Assets = Liabilities + Equity."

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 001 #131  
Learning Objective: 4*

132. A business can obtain resources through its earnings activities.

**TRUE**

*Difficulty: Medium  
Edmonds - Chapter 001 #132  
Learning Objective: 5*

133. The historical cost concept requires that most assets be reported at the amount paid for them.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 001 #133  
Learning Objective: 6*

134. The accounting term "reliability" means that information is consistent from one accounting period to the next.

**FALSE**

*Difficulty: Medium  
Edmonds - Chapter 001 #134*

135. An asset source transaction increases a business's assets and the claims to assets.

**TRUE**

Difficulty: Easy  
Edmonds - Chapter 001 #135  
Learning Objective: 7

136. Issuance of common stock is an asset use transaction.

**FALSE**

Difficulty: Easy  
Edmonds - Chapter 001 #136  
Learning Objective: 7

137. An asset exchange transaction does not affect the total amount of assets of an entity.

**TRUE**

Difficulty: Easy  
Edmonds - Chapter 001 #137  
Learning Objective: 7

138. An asset exchange transaction does not affect the total amount of liabilities and equity of a business.

**TRUE**

Difficulty: Medium  
Edmonds - Chapter 001 #138  
Learning Objective: 7

139. The difference between asset increases and asset decreases from operating a business is called income or earnings.

**TRUE**

Difficulty: Medium  
Edmonds - Chapter 001 #139  
Learning Objective: 8

140. The four financial statements prepared by a business are not interrelated.

**FALSE**

Difficulty: Easy  
Edmonds - Chapter 001 #140  
Learning Objective: 8

141. The income statement matches expenses and revenues.

**TRUE**

Difficulty: Easy  
Edmonds - Chapter 001 #141  
Learning Objective: 8

142. Net income is an increase in assets as a result of operating a business.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 001 #142  
Learning Objective: 8*

143. Dividends that a company pays to its stockholders are treated as an expense of the business.

**FALSE**

*Difficulty: Medium  
Edmonds - Chapter 001 #143  
Learning Objective: 8*

144. The balance sheet reports a business's assets and the claims to those assets.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 001 #144  
Learning Objective: 8*

145. Rodriguez Company was founded in 2010. It acquired \$40,000 cash by issuing stock to investors and an additional \$20,000 cash by borrowing from creditors. During 2010, it received \$9,000 cash revenues and paid \$22,000 in cash expenses. The company then went out of business.

Required:

- a) Explain the term, "business liquidation."
- b) What amount of cash did Rodriguez Company have on hand immediately before going out of business?
- c) What amount of cash will Rodriguez's creditors receive?
- d) What amount of cash will Rodriguez's stockholders receive?

a) Liquidation is the process of dividing up assets and allocating them to resource providers (creditors and investors).

b) Amount of cash on hand =  $\$40,000 + 20,000 + 9,000 - 22,000 = \$47,000$

c) Creditors would have first claim on Rodriguez's cash. Therefore, they would receive \$20,000.

d) Stockholders would receive the remaining cash, or a total of \$27,000

*Difficulty: Medium  
Edmonds - Chapter 001 #145  
Learning Objective: 3*

146. Each of the following requirements is independent of the others.

a) Bruno Corporation has liabilities of \$80,000 and equity of \$110,000. What is the amount of Bruno's assets? \_\_\_\_\_

b) Wilder Company has assets of \$320,000 and liabilities of \$100,000. What is the amount of equity? \_\_\_\_\_

c) Limon Company has assets of \$90,000 and liabilities of \$40,000. What is the amount of claims?  
\_\_\_\_\_

a) Assets = liabilities + equity =  $\$80,000 + 110,000 = \$190,000$

b) Assets - liabilities = equity. Equity =  $\$320,000 - 100,000 = \$220,000$

c) Claims = Assets = Liabilities + Equity. Total amount of claims = \$90,000

147. Reno Company experienced the following events during 2009:

1. issued common stock for cash
2. purchased land by paying cash
3. borrowed cash
4. provided services to customers for cash
5. repaid part of the cash borrowed in event 1
6. paid operating expenses with cash
7. paid a dividend to stockholders

Required:

Indicate how each of these events affects the accounting equation by writing the letter I for increase, the letter D for decrease, and NA for no effect under each of the components of the accounting equation. The first is done for you as an example.

