

**Financial Accounting, 8e**  
**Harrison/Horngren/Thomas**  
**Test Item File**  
**Chapter 1: The Financial Statements**

- 1.1-1 Bookkeeping is a type of accounting used primarily by proprietorships.
- Answer: False  
LO: 1-1  
Difficulty: 1  
EOC REF: Q1-40  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.1-2 Bookkeeping is the mechanical part of accounting.
- Answer: True  
LO: 1-1  
Difficulty: 1  
EOC REF: Q1-40  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.1-3 Users of accounting information include investors, creditors, and regulatory bodies.
- Answer: True  
LO: 1-1  
Difficulty: 2  
EOC REF: P1-55A  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry sector
- 1.1-4 An example of a regulatory body that uses accounting information is the Internal Revenue Service.
- Answer: True  
LO: 1-1  
Difficulty: 1  
EOC REF: S1-3  
AACSB: Analytical Skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry Sector

- 1.1-5 The major forms of business organizations are proprietorships, partnerships, and for-profit organizations.
- Answer: False  
LO: 1-1  
Difficulty: 2  
EOC REF: S1-3  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry Sector
- 1.1-6 Limited Liability Companies (LLCs) have members instead of stockholders.
- Answer: True  
LO: 1-1  
Difficulty: 1  
EOC REF: S1-3  
AACSB: Analytical Skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry Sector, Legal/Regulatory
- 1.1-7 In an LLP, each partner is liable for partnership debts only to the extent of their investment in the partnership plus their share of the liabilities.
- Answer: True  
LO: 1-1  
Difficulty: 2  
EOC REF: S1-3  
AACSB: Analytical Skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry Sector, Legal/Regulatory
- 1.1-8 All business owners are personally liable for the debts of their businesses.
- Answer: False  
LO: 1-1  
Difficulty: 2  
EOC REF: S1-3  
AACSB: Analytical Skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry Sector, Legal/Regulatory
- 1.1-9 The business records of a proprietorship should include the proprietor's personal finances.
- Answer: False  
LO: 1-1  
Difficulty: 1  
EOC REF: S1-4  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry sector, Legal/Regulatory

- 1.1-10 Mutual agency of a partnership means that each partner may conduct business in the name of the partnership and can legally bind all the partners without limit for the partnership's debts.
- Answer: True  
LO: 1-1  
Difficulty: 2  
EOC REF: S1-3  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry sector, Legal/Regulatory
- 1.1-11 Financial accounting provides budgeting information to a company's managers.
- Answer: False  
LO: 1-1  
Difficulty: 2  
EOC REF: Q1-40  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Industry sector
- 1.1-12 Managerial accounting information is used mainly by external users.
- Answer: False  
LO: 1-1  
Difficulty: 1  
EOC REF: Q1-40  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Industry sector
- 1.1-13 Accounting:
- A) measures business activities.
  - B) processes data into reports and communicates the data to decision makers.
  - C) is often called the language of business.
  - D) is all of the above.
- Answer: D  
LO: 1-1  
Difficulty: 2  
EOC REF: Q1-40  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.1-14 The two types of accounting are:  
A) profit and nonprofit.  
B) financial and managerial.  
C) internal and external.  
D) bookkeeping and decision-oriented.

Answer: B

LO: 1-1

Difficulty: 2

EOC REF: Q1-40

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Industry sector

- 1.1-15 Management accounting:  
A) includes information such as budgets and forecasts.  
B) is used to make strategic decisions for the entity.  
C) must be relevant to decision makers within the entity.  
D) is all of the above.

Answer: D

LO: 1-1

Difficulty: 2

EOC REF: Q1-40

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Industry sector

- 1.1-16 What type of accounting provides information for decision makers outside the entity?  
A) Bookkeeping  
B) Managerial accounting.  
C) Internal auditing.  
D) Financial accounting.

Answer: D

LO: 1-1

Difficulty: 2

EOC REF: Q1-40

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Industry sector

- 1.1-17 Who ultimately controls a corporation?  
A) Board of Directors  
B) The Chief Executive Officer (CEO)  
C) The stockholders  
D) The President

Answer: C

LO: 1-1

Difficulty: 2

EOC REF: E1-13

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-18 Financial statements are:  
A) standard documents issued by outside consultants who are hired to analyze key operations of the business in financial terms.  
B) the business documents that companies use to report the results of their financial activities to various user groups.  
C) reports created by management that states it is responsible for the acts of the corporation.  
D) the mechanical part of accounting.

Answer: B

LO: 1-1

Difficulty: 1

EOC REF: S1-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.1-19 For which form of business ownership are the owners of a business legally distinct from the business?  
A) Corporation  
B) Partnership  
C) Proprietorship  
D) All of the above

Answer: A

LO: 1-1

Difficulty: 1

EOC REF: S1-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-20 Characteristics of a sole proprietor include:
- A) multiple owners.
  - B) limited personal liability for all business debts.
  - C) a distinct entity, separate from its owner for accounting purposes.
  - D) formation under state law.

Answer: C

LO: 1-1

Difficulty: 1

EOC REF: S1-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-21 A partnership:
- A) is a taxpaying entity.
  - B) is not a distinct entity, separate from its owners for accounting purposes.
  - C) has mutual agency.
  - D) has limited liability for the partners.

Answer: C

LO: 1-1

Difficulty: 2

EOC REF: S1-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-22 Owners of an LLC are called:
- A) partners.
  - B) sole proprietors.
  - C) members.
  - D) stockholders.

Answer: C

LO: 1-1

Difficulty: 1

EOC REF: S1-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-23 Advantages of a corporation include:  
A) a single owner.  
B) the double taxation of distributed profits.  
C) limited liability of the stockholders.  
D) mutual agency.

Answer: C

LO: 1-1

Difficulty: 1

EOC REF: S1-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-24 All of the following are forms of business organizations EXCEPT for the:  
A) proprietorship.  
B) limited liability partnership.  
C) limited proprietorship.  
D) limited liability company.

Answer: C

LO: 1-1

Difficulty: 1

EOC REF: S1-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-25 An entity that is organized according to state law and in which ownership units are called stock is a:  
A) proprietorship.  
B) corporation.  
C) partnership.  
D) limited liability company.

Answer: B

LO: 1-1

Difficulty: 1

EOC REF: S1-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-26 For accounting purposes, the business entity should be considered separate from its owners if the business is organized as a:
- A) proprietorship.
  - B) corporation.
  - C) partnership.
  - D) any of the above.