Event number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock +	Retained Earnings
1	I	NA	I	NA
2				
3				
4				
5				
6				
7				

Event number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock +	Retained Earnings
1	I	I	NA	NA
2	NA (or I, D)	NA	NA	NA
3	I	I	NA	NA
4	I	NA	NA	I
5	D	D	NA	NA
6	D	NA	NA	D
7	D	NA	NA	D

148.

The following events occurred for Rez Company during 2010, its first year in operation:

1. issued stock to investors for \$35,000 cash
2. borrowed \$15,000 cash from the local bank
3. provided services to its customers and received \$22,000 cash
4. paid expenses of \$18,000
5. paid \$12,000 cash for land
6. paid dividend of \$2,000 to stockholders

7. repaid \$2,000 of the loan listed in item 2

Required:

Show the effects of the above transactions on the accounting equation, below. Include dollar amounts of increases and decreases. The first is done for you. After entering all the events, calculate the total amounts of assets, liabilities, and equity at the end of the year.

Event number	Assets	=	Liabilities	+	Equity
1	+\$35,000				+\$35,000
2					
3					
4					
5					
6					
7					
<b>Total</b>					

Event number	Assets	=	Liabilities	+	Equity
1	+\$35,000				+\$35,000
2	+15,000		+15,000		
3	+22,000				+22,000
4	-18,000				-18,000
5	+12,000 -12,000				
6	-2,000				-2,000
7	-2,000		-2,000		
<b>Total</b>	<b>\$50,000</b>		<b>\$13,000</b>		<b>\$37,000</b>

*Difficulty: Medium*  
*Edmonds - Chapter 001 #148*  
*Learning Objective: 4*  
*Learning Objective: 5*

149.

Porter Company experienced the following events during 2009:

1. Acquired \$40,000 cash by issuing common stock
2. Borrowed \$10,000 cash from a creditor
3. Provided services to customers for \$25,000 cash
4. Paid \$18,000 cash for operating expenses
5. Paid a cash dividend of \$1,000 to stockholders
6. Purchased equipment with cash, \$6,000

Required:

- a) Show how each of these events affects the accounting equation. Show amounts and increases or decreases, using + for increases and - for decreases and NA for no effect. The first event is done as an example.
- b) Calculate the total amount of assets, liabilities, common stock, and retained earnings at the end of the period.

Event Number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock	Retained Earnings
1	+ \$40,000	NA	+ \$40,000	NA
2				
3				
4				
5				
6				
<b>Totals</b>				

Event Number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock	Retained Earnings
1	+ \$40,000	NA	+ \$40,000	NA
2	+ \$10,000	+ \$10,000	NA	NA
3	+ \$25,000	NA	NA	+ \$25,000
4	- \$18,000	NA	NA	- \$18,000
5	- \$1,000	NA	NA	- \$1,000
6	NA	NA	NA	NA
<b>Totals</b>	<b>\$56,000</b>	<b>\$10,000</b>	<b>\$40,000</b>	<b>\$6,000</b>

*Difficulty: Medium*  
*Edmonds - Chapter 001 #149*  
*Learning Objective: 4*  
*Learning Objective: 5*

150.

At the beginning of 2010, Gonzales Company's accounting records had the general ledger accounts and balances shown in the table below. During 2010, the following transactions occurred:

1. received \$80,000 cash for providing services to customers
2. paid rent expense, \$10,000
3. purchased land for \$9,000 cash
4. paid \$5,000 on note payable
5. paid operating expenses, \$52,000
6. paid cash dividend, \$6,000

Required:

a) Record the transactions in the appropriate general ledger accounts. Record the amounts of revenue, expense, and dividends in the Retained Earnings column, providing appropriate titles for these accounts in the last column of the table.

Gonzales Company Accounting Equation							
Event	Assets		=	Liabilities	-	Stockholders' Equity	Acct. Titles for RE
	Cash	Land		Notes Payable		Common Stock	Retained Earnings
Balance 1/1/07	\$16,000	\$40,000		\$10,000		\$32,000	\$14,000
1							
2							
3							
4							
5							
6							

- b) What is the amount of total assets as of December 31, 2010?  
c) What is the amount of total stockholders' equity as of December 31, 2010?

a)

Gonzales Company Accounting Equation							
Event	Assets		=	Liabilities	+	Stockholders' Equity	Acct. Titles for RE
	Cash	Land		Notes Payable		Common Stock	Retained Earnings
Balance 1/1/07	\$16,000	\$40,000		\$10,000		\$32,000	\$14,000
1	+80,000						+80,000 Service Revenue
2	-10,000						-10,000 Rent Expense
3	-9,000	+9,000					
4	-5,000			-5,000			
5	-52,000						-52,000 Operating Expenses
6	-6,000						-6,000 Dividends
Totals	\$14,000	\$49,000		\$5,000		\$32,000	\$26,000

b) Total assets = \$14,000 + 49,000 = \$63,000

c) Total stockholders' equity = \$32,000 + \$26,000 = \$58,000

151. Indicate how each of the following transactions affects assets by entering + if assets increase, - if assets decrease, and NA if the total amount of assets is not affected.

- \_\_\_\_\_ 1. Purchased land for cash
- \_\_\_\_\_ 2. Borrowed cash from bank
- \_\_\_\_\_ 3. Provided services to customers for cash
- \_\_\_\_\_ 4. Issued stock to investors
- \_\_\_\_\_ 5. Paid operating expenses
- \_\_\_\_\_ 6. Paid cash dividends to stockholders
- \_\_\_\_\_ 7. Repaid bank loan

1. NA 2. + 3. + 4. + 5. - 6. - 7. -

*Difficulty: Easy*  
Edmonds - Chapter 001 #151  
Learning Objective: 4

152. Classify each of the following events as an asset source (AS), asset use (AU), or asset exchange (AX).

- \_\_\_\_\_ a. issued common stock for cash
- \_\_\_\_\_ b. borrowed cash from bank
- \_\_\_\_\_ c. performed services and collected cash from customers
- \_\_\_\_\_ d. paid cash for operating expenses
- \_\_\_\_\_ e. purchased land by paying cash
- \_\_\_\_\_ f. repaid bank loan with cash
- \_\_\_\_\_ g. paid dividends to company owners

a. AS b. AS c. AS d. AU e. AX f. AU g. AU

*Difficulty: Medium*  
Edmonds - Chapter 001 #152  
Learning Objective: 7

153. Fuller Company was formed in 2010 and experienced the following accounting events during the year:

- 1. issued common stock for \$20,000 cash.
- 2. earned cash revenue of \$30,000.
- 3. paid cash expenses of \$26,000.

These were the only events that affected the company during the year.

Required:

- a) Write the accounting equation and record the effects of each accounting event under the appropriate general ledger account heading.
- b) Prepare an income statement for 2010 and a balance sheet as of December 31, 2010.

a)

Event Number	Assets = Cash	Liabilities +	Stockholders' Equity	
			Common Stock +	Retained Earnings
1	+ \$20,000	NA	+ \$20,000	NA
2	+ \$30,000	NA	NA	+ \$30,000
3	- \$26,000	NA	NA	- \$26,000

b)

Fuller Company Income Statement For the Year Ended December 31, 2010	
Revenue	\$30,000
Expenses	<u>26,000</u>
Net income	<u>\$4,000</u>

Fuller Company Balance Sheet As of December 31, 2010	
<b>Assets</b>	
Cash	<u>\$24,000</u>
<b>Liabilities and Stockholders' Equity</b>	
<b>Liabilities</b>	\$0
<b>Stockholders' Equity</b>	
Common Stock	\$20,000
Retained Earnings	<u>4,000</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$24,000</u>

*Difficulty: Hard*  
*Edmonds - Chapter 001 #153*  
*Learning Objective: 4*  
*Learning Objective: 8*

154. Tracy Corporation reported the following cash transactions for the year ending December 31, 2010, its first year in operation:
1. issued common stock for \$60,000 cash
  2. borrowed \$10,000 cash from a local bank
  3. purchased land for \$40,000
  4. provided services to clients for \$70,000 cash
  5. paid operating expenses of \$62,000
  6. paid \$3,000 cash dividends to stockholders

Required:

- a) What are the total assets for Tracy Corporation at December 31, 2010?
- b) What is the total equity for Tracy at December 31, 2010?
- c) Prepare an income statement for 2010.