Answer: D

LO: 1-1

EOC: E1-13

Difficulty: 1

EOC REF: S1-4

AACSB: Analytical

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.2-1 Generally accepted accounting principles, or GAAP, are the rules and procedures established by the Financial Accounting Standards Board, or the FASB.

Answer: True

LO: 1-2

Difficulty: 1

EOC REF: S1-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement

- 1.2-2 One overall objective of accounting is to provide financial information that is useful to potential capital providers who are making investment and lending decisions.

Answer: True

LO: 1-2

Difficulty: 1

EOC REF: Q1-40

AACSB: Analytical

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-3 To be relevant, accounting information must be capable of making a difference to the decision maker.

Answer: True

LO: 1-2

Difficulty: 2

EOC REF: S1-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement



- 1.2-4 The entity assumption is the most basic accounting concept.
- Answer: True  
LO: 1-2  
Difficulty: 1  
EOC REF: P1-58A  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Legal/Regulatory  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement
- 1.2-5 Another name for the continuity assumption is the going-concern assumption.
- Answer: True  
LO: 1-2  
Difficulty: 1  
EOC REF: P1-55A  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement
- 1.2-6 Cost is a verifiable measure that is relatively free from bias.
- Answer: True  
LO: 1-2  
Difficulty: 1  
EOC REF: P1-55A  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement
- 1.2-7 Accounting is moving in the direction of reporting more and more assets and liabilities at their fair values.
- Answer: True  
LO: 1-2  
Difficulty: 1  
EOC REF: Q1-42  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement
- 1.2-8 The stable monetary unit concept means that the type of currency used for the financial statements is NOT expected to change.
- Answer: False  
LO: 1-2  
Difficulty: 2  
EOC REF: S1-5  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement

- 1.2-9 Since we live in a global economy, all countries have adopted the same accounting standards for business transactions.
- Answer: False  
LO: 1-2  
Difficulty: 1  
EOC REF: S1-5  
AACSB: Multicultural & diversity  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: international/global
- 1.2-10 No major differences exist between the accounting standards issued by the FASB and the IASB.
- Answer: False  
LO: 1-2  
Difficulty: 1  
EOC REF: S1-5  
AACSB: Multicultural & diversity  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: international/global
- 1.2-11 The Financial Accounting Standards Board is responsible for establishing:
- A) the code of professional conduct for accountants.
  - B) the Securities and Exchange Commission.
  - C) generally accepted accounting principles.
  - D) the American Institute of Certified Public Accountants.
- Answer: C  
LO: 1-2  
Difficulty: 2  
EOC REF: P1-55  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.2-12 The acronym GAAP stands for:
- A) generally acceptable authorized pronouncements.
  - B) government authorized accountant principles.
  - C) generally accepted accounting principles.
  - D) government audited accounting pronouncements.
- Answer: C  
LO: 1-2  
Difficulty: 2  
EOC REF: P1-55  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-13 Accountants follow guidelines for professional measurement and disclosure of financial information called:
- A) IASB.
  - B) GAAP.
  - C) FASB.
  - D) SEC.

Answer: B

LO: 1-2

Difficulty: 2

EOC REF: P1-55

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-14 International financial reporting standards are set by the:
- A) IASB.
  - B) GAAP.
  - C) FASB.
  - D) SEC.

Answer: A

LO: 1-2

Difficulty: 2

EOC REF: P1-55

AACSB: Multicultural and diversity

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: International/global

- 1.2-15 To be useful, accounting information must have the fundamental qualitative characteristics of:
- A) comparability and relevance.
  - B) relevance and faithful representation.
  - C) materiality and understandability.
  - D) faithful representation and timeliness.

Answer: B

LO: 1-2

Difficulty: 2

EOC REF: S1-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.2-16 All of the following are characteristics of useful accounting information EXCEPT:

- A) comparability.
- B) timeliness
- C) informative.
- D) verifiability.

Answer: C

LO: 1-2

Difficulty: 2

EOC REF: Q1-40

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.2-17 When information is important enough to the informed user, so that, if it was omitted or erroneous, it would make a difference in the user's decision, it is:

- A) comparable.
- B) material
- C) timely.
- D) understandable.

Answer: B

LO: 1-2

Difficulty: 2

EOC REF: P1-55

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.2-18 Accounting information is subject to the constraints of:

- A) comparability and consistency.
- B) comparability and verifiability.
- C) materiality and cost.
- D) relevance and faithful representation.

Answer: C

LO: 1-2

Difficulty: 2

EOC REF: P1-55

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-19 The accounting assumption that states that the business, rather than its owners, is the reporting unit is the:
- A) entity assumption.
  - B) going concern assumption.
  - C) stable-monetary-unit assumption.
  - D) historical cost assumption.

Answer: A

LO: 1-2

Difficulty: 2

EOC REF: P1-58

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

- 1.2-20 The stable-monetary-unit assumption of accounting:
- A) ensures that accounting records and statements are based on the most reliable data available.
  - B) holds that the entity will remain in operation for the foreseeable future.
  - C) maintains that each organization or section of an organization stands apart from other organizations and individuals.
  - D) enables accountants to ignore the effect of inflation in the accounting records.

Answer: D

LO: 1-2

Difficulty: 2

EOC REF: S1-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-21 The continuity (going-concern) assumption of accounting:
- A) enables accountants to ignore the effect of inflation in the accounting records.
  - B) holds that the entity will remain in operation long enough to use its existing assets.
  - C) maintains that each organization, or section of an organization, stands apart from other organizations and individuals.
  - D) ensures that accounting records and statements are based on the most reliable data available.

Answer: B

LO: 1-2

Difficulty: 2

EOC REF: P1-55A

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-22 The principle stating that assets acquired by the business should be recorded at their actual cost on the date of purchase is the:
- A) cost principle.
  - B) objectivity principle.
  - C) reliability principle.
  - D) stable dollar principle.

Answer: A

LO: 1-2

Difficulty: 1

EOC REF: S1-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-23 The relevant measure of the value of the assets of a company that is going out of business is the:
- A) book value.
  - B) current market value.
  - C) historical cost.
  - D) recorded value.

Answer: B

LO: 1-2

Difficulty: 2

EOC REF: P1-55

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-24 The CEO of a business owns a residence in Flagstaff. The company the CEO works for owns a factory in Chandler. Which of these properties is considered an asset(s) of the business?
- A) The Flagstaff residence only
  - B) The Chandler factory only
  - C) Both the Flagstaff and Chandler properties
  - D) Neither the Flagstaff nor Chandler properties

Answer: B

LO: 1-2

Difficulty: 2

EOC REF: P1-55

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

- 1.2-25 An Oklahoma City business paid \$15,000 cash for equipment used in the business. At the time of purchase, the equipment had a list price of \$20,000. When the balance sheet was prepared, the value of the equipment was \$22,000. What is the relevant measure of the value of the equipment?
- A) Historical cost, \$15,000
  - B) Fair market cost, \$20,000
  - C) Current market cost, \$22,000
  - D) \$15,000 on the day of purchase, \$22,000 on balance sheet date

Answer: A

LO: 1-2

Difficulty: 2

EOC REF: S1-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-26 An office building is appraised for \$250,000 and offered for sale at \$260,000. The buyer pays \$245,000 for the building. The building should be recorded on the books of the buyer at:
- A) \$250,000.
  - B) \$260,000.
  - C) \$245,000.
  - D) some other amount.

Answer: C

LO: 1-2

Difficulty: 2

EOC REF: S1-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-27 The FASB:
- A) is working towards a convergence of standards with the IASB.
  - B) will not accept IASB rules.
  - C) does not want US companies to adopt IFRS standards.
  - D) feels that the global use of IFRS will significantly increase costs of doing global business.

Answer: A

LO: 1-2

Difficulty: 2

EOC REF: P1-55

AACSB: Multicultural & diversity

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: International/global

1.2-28

Indicate which of the following accounting concepts, principles or assumptions—faithful representation, entity assumption, historical cost principle, stable monetary unit assumption—best applies to each of the following situations.

- A) Top Company wants to determine which division of the company—A, B, or C— is more profitable.
- B) You purchase furniture that normally cost \$750 for \$500 on sale. The furniture should be recorded at what value?
- C) Left Company sold a building to Right Company. How can Left Company determine the sales price to record for the building—what Left Company thinks the building is worth or the amount actually received from the sale?
- D) Inflation has been around running around 5% for some time. A company is considering measuring its building value in inflation-adjusted amounts.

Answer:

- A) Entity assumption
- B) Historical cost principle
- C) Faithful representation
- D) Stable monetary unit assumption

LO: 1-2

Difficulty: 2

EOC REF: P1-55

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.2-29

Below is a list of qualitative characteristics of accounting. Following the list is a series of descriptive phrases.

- |                            |                      |
|----------------------------|----------------------|
| A) faithful representation | D) comparability     |
| B) timeliness              | E) verifiability     |
| C) relevance               | F) understandability |

- \_\_\_\_\_ 1. When information can make a difference in a decision
- \_\_\_\_\_ 2. Accounting information is reported the same way by different companies.
- \_\_\_\_\_ 3. The information must be capable of being checked for accuracy and completeness.
- \_\_\_\_\_ 4. Making information available early enough to users to help them make decisions
- \_\_\_\_\_ 5. Information must be complete, free from bias, and without material error.
- \_\_\_\_\_ 6. Information must be transparent so it makes sense to reasonably informed users.

Required: Match each characteristic with the appropriate phrase.

Answer: 1 C 2 D 3 E 4 B 5 A 6 F

LO: 1-2

Difficulty: 3

EOC Ref: P 1-55

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking



1.2-30

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 2010					
<b>Assets</b>			<b>Liabilities and Stockholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts Receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Common stock	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total stockholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Stockholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year Ended December 31, 2010		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and administrative expenses	14,000	
Depreciation expense	8,000	
Total Operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

What is the Retained earnings shown on the Balance Sheet for 2010?

- A) \$15,000
- B) \$45,000
- C) \$75,000
- D) \$77,000

Answer: B

Calculations:  $152,000 - 77,000 = 75,000$  Total equity  
 $75,000 - 30,000 = 45,000$

LO: 1-2

Difficulty: 2

EOC REF: E1-25

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-1 The accounting equation expresses the idea that Resources – Insider claims = Outsider claims.

Answer: True

LO: 1-3

Difficulty: 3

EOC REF: E1-17

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-2 The financial statements are based on the accounting equation.

Answer: True

LO: 1-3

Difficulty: 2

EOC REF: E1-21

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-3 The word “payable” always signifies a liability.

Answer: True

LO: 1-3

Difficulty: 2

EOC REF: S1-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-4 The accounting equation must always be in balance.

Answer: True

LO: 1-3

Difficulty: 1

EOC REF: S1-1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-5 Liabilities are divided into "outsider claims" and "insider claims."

Answer: False

LO: 1-3

Difficulty: 2

EOC REF: E1-17

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-6 "Net assets", as stockholders' equity is often referred to, represents the residual amount of business assets which can be claimed by the owners.
- Answer: True  
LO: 1-3  
Difficulty: 2  
EOC REF: S1-6  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.3-7 Stockholders' equity is the stockholders' interest in the assets of the corporation.
- Answer: True  
LO: 1-3  
Difficulty: 2  
EOC REF: E1-17  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.3-8 Common stock and retained earnings are the main components of paid-in capital.
- Answer: False  
LO: 1-3  
Difficulty: 2  
EOC REF: E1-18  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.3-9 Dividends never affect net income.
- Answer: True  
LO: 1-3  
Difficulty: 3  
EOC REF: E1-30  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.3-10 Expenses are increases in retained earnings that result from operations.
- Answer: False  
LO: 1-3  
Difficulty: 2  
EOC REF: Q1-46  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-11 Dividend payments are NOT classified as expenses.
- Answer: True  
LO: 1-3  
Difficulty: 2  
EOC REF: E1-30B  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.3-12 The calculation of ending retained earnings considers beginning retained earnings, current net income or net loss and dividends.
- Answer: True  
LO: 1-3  
Difficulty: 3  
EOC REF: Q1-50  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.3-13 The owners' equity of proprietorships and corporations are the same.
- Answer: False  
LO: 1-3  
Difficulty: 2  
EOC REF: S1-3  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory
- 1.3-14 Ramos, Inc. has monthly revenues of \$30,000 and monthly expenses of \$18,000, and the company paid \$4,000 in dividends. Therefore, net income for the month is \$8,000.
- Answer: False
- Calculations:  $30,000 - 18,000 = 12,000$  net income
- LO: 1-3  
Difficulty: 3  
EOC REF: Q1-54  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-15 Able Co. has \$500,000 in assets and \$400,000 in liabilities. Therefore, the equity is \$900,000.

Answer: False

Calculations:  $\text{equity} = 500,000 - 400,000 = 100,000$

LO: 1-3

Difficulty: 2

EOC REF: Q1-50

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-16 Yummy Inc. has beginning retained earnings of \$10,000, net income of \$50,000, and dividends paid of \$5,000. Therefore, the ending retained Earnings is \$65,000.