- a) Total assets = \$75,000 (\$60,000 + 10,000 + 70,000 - 62,000 - 3,000)
- b) Total equity = \$65,000 (\$60,000 + 70,000 - 62,000 - 3,000)
- c)

Tracy Corporation Income Statement For the Year Ended December 31, 2010	
Revenue	\$70,000
Operating Expenses	<u>62,000</u>
Net Income	<u>\$8,000</u>

155. Use the following information to prepare an income statement for Burleson Company for the year ended December 31, 2009.
1. revenue from services, \$28,000
  2. paid \$10,000 cash for land
  3. paid operating expenses, \$21,000
  4. paid dividends to stockholders, \$4,000
  5. issued \$6,000 of common stock for cash

Burleson Company Income Statement For the Year Ended December 31, 2009	
Revenue	\$28,000
Operating Expenses	<u>21,000</u>
Net Income	<u>\$7,000</u>

156. The following events are for Berea Company for 2010, its first year in business. Assume that all involve receipt or payment of cash.
1. acquired \$25,000 cash by issuing stock to owners
  2. borrowed \$7,000 cash from creditors
  3. provided services to customers and received \$50,000
  4. paid operating expenses amounting to \$38,000
  5. purchased land for \$10,000
  6. paid a dividend of \$5,000 to owners

Required:

a) Show the effects of each of these events on the accounting equation shown below, showing dollar amounts of increases and decreases; calculate totals for each account at the end of the period.

Event number.	Assets =		Liabilities +	Equity	
	Cash +	Land =	Notes Payable +	Common Stock +	Retained Earnings
1					
2					
3					
4					
5					
6					
<b>Totals</b>					

b) Prepare an income statement and balance sheet for 2010.

a)

Event number	Assets =		Liabilities +	Equity	
	Cash +	Land =	Notes Payable +	Common Stock +	Retained Earnings
1	+\$25,000			+\$25,000	
2	+7,000		-\$7,000		
3	+50,000				+\$50,000
4	-38,000				-38,000
5	-10,000	-10,000			
6	-5,000				-5,000
Totals	\$29,000	\$10,000	\$7,000	\$25,000	\$7,000

b)

Berea Company Income Statement For the Year Ended December 31, 2010	
Revenues	\$50,000
Operating expenses	<u>38,000</u>
Net income	<u>\$12,000</u>

Berea Company Balance Sheet As of December 31, 2010		
Assets		
Cash		\$29,000
Land		<u>10,000</u>
Total Assets		<u>\$39,000</u>
Liabilities		
		\$7,000
Equity		
Common Stock	\$25,000	
Retained Earnings	<u>7,000</u>	
Total Equity		<u>32,000</u>
Total Liabilities and Equity		<u>\$39,000</u>

*Difficulty: Hard  
Edmonds - Chapter 001 #156  
Learning Objective: 4  
Learning Objective: 8*

157.

Fill in the missing information by identifying dollar amounts a, b, c, and d. All transactions were for cash.

<b>Income Statement</b>	
Revenue	\$ a
Expenses	<u>35,000</u>
Net income	<u>\$ b</u>
<b>Statement of changes in stockholders' equity</b>	
Beginning common stock	\$0
Add: issuance of common stock	<u>50,000</u>
Ending common stock	\$50,000
Beginning retained earnings	\$0
Add: net income	<u>5,800</u>
Ending retained earnings	<u>\$ c</u>
Total equity	<u>\$ d</u>

a = \$40,800; b = \$5,800; c = \$5,800; d = \$55,800

*Difficulty: Medium*  
*Edmonds - Chapter 001 #157*  
*Learning Objective: 8*

158. The following transactions apply to Springfield Consulting Services in 2010:

1. issued stock to investors, \$40,000
2. borrowed cash from bank, \$10,000
3. purchased land for cash, \$12,000
4. provided services to customers for cash, \$60,000
5. paid \$8,000 for rent
6. paid \$35,000 for salaries
7. paid \$2,000 for supplies used during the year
8. paid \$5,000 dividends to owners
9. repaid \$4,000 of loan described in item 2

Required: Prepare a statement of cash flows for 2010. The company started operations on January 1, 2010.

Springfield Consulting Services Statement of Cash Flows For the Year Ended December 31, 2010		
<b>Cash Flows from Operating Activities</b>		
Cash receipts from revenues		\$60,000
Cash payment for rent		(8,000)
Cash payment for salaries		(35,000)
Cash payment for supplies		(2,000)
Cash flow from operating activities		\$15,000
<b>Cash Flows from Investing Activities</b>		
Cash payment for land		(12,000)
<b>Cash Flows from Financing Activities</b>		
Cash receipt from issuance of stock	\$40,000	
Cash receipt from borrowing	10,000	
Cash payment to reduce debt	(4,000)	
Cash payment for dividends	(5,000)	
Cash flow from investing activities		<u>41,000</u>
Net increase in cash		44,000
Plus: beginning cash balance		-0-
Ending cash balance		<u>\$44,000</u>

*Difficulty: Hard  
Edmonds - Chapter 001 #158  
Learning Objective: 8*

159. Frey Company was founded January 1, 2010. During 2010, the company experienced the following events:
1. earned cash revenue of \$50,000.
  2. paid cash expenses of \$41,000.
  3. issued common stock for \$30,000 cash.
  4. paid cash dividend of \$2,000 to owners.

Required:

a) Write an accounting equation and record effects of each accounting event under appropriate general ledger account headings, showing dollar amounts of increases and decreases and totals at the end of the year.

b) Prepare the 2010 income statement and balance sheet for Frey Company.

a)

Event Number	Assets = Cash	Liabilities +	Stockholders' Equity	
			Common Stock +	Retained Earnings
1	+\$50,000			+\$50,000
2	-41,000			-41,000
3	+30,000		+\$30,000	
4	-2,000			-2,000
<b>Totals</b>	<b>\$37,000</b>		<b>\$30,000</b>	<b>\$7,000</b>

b)

Frey Company Income Statement For the Year Ended December 31, 2010	
Revenues	\$50,000
Less Expenses	(41,000)
Net Income	<u>\$9,000</u>

Frey Company Balance Sheet As of December 31, 2010		
Assets:		
Cash		<u>\$37,000</u>
Liabilities and Stockholders' Equity		
Stockholders' Equity		
Common Stock	\$30,000	
Retained Earnings	<u>7,000</u>	
Total Liabilities and Stockholders' Equity		<u>\$37,000</u>

*Difficulty: Hard*  
*Edmonds - Chapter 001 #159*  
*Learning Objective: 4*  
*Learning Objective: 8*

160. Indicate how each of the following events would be classified on the statement of cash flows: as operating activities (OA), investing activities (IA), financing activities (FA), or not applicable (NA)
- \_\_\_\_\_ 1. received cash from issuance of common stock
  - \_\_\_\_\_ 2. borrowed cash from bank
  - \_\_\_\_\_ 3. paid rent expense
  - \_\_\_\_\_ 4. purchased building for cash
  - \_\_\_\_\_ 5. provided services to customers for cash
  - \_\_\_\_\_ 6. paid cash dividend to stockholders

1. FA 2. FA 3. OA 4. IA 5. OA 6. FA

*Difficulty: Medium*  
*Edmonds - Chapter 001 #160*  
*Learning Objective: 8*

161. The following events are for Fun Travel Services for the year 2010, the first year of operations. Assume that all transactions involve the receipt or payment of cash.

- 1) The business acquired \$20,000 from stock issued to owners.
- 2) Creditors loaned the company \$7,000.
- 3) The company provided services to its customers and received \$35,000.
- 4) The company paid expenses amounting to \$23,000.
- 5) Purchased land for \$9,000.
- 6) The company paid a dividend of \$3,000 to its owners.