Answer: False

Calculations:  $10,000 + 50,000 - 5,000 = 55,000$

LO: 1-3

Difficulty: 3

EOC REF: Q1-54

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-17 The accounting equation can be stated as:  
A)  $\text{Assets} + \text{Stockholders' Equity} = \text{Liabilities}$ .  
B)  $\text{Assets} - \text{Liabilities} = \text{Stockholders' Equity}$ .  
C)  $\text{Assets} = \text{Liabilities} - \text{Stockholders' Equity}$ .  
D)  $\text{Assets} - \text{Stockholders' Equity} + \text{Liabilities} = \text{Zero}$ .

Answer: B

LO: 1-3

Difficulty: 2

EOC REF: S1-1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-18 The economic resources of a business that are expected to produce a benefit in the future are:

- A) liabilities.
- B) assets.
- C) owners' equity.
- D) expenses.

Answer: B

LO: 1-3

Difficulty: 1

EOC REF: S1-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-19 Which of the following is NOT an asset?

- A) Inventory
- B) Accounts payable
- C) Accounts receivable
- D) Cash

Answer: B

LO: 1-3

Difficulty: 1

EOC REF: S1-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-20 Which of the following best describes a liability? Liabilities are:

- A) a form of paid-in capital.
- B) future economic benefits to which a company is entitled.
- C) debts payable to outsiders called creditors.
- D) economic obligations to owners to be paid at some future date by the corporation.

Answer: C

LO: 1-3

Difficulty: 1

EOC REF: S1-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-21 Examples of liabilities include:

- A) accounts payable and accounts receivable.
- B) accounts payable and land.
- C) investments and owners' equity.
- D) accounts payable and long-term debt.

Answer: D

LO: 1-3

Difficulty: 2

EOC REF: S1-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-22 The owners' interest in the assets of a corporation is known as:
- A) common stock.
  - B) stockholders' equity.
  - C) long-term assets.
  - D) operating expenses.

Answer: B

LO: 1-3

Difficulty: 1

EOC REF: S1-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-23 The two main components of stockholders' equity are:
- A) retained earnings and paid-in capital.
  - B) assets and liabilities.
  - C) paid-in capital and assets.
  - D) net income and retained earnings.

Answer: A

LO: 1-3

Difficulty: 2

EOC REF: E1-33

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-24 The owners' equity of any business is its:
- A) revenues minus expenses.
  - B) assets minus liabilities.
  - C) assets plus liabilities.
  - D) paid-in capital plus assets.

Answer: B

LO: 1-3

Difficulty: 2

EOC REF: S1-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-25 The amount that stockholders have invested in a corporation is called:  
A) retained earnings.  
B) investment.  
C) revenue.  
D) paid-in capital.

Answer: D

LO: 1-3

Difficulty: 2

EOC REF: S1-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-26 The major types of transactions that affect retained earnings are:  
A) paid-in capital and common stock.  
B) assets and liabilities.  
C) revenues, expenses, and dividends.  
D) revenues and liabilities.

Answer: C

LO: 1-3

Difficulty: 2

EOC REF: S1-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-27 Payables are classified as:  
A) increases in earnings.  
B) decreases in earnings.  
C) liabilities.  
D) assets.

Answer: C

LO: 1-3

Difficulty: 1

EOC REF: S1-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking



- 1.3-28 Receivables are classified as:  
A) increases in earnings.  
B) decreases in earnings.  
C) liabilities.  
D) assets.

Answer: D

LO: 1-3

Difficulty: 1

EOC REF: S1-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-29 The sum of "outsider claims" plus "insider claims" equals:  
A) net income.  
B) total liabilities.  
C) total assets.  
D) total stockholders' equity.

Answer: C

LO: 1-3

Difficulty: 2

EOC REF: E1-17

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-30 Revenues are:  
A) decreases in assets resulting from delivering goods or services to customers.  
B) increases in liabilities resulting from delivering goods or services to customers.  
C) increases in retained earnings resulting from delivering goods or services to customers.  
D) decreases in retained earnings resulting from delivering goods or services to customers.

Answer: C

LO: 1-3

Difficulty: 2

EOC REF: Q1-46

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-31

Expenses are:

- A) increases in liabilities resulting from purchasing assets.
- B) increases in assets resulting from operations.
- C) increases in retained earnings resulting from operations.
- D) decreases in retained earnings resulting from operations.

Answer: D

LO: 1-3

Difficulty: 2

EOC REF: Q1-46

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-32

Dividends:

- A) are expenses.
- B) always affect net income.
- C) are distributions to stockholders of assets (usually cash) generated by net income.
- D) are distributions to stockholders of assets (usually cash) generated by a favorable balance in retained earnings.

Answer: D

LO: 1-3

Difficulty: 2

EOC REF: E1-30

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-33

A corporation's paid-in capital includes:

- A) revenues and expenses.
- B) assets and liabilities.
- C) common stock.
- D) net income.

Answer: C

LO: 1-3

Difficulty: 2

EOC REF: P1-59

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-34 Net income is computed as:  
A) revenues – expenses – dividends.  
B) revenues + expenses.  
C) revenues – expenses.  
D) revenues – expenses + dividends.

Answer: C

LO: 1-3

Difficulty: 2

EOC REF: e1-22

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-35 When total expenses exceed total revenues, the result is a:  
A) net profit.  
B) net loss.  
C) dividend.  
D) net earnings.

Answer: B

LO: 1-3

Difficulty: 2

EOC REF: E1-22

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-36 The heading John Smith, Capital, indicates the owners' equity of a:  
A) proprietorship.  
B) corporation.  
C) not-for-profit.  
D) regulatory body.

Answer: A

LO: 1-3

Difficulty: 2

EOC REF: S1-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-37 Which of the following must be added to beginning Retained Earnings to compute ending Retained Earnings?
- A) Net income
  - B) Expenses
  - C) Dividends
  - D) All of the above

Answer: A

LO: 1-3

Difficulty: 2

EOC REF: Q1-50

AACSB: Analytical skills

AICPA: Functional Competencies: Measurement

AICPA: Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-38 At the end of the current accounting period, account balances were as follows: Cash, \$180,000; Accounts Receivable, \$75,000; Common Stock, \$20,000; Retained Earnings, \$65,000. Liabilities for the period were:
- A) \$ 70,000.
  - B) \$170,000.
  - C) \$190,000.
  - D) \$210,000.