Required:

- a) Show the effects of the above transactions on the accounting equation. Use appropriate elements and account headings.  
 b) Prepare a balance sheet and income statement for year 2010.

a)

Event No.	<u>Cash</u>	+ <u>Land</u>	=	<u>Notes Pay</u>	+ <u>Com Stk</u>	+ <u>Ret. Earn.</u>
1.	+20,000				+20,000	
2.	+7,000			+7,000		
3.	+35,000					+35,000
4.	- 23,000					-23,000
5.	- 9,000	+9,000				
6.	<u>- 3,000</u>					<u>- 3,000</u>
Totals	<u>+27,000</u>	<u>+9,000</u>		<u>+7,000</u>	<u>+20,000</u>	<u>+9,000</u>

b)

Fun Travel Services  
 Balance Sheet  
 December 31, 2010

Assets		
Cash	\$27,000	
Land	<u>9,000</u>	
Total Assets		<u>\$36,000</u>
Liabilities		
		\$ 7,000
Equity		
Common Stock	\$20,000	
Retained Earnings	<u>9,000</u>	
Total Equity		<u>29,000</u>
Total Liabilities and Equity		<u>\$36,000</u>

Fun Travel Services  
 Income Statement  
 For Year Ending December 31, 2010

Revenue	\$35,000
Expenses	<u>(23,000)</u>
Net income	<u>\$12,000</u>

*Difficulty: Hard  
 Edmonds - Chapter 001 #161  
 Learning Objective: 8*

162.

The following transactions apply to Copeland's Fitness Center for 2009.

- 1) Started the business by issuing \$18,000 of common stock for cash

- 2) Provided services to clients and received \$28,000 cash
- 3) Borrowed \$6,500 from the bank for the business
- 4) Paid \$4,500 for rent of equipment
- 5) Paid \$6,000 of salary expense
- 6) Cash dividends of \$11,500 were paid to the stockholders

Required:

- a) What are the total assets of the business at the end of 2009?
- b) Prepare a Statement of Cash Flows for 2009.

a)	Cash	+\$18,000
	Cash	+28,000
	Cash	+6,500
	Cash	(4,500)
	Cash	(6,000)
	Cash	<u>(11,500)</u>
	Total Assets	\$30,500

b)

Copeland's Fitness Center  
Statement of Cash Flows

For the Year Ended December 31, 2009

Cash Flows From Operating Activities		
	Cash receipts from revenue	\$28,000
	Cash payments for expense	<u>(10,500)</u>
	Net Cash Flow from Operating Activities	\$17,500
Cash Flows From Investing Activities		
		-0-
Cash Flows From Financing Activities		
	Cash receipt from loan	6,500
	Cash receipt from stock issue	18,000
	Cash dividend to owners	<u>(11,500)</u>
	Net Cash Flow from Financing Activities	<u>13,000</u>
	Net Increase in Cash	\$30,500
	Plus: Beginning Cash Balance	<u>-0-</u>
	Ending Cash Balance	<u>\$30,500</u>

*Difficulty: Hard*  
*Edmonds - Chapter 001 #162*  
*Learning Objective: 8*

163.

Fill in the blanks indicated by the alphabetic letters in the following financial statements. Assume that the company started operations on January 1, 2009 and that all transactions were for cash.

**Income Statement**

Revenue	\$11,000
Expense	<u>    a</u>
Net income	<u>    b</u>

**Statement of Changes in Equity**

Beginning Common stock	\$ -0-
Plus: Stock Issued	<u>20,000</u>
Ending Common stock	\$20,000

Beginning Retained Earnings	-0-
Add: Net Income	<u>    c</u>
Less: Dividends	<u>    d</u>
Ending Retained Earnings	<u>\$4,000</u>
Total Equity	<u>    e</u>

**Balance Sheet**

Assets	
Cash	\$    f
Land	<u>    5,000</u>
Total Assets	<u>\$30,000</u>

Liabilities	
Equity	
Common Stock	20,000
Retained Earnings	h
Total Equity	<u>    i</u>
Total Liabilities and Equity	<u>\$30,000</u>

**Statement of Cash Flows**

Cash Flows from Operating Activities	
Cash Receipt from Revenue	\$11,000
Cash Payment for Expense	<u>    j</u>
Net Cash Flow from Operating Activities	k
Cash Flows From Investing Activities	
Cash Paid for Land	(5,000)
Cash Flow from Financing Activities	
Cash Receipts from Borrowed Funds	l
Cash Receipts from Stock issue	20,000
Cash Paid for Dividends	<u>(3,000)</u>
Net Cash Flows from Financing Activities	<u>23,000</u>
Net Increase in Cash	<u>\$25,000</u>

(a) \$4,000, (b) \$7,000, (c) \$7,000, (d) \$3,000, (e) \$24,000, (f) \$25,000, (g) \$ 6,000,  
 (h) \$ 4,000, (i) \$24,000, (j) (\$ 4,000), (k) \$ 7,000, (l) \$ 6,000

*Difficulty: Hard*  
*Edmonds - Chapter 001 #163*  
*Learning Objective: 8*

164. The MBR Company began operations on January 1, 2010, and on that date, \$15,000 of common stock was issued for cash. In addition, MBR borrowed \$10,000 from the bank. The company provided services to its customers during 2010 and received \$18,000 cash. During the year, it paid \$20,000 cash for land, \$5,000 for salaries, and \$3,000 for cash dividends to the owners.

Required:

- a) Draw an accounting equation and record the effects of each transaction under the appropriate heading. (Use specific accounting titles below the major headlines)
- b) Prepare an income statement and a balance sheet for the 2010 accounting period.

	<u>Assets</u>		=	<u>Liabilities</u>		+	<u>Equity</u>		
a) Transaction	<u>Cash</u>	+	<u>Land</u>	=	<u>Notes Pay</u>	+	<u>Com Stk</u>	+	<u>R/E</u>
Issued Stock	+15,000						+15,000		
Borrowing	+10,000				+10,000				
Revenue	+18,000							+18,000	
Land purchase	- 20,000		+20,000						
Salaries	- 5,000							- 5,000	
Dividends	<u>- 3,000</u>							<u>- 3,000</u>	
Ending Balances	15,000		+20,000	=	10,000		+15,000		+10,000

b)

**MBR Company**  
**Income Statement**  
 For Year Ended December 31, 2010

Revenue	\$18,000
Expenses	<u>(5,000)</u>
Net Income	<u>\$13,000</u>

**MBR Company**  
**Balance Sheet**  
 December 31, 2010

<b>Assets</b>			
Cash	\$15,000		
Land	<u>20,000</u>		
<b>Total Assets</b>			<u>\$35,000</u>
<b>Liabilities</b>			\$10,000
<b>Equity</b>			
Common Stock	\$15,000		
Retained Earnings	<u>10,000</u>		
<b>Total Equity</b>			<u>25,000</u>
<b>Total Liabilities and Equity</b>			<u>\$35,000</u>

*Difficulty: Hard*  
*Edmonds - Chapter 001 #164*  
*Learning Objective: 4*  
*Learning Objective: 8*

165. During 2010, STU Company earned \$6,000 of cash revenue and paid \$4,100 of cash expenses and \$300 in dividends to the company's owners. Enter each of these three events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA).

	Balance Sheet				Income Statement				Statement of Cash Flows
	Assets	=	Liab.	+ Equity	Rev.	-	Exp.	= Net Inc.	
a)									
b)									
c)									

	Balance Sheet				Income Statement				Statement of Cash Flows
	Assets	=	Liab.	+ Equity	Rev.	-	Exp.	= Net Inc.	
a)	+6,000			+6,000	+6,000			+6,000	+6,000 OA
b)	-4,100			-4,100		+4,100		-4,100	-4,100 OA
c)	-300			-300					-300 FA

*Difficulty: Medium*  
*Edmonds - Chapter 001 #165*  
*Learning Objective: 9*



	Balance Sheet				Income Statement				Statement of Cash Flows
	Assets	=	Liab.	+ Equity	Rev.	-	Exp.	= Net Inc.	
a)	+5,000			+5,000					+5,000 FA
b)	-1,000								-1,000 IA
	+1,000								
c)	+4,000			+4,000	+4,000			+4,000	+4,000 OA
d)	-3,100			-3,100		+3,100		-3,100	-3,100 OA
e)	-500			-500					-500 FA

*Difficulty: Medium*  
*Edmonds - Chapter 001 #167*  
*Learning Objective: 9*

# ch1 Summary

<u>Category</u>	<u># of Questions</u>
Difficulty: Easy	58
Difficulty: Hard	18
Difficulty: Medium	91
Edmonds - Chapter 001	171
Learning Objective: 1	9
Learning Objective: 2	3
Learning Objective: 3	19
Learning Objective: 4	23
Learning Objective: 5	17
Learning Objective: 6	8
Learning Objective: 7	20
Learning Objective: 8	61
Learning Objective: 9	35