Answer: B

Calculations: Assets- equity = liabilities  $180,000+75,000-20,000-65,000 = 170,000$

LO: 1-3

Difficulty: 2

EOC REF: S1-1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-39

On January 1, 2010, total assets for Liftoff Technologies were \$125,000; on December 31, 2010, total assets were \$145,000. On January 1, 2010, total liabilities were \$110,000; on December 31, 2010, total liabilities were \$115,000. What is the amount of the change and the direction of the change in Liftoff Technologies' stockholders' equity for 2010?

- A) Decrease of \$15,000
- B) Increase of \$15,000
- C) Increase of \$30,000
- D) Decrease of \$30,000

Answer: B

Calculations: assets-liabilities = equity

Beg 125,000-110,000=15,000

End 145,000-115,000=30,000

Increase of 15,000

LO: 1-3

Difficulty: 3

EOC REF: Q1-53

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-40

Revenues were \$170,000, expenses were \$90,000, and cash dividends were \$30,000. What was the net income and the change in retained earnings for the period?

- A) Net income was \$50,000; the change in retained earnings was \$50,000.
- B) Net income was \$80,000; the change in retained earnings was \$50,000.
- C) Net income was \$80,000; the change in retained earnings was \$80,000.
- D) Net income was \$250,000; the change in retained earnings was \$250,000.

Answer: B

Calculations Net income = 170,000-90,000= 80,000

Retained earnings increased by 80,000 and decreased by 30,000 for dividends for a change of 50,000

LO: 1-3

Difficulty: 2

EOC REF: Q1-54

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-41 At the beginning of the period, assets were \$490,000 and stockholders' equity was \$240,000. During the year, assets increased by \$60,000, liabilities increased by \$40,000, and stockholders' equity increased by \$20,000. Beginning liabilities must have been:
- A) \$230,000.
  - B) \$250,000.
  - C) \$280,000.
  - D) \$300,000.

Answer: B

Calculations:  $A-L = OE$   $490,000 - 240,000 = 250,000$

LO: 1-3

Difficulty: 3

EOC REF: S1-1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-42 If assets increase \$210,000 during a given period and liabilities increase \$65,000 during the same period, stockholders' equity must:
- A) increase \$145,000.
  - B) decrease \$275,000.
  - C) decrease \$145,000.
  - D) increase \$275,000.

Answer: A

Calculations:  $A-L=OE$   $210,000 - 65,000 = 145,000$  increase

LO: 1-3

Difficulty: 3

EOC REF: E1-28

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-43

Stockholders' equity for Commerce Corporation on January 1, 2010 and December 31, 2010 were \$60,000 and \$75,000, respectively. Assets on January 1, 2010 and December 31, 2010 were \$115,000 and \$105,000, respectively. Liabilities on January 1, 2010 were \$55,000. What is the amount of liabilities on December 31, 2010?

- A) \$40,000
- B) \$15,000
- C) \$30,000
- D) The amount is indeterminable from the given information.

Answer: C

Calculation:  $A - OE = L$   $105,000 - 75,000 = 30,000$

LO: 1-3

Difficulty: 3

EOC REF: S1-1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-44

Identify the missing amount in the accounting equation for each example below:

	Assets	Liabilities	Stockholders' Equity
A)	\$230,000	?	\$120,000
B)	?	\$250,000	\$90,000
C)	\$220,000	\$120,000	?

Answer:

A)  $\$110,000 = \$230,000 - \$120,000$

B)  $\$340,000 = \$250,000 + \$90,000$

C)  $\$100,000 = \$220,000 - \$120,000$

LO: 1-3

Difficulty: 2

EOC REF: S1-1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-45 Classify the following items as an Asset (A), a Liability (L), or as Owners' Equity (E).

- |                             |                           |                               |
|-----------------------------|---------------------------|-------------------------------|
| a. Accounts payable         | f. Prepaid expenses       | k. Equipment                  |
| b. Interest payable         | g. Short-term investments | l. Income taxes payable       |
| c. Merchandise<br>inventory | h. Supplies               | m. Additional paid-in capital |
| d. Land                     | i. Notes payable          | n. Accounts payable           |
| e. Retained<br>earnings     | j. Common stock           |                               |

Answer:

- a. L
- b. L
- c. A
- d. A
- e. E
- f. A
- g. A
- h. A
- i. L
- j. E
- k. A
- l. L
- m. E
- n. L

LO: 1-3

Difficulty: 2

EOC REF: S1-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-1 Net income is the profit left over after subtracting expenses and losses from revenues and gains.

Answer: True

LO: 1-4

Difficulty: 1

EOC REF: Q1-49

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-2 Cost of goods sold is the major expense of merchandising and manufacturing companies.

Answer: True

LO: 1-4

Difficulty: 2

EOC REF: E1-32

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking



- 1.4-3 If expenses have exceeded sales revenue during the life of the company, the accumulation of these losses will result in an accumulated deficit in retained earnings.
- Answer: True  
LO: 1-4  
Difficulty: 2  
EOC REF: P1-64  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-4 Stockholders determine if a corporation will pay dividends.
- Answer: False  
LO: 1-4  
Difficulty: 2  
EOC REF: S1-3  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business perspective competencies: Legal/regulatory
- 1.4-5 Net income appears on both the income statement and the balance sheet.
- Answer: False  
LO: 1-4  
Difficulty: 2  
EOC REF: Q1-47  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-6 The statement of cash flows is organized in terms of the organization's operating, investing, and financing activities.
- Answer: True  
LO: 1-4  
Difficulty: 2  
EOC REF: P1-67  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-7 The amount of cash received on the sale of the company's stock in excess of par value is called retained earnings.
- Answer: False  
LO: 1-4  
Difficulty: 2  
EOC REF: P1-67  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-8 The statement of cash flows contains three “parts”—operating activities, investing activities, and stock activities.
- Answer: False  
LO: 1-4  
Difficulty: 2  
EOC REF: P1-67  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-9 In accounting, the word "net" refers to an amount after a subtraction.
- Answer: True  
LO: 1-4  
Difficulty: 2  
EOC REF: S1-14  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-10 A balance sheet reports the company’s financial position at a specific point in time.
- Answer: True  
LO: 1-4  
Difficulty: 2  
EOC REF: E1-21  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-11 Net income and net profit mean the same thing to accountants.
- Answer: True  
LO: 1-4  
Difficulty: 2  
EOC REF: S1-9  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-12 The statement that reports revenues and expenses for the period is the:
- A) Statement of Retained Earnings.
  - B) Balance Sheet.
  - C) Statement of Cash Flows.
  - D) Income Statement.
- Answer: D  
LO: 1-4  
Difficulty: 2  
EOC REF: Q1-47  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-13 A company sells its product for \$100. The cost of the product to the company is \$60. Selling expenses are \$15. Cost of goods sold is:  
A) \$100.  
B) \$60.  
C) \$40.  
D) \$75.

Answer: B

LO: 1-4

Difficulty: 2

EOC REF: P1-66

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-14 Retained earnings is increased by:  
A) net income.  
B) net loss.  
C) dividends.  
D) expenses.

Answer: A

LO: 1-4

Difficulty: 2

EOC REF: S1-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-15 Dividends appear on:  
A) the Statement of Retained Earnings.  
B) both the Statement of Retained Earnings and the Income Statement.  
C) the Income Statement.  
D) the Balance Sheet.

Answer: A

LO: 1-4

Difficulty: 1

EOC REF: E1-20

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-16 Assets appear on:  
A) the Balance Sheet.  
B) the Income Statement.  
C) the Statement of Retained Earnings.  
D) both the Balance Sheet and the Statement of Retained Earnings.

Answer: A

LO: 1-4

Difficulty: 1

EOC REF: E1-20

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-17 Common stock appears on:  
A) the Balance Sheet.  
B) the Income Statement.  
C) the Statement of Cash Flows and the Statement of Retained Earnings.  
D) none of the above.

Answer: A

LO: 1-4

Difficulty: 1

EOC REF: E1-20

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-18 A company's gross profit for the period is reported on the:  
A) Balance Sheet.  
B) Income Statement.  
C) Statement of Cash Flows.  
D) Statement of Retained Earnings.

Answer: B

LO: 1-4

Difficulty: 1

EOC REF: P1-66

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-19 Gains and losses appear on which of the financial statements listed below?  
A) Balance Sheet  
B) Income Statement  
C) Statement of Cash Flows  
D) Statement of Retained Earnings

Answer: B

LO: 1-4

Difficulty: 1

EOC REF: Q1-49

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-20 The ending balance in Retained Earnings appears on the:  
A) Balance Sheet only.  
B) Balance Sheet and Statement of Retained Earnings.  
C) Statement of Retained Earnings only.  
D) Income Statement and Statement of Cash Flows.

Answer: B

LO: 1-4

Difficulty: 2

EOC REF: P1-66

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-21 Cash dividends:  
A) decrease revenue on the income statement.  
B) decrease retained earnings on the statement of retained earnings.  
C) increase expenses on the income statement.  
D) decrease operating activities on the statement of cash flows.

Answer: B

LO: 1-4

Difficulty: 2

EOC REF: S1-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-22 Which of the following financial statements shows the net increase or decrease in cash during the period?
- A) Balance Sheet only
  - B) Statement of Operations
  - C) Statement of Retained Earnings and Balance Sheet
  - D) Statement of Cash Flows

Answer: D

LO: 1-4

Difficulty: 1

EOC REF: S1-13

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-23 An investor wishing to assess a company's overall financial position at the end of the period would probably examine the:
- A) Statement of Cash Flows and the Income Statement.
  - B) Income Statement only
  - C) Balance Sheet.
  - D) Statement of Retained Earnings.

Answer: C

LO: 1-4

Difficulty: 2

EOC REF: E1-28

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-24 A potential investor interested in evaluating a company's financial earning performance for the current period would probably examine which of the following financial statements?
- A) Balance Sheet only
  - B) Income Statement only
  - C) Statement of Cash Flows and Income Statement
  - D) Statement of Retained Earnings and Balance Sheet

Answer: B

LO: 1-4

Difficulty: 2

EOC REF: E1-28

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-25 Which statement(s) summarizes the revenues and expenses of an entity?  
A) Balance Sheet only  
B) Statement of Cash Flows and Income Statement  
C) Statement of Retained Earnings and Statement of Operations  
D) Income Statement

Answer: D

LO: 1-4

Difficulty: 2

EOC REF: Q1-47

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-26 Which financial statement provides a "snapshot photo" of one moment in time for the whole entity?  
A) Balance Sheet only  
B) Income Statement only  
C) Statement of Retained Earnings and Income Statement  
D) Statement of Cash Flows only

Answer: A

LO: 1-4

Difficulty: 2

EOC REF: E1-21

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-27 The income statement:  
A) is not dated.  
B) may cover a period of time or only one day in time, like a snapshot photograph.  
C) covers a defined period of time.  
D) reports the results of operations since the inception of the business.

Answer: C

LO: 1-4

Difficulty: 2

EOC REF: E1-22

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-28 The income statement presents a summary of the:
- A) cash inflows and outflows of an entity.
  - B) assets and liabilities of an entity.
  - C) revenues and expenses of an entity for a specific time period.
  - D) changes that occurred in the stockholders' equity of an entity.

Answer: C

LO: 1-4

Difficulty: 1

EOC REF: Q1-47

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-29 An example of a selling, general, and administrative expense is:
- A) cost of goods sold.
  - B) sales.
  - C) sales commissions paid to employees.
  - D) interest expense.

Answer: C

LO: 1-4

Difficulty: 2

EOC REF: E1-21

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-30 Cost of goods sold appears on the:
- A) Statement of Retained Earnings as an addition to beginning retained earnings.
  - B) Income Statement as a deduction from sales.
  - C) Balance Sheet as a deduction from sales.
  - D) Income Statement as a deduction from gross profit.

Answer: B

LO: 1-4

Difficulty: 2

EOC REF: E1-21

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking



- 1.4-31 The portion of net income that the company has kept over a period of years is called:
- A) common stock.
  - B) retained earnings.
  - C) revenue.
  - D) gross profit.

Answer: B

LO: 1-4

Difficulty: 2

EOC REF: E1-21

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-32 A retail store sells t-shirts for \$85 and purchases them for \$60. The store's cost of goods sold would be:
- A) \$25.
  - B) \$85.
  - C) \$60.
  - D) none of the above.

Answer: C

LO: 1-4

Difficulty: 1

EOC REF: E1-21

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-33 Net income is:
- A) added to assets on the balance sheet.
  - B) deducted from beginning retained earnings on the retained earnings statement.
  - C) added to beginning retained earnings on the retained earnings statement.
  - D) deducted from ending retained earnings on the retained earnings statement.

Answer: C

LO: 1-4

Difficulty: 2

EOC REF: E1-22

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-34 A net loss occurs when:  
A) not enough cash exists.  
B) total revenues exceed total expenses.  
C) total expenses exceed total revenues.  
D) total revenues and dividends exceed total expenses.

Answer: C

LO: 1-4

Difficulty: 2

EOC REF: Q1-47

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-35 The balance sheet is also known as the:  
A) statement of profit and loss.  
B) operating statement.  
C) assets statement.  
D) statement of financial position.

Answer: D

LO: 1-4

Difficulty: 2

EOC REF: Q1-48

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-36 The balance sheet reports information about:  
A) revenues, expenses, and equity.  
B) liabilities, equity, and expenses.  
C) assets, revenues, and liabilities.  
D) assets, liabilities, and owners' equity.

Answer: D

LO: 1-4

Difficulty: 1

EOC REF: S1-14

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-37 The income statement is prepared to determine:
- A) the change in cash due to results of operations.
  - B) the change in retained earnings due to the results of operations.
  - C) the change in assets and liabilities due to the results of operations.
  - D) all of the above.

Answer: B

LO: 1-4

Difficulty: 3

EOC REF: Q1-49

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-38 The amount of net income shown on the income statement also appears on the:
- A) balance sheet and operations statement.
  - B) statement of assets.
  - C) statement of financial position.
  - D) statement of retained earnings.

Answer: D

LO: 1-4

Difficulty: 2

EOC REF: S1-14

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-39 The balance sheet contains the:
- A) amount of net income or net loss.
  - B) beginning balance in retained earnings.
  - C) ending balance in retained earnings.
  - D) amount of cash dividends paid to stockholders.

Answer: C

LO: 1-4

Difficulty: 2

EOC REF: S1-14

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-40 Which of the following is a component of stockholders' equity?

- A) Retained earnings
- B) Notes payable
- C) Cash
- D) Fixed assets

Answer: A

LO: 1-4

Difficulty: 1

EOC REF: S1-14

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-41 Which financial statement must be prepared before the others?

- A) Statement of Cash Flows
- B) Income Statement
- C) Balance Sheet
- D) Statement of Retained Earnings

Answer: B

LO: 1-4

Difficulty: 2

EOC REF: P1-66

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-42 Assets are generally classified as:

- A) producing assets and consumable assets.
- B) current assets and producing assets.
- C) current assets and long-term assets.
- D) long-term assets and consumable assets.

Answer: C

LO: 1-4

Difficulty: 1

EOC REF: S1-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-43 Current assets are assets expected to be converted to cash, sold, or consumed within the next:
- A) 12 months or within the business's normal operating cycle if longer than a year.
  - B) 12 months or within the business's normal operating cycle if less than a year.
  - C) 6 months.
  - D) 24 months.

Answer: A

LO: 1-4

Difficulty: 2

EOC REF: Q1-45

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-44 Notes receivable due in 60 days would be classified as a:
- A) current liability on the Balance Sheet.
  - B) current asset on the Balance Sheet.
  - C) long-term asset on the Balance Sheet.
  - D) long-term liability on the Balance Sheet.

Answer: B

LO: 1-4

Difficulty: 1

EOC REF: Q1-45

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-45 Equipment would appear on the:
- A) Balance Sheet with the long-term assets.
  - B) Income Statement with the revenues.
  - C) Income Statement with the operating expenses.
  - D) Balance Sheet with the current assets.

Answer: A

LO: 1-4

Difficulty: 1

EOC REF: P1-58

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-46 Accumulated depreciation is normally associated with which asset on the Balance Sheet?
- A) Inventory
  - B) Accounts receivable
  - C) Land
  - D) Property, plant and equipment

Answer: D

LO: 1-4

Difficulty: 2

EOC REF: P1-58

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-47 Accounts receivable would appear on the:
- A) Balance Sheet with the current liabilities.
  - B) Balance Sheet with the current assets.
  - C) Income Statement with the revenues.
  - D) Statement of Retained Earnings with the net income.

Answer: B

LO: 1-4

Difficulty: 1

EOC REF: P1-58

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-48 Notes payable (due in 60 days) would appear as a:
- A) current liability on the Balance Sheet.
  - B) current asset on the Balance Sheet.
  - C) long-term asset on the Balance Sheet.
  - D) long-term liability on the Balance Sheet.

Answer: A

LO: 1-4

Difficulty: 1

EOC REF: P1-58

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-49 Income taxes owed to the federal government would be classified as a(n):  
A) expense on the Income Statement.  
B) financing activity on the Statement of Cash Flows.  
C) current asset on the Balance Sheet.  
D) current liability on the Balance Sheet.

Answer: D

LO: 1-4

Difficulty: 2

EOC REF: P1-58

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-50 Liabilities are divided into two categories—  
A) current and payable.  
B) current and future.  
C) accounts payable and long-term.  
D) current and long- term.

Answer: D

LO: 1-4

Difficulty: 2

EOC REF: P1-58

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-51 In relation to the cash flow statement, purchases and sales of long-term assets are examples of:  
A) investing activities.  
B) accrual activities.  
C) financing activities.  
D) operating activities.

Answer: A

LO: 1-4

Difficulty: 2

EOC REF: Q1-52

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-52 Stockholders' equity decreases as a result of:
- A) owner investments.
  - B) a net loss during the period.
  - C) a net income during the period.
  - D) both A and C.

Answer: B

LO: 1-4

Difficulty: 2

EOC REF: Q1-53

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-53 The Statement of Cash Flows is divided into which three categories?
- A) Operating, investing, and financing activities
  - B) Planning, executing, and evaluating activities
  - C) Increasing, decreasing, and non-cash activities
  - D) Developing, producing, and marketing activities

Answer: A

LO: 1-4

Difficulty: 2

EOC REF: S1-13

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-54 What is the proper order for the categories of the statement of cash flows?
- A) Financing activities, investing activities, and operating activities
  - B) Operating activities, investing activities, and financing activities
  - C) Operating activities, financing activities, and investing activities
  - D) Investing activities, financing activities, and operating activities

Answer: B

LO: 1-4

Difficulty: 2

EOC REF: S1-13

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking



- 1.4-55 Where would cash received from the sale of stock appear on the statement of cash flows?
- A) In the operating activity section
  - B) In the non-cash financing activity section
  - C) In the investing activity section
  - D) In the financing activity section

Answer: D

LO: 1-4

Difficulty: 2

EOC REF: S1-13

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-56 The main source of cash from its main business comes from:
- A) current assets on the balance sheet.
  - B) operating activities on the statement of cash flows.
  - C) financing activities on the statement of cash flows.
  - D) investing activities on the statement of cash flows.

Answer: B

LO: 1-4

Difficulty: 2

EOC REF: S1-13

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-57 How would the issuance of stock for cash be classified on the Statement of Cash Flows?
- A) As an investing activity
  - B) As a financing activity
  - C) As an operating activity
  - D) As a current asset on the balance sheet

Answer: B

LO: 1-4

Difficulty: 3

EOC REF: S1-13

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-58 How would cash collected from customers appear on the Statement of Cash Flows?

- A) As an operating activity
- B) As a financing activity
- C) As an investing activity
- D) Under the indirect method

Answer: A

LO: 1-4

Difficulty: 2

EOC REF: S1-13

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-1 The ethical factor recognizes that while certain actions might be both economically profitable and legal, they may still not be right.

Answer: True

LO: 1-5

Difficulty: 2

EOC REF: S1-2

AACSB: Ethical understanding

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

1.5-2 Retained earnings appears on which of the following financial statements?

- A) Statement of Retained Earnings, Statement of Cash Flows, and Balance Sheet, but not the Income Statement
- B) Statement of Retained Earnings, Statement of Cash Flows, and Income Statement, but not the Balance Sheet
- C) Statement of Retained Earnings and Statement of Cash Flows, but not the Income Statement or Balance Sheet
- D) Statement of Retained Earnings and Balance Sheet, but not the Income Statement or Statement of Cash Flows

Answer: D

LO: 1-5

Difficulty: 3

EOC REF: S1-14

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.5-3 An investor who wished to answer the question, "Can the company sell its products?" should investigate the:
- A) operating activities section of the cash flow statement.
  - B) current and projected inventory levels.
  - C) sales revenue trends and projected sales.
  - D) net income for the current period and projected net income for the next period.

Answer: C

LO: 1-5

Difficulty: 2

EOC REF: E1-27

AACSB: Analytical skills

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.5-4 An investor who wished to answer the question, "Can the company pay its current liabilities?" should investigate:
- A) the financing activities section of the cash flow statement.
  - B) the current assets and current liabilities on the balance sheet.
  - C) the sales revenue trend.
  - D) none of the above.

Answer: B

LO: 1-5

Difficulty: 2

EOC REF: E1-27

AACSB: Analytical skills

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.5-5 Generally, three factors influence business and accounting decisions—
- A) operating, investing, and financing activities.
  - B) assets, liabilities, and equity.
  - C) economic, legal, and ethical.
  - D) revenues, expenses, and dividends.

Answer: C

LO: 1-5

Difficulty: 2

EOC REF: S1-2

AACSB: Ethical understanding

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

- 1.5-6 Which of the following questions should be asked in making an ethical analysis?
- A) Which option results in treating others as I would want to be treated?
  - B) Which options are the most honest, open, and truthful?
  - C) Which options create the greatest good for the greatest number of stakeholders?
  - D) All of the above questions should be considered.

Answer: D

LO: 1-5

Difficulty: 2

EOC REF: Decision Case 2

AACSB: Ethical understanding

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

- 1.5-7 The decision framework for making ethical judgments does NOT consider the following question?
- A) What is the issue?
  - B) What are the alternatives?
  - C) What alternative maximizes profit?
  - D) Who are the stakeholders?

Answer: C

LO: 1-5

Difficulty: 2

EOC REF: Decision Case 2

AACSB: Ethical understanding

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory



1.5-9 Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 2010					
<b>Assets</b>			<b>Liabilities and Stockholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Common stock	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total stockholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Stockholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year ended December 31, 2010		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and administrative expenses	14,000	
Depreciation expense	8,000	
Total operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

What is the Gross Profit for the period ended December 31, 2010?

- A) \$35,000
- B) \$13,000
- C) \$22,000
- D) \$ 7,000

Answer: A

Calculations: income from operations plus operating expenses 22,000+13,000=35,000

LO: 1-5

Difficulty: 2

EOC REF: E1-24

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-10

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 2010					
<b>Assets</b>			<b>Liabilities and Stockholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Common stock	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total stockholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Stockholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year Ended December 31, 2010		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and administrative expenses	14,000	
Depreciation expense	8,000	
Total operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

What are Total Liabilities and Stockholders' Equity as of December 31, 2010?

- A) \$ 77,000
- B) \$150,000
- C) \$152,000
- D) \$ 75,000

Answer: C

Calculations: Total liabilities plus stockholders' equity must equal total assets of 152,000

LO: 1-5

Difficulty: 2

EOC REF: E1-25

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-11

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 2010					
<b>Assets</b>			<b>Liabilities and Stockholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Common stock	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total stockholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Stockholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year Ended December 31, 2010		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and Administrative expenses	14,000	
Depreciation expense	8,000	
Total Operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

If Jane Austin Bookstore paid \$5,450 in dividends for 2010, what was the balance in Retained Earnings on December 31, 2009?

- A) \$42,000
- B) \$58,900
- C) \$48,000
- D) \$45,000

Answer: A

Calculations: Beg Re + NI – Div = end RE  
 $X + 8,450 - 5,450 = 45,000$

LO: 1-5

Difficulty: 32

EOC REF: E1-24

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking



1.5-12

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 2010					
<b>Assets</b>			<b>Liabilities and Stockholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Common stock	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total stockholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Stockholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year Ended December 31, 2010		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and administrative expenses	14,000	
Depreciation expense	8,000	
Total operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

If Jane Austin Bookstore sold 10,000 books during 2010, what is the average selling price per book?

- A) \$7.25
- B) \$ 6.50
- C) \$3.50
- D) \$10.00

Answer: D

Calculations:  $100,000/10,000=10$

LO: 1-5

Difficulty: 2

EOC REF: P1-59

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-13

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 2010					
<b>Assets</b>			<b>Liabilities and Stockholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Common stock	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total stockholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Stockholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year Ended December 31, 2010		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and administrative expenses	14,000	
Depreciation expense	8,000	
Total operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

If trucks are depreciated over ten years with no residual value, how many years has Jane Austin Bookstore had this truck?

- A) 1 year
- B) 6 years
- C) 9 years
- D) 8 years

Answer: C

Calculations:  $20,000/10 = 2,000$  per year  $18,000/2,000 = 9$  years

LO: 1-5

Difficulty: 2

EOC REF: P1-59

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-14

Identify each of the following items with its appropriate financial statement, using the following abbreviations: Income Statement (IS), Statement of Retained Earnings (RE), Balance Sheet (BS), and Statement of Cash Flows (CF). Some items may appear on more than one financial statement.

- |  |                        |
|--|------------------------|
| a. Cash                                  | h. Rent expense        |
| b. Net cash used by operating activities | i. Sales revenue       |
| c. Inventory                             | j. Retained earnings   |
| d. Accounts payable                      | k. Accounts receivable |
| e. Common stock                          | l. Note payable        |
| f. Service revenue                       | m. Net income          |
| g. Increase in cash                      | n. Dividends           |

Answer:

BS, CF	a. Cash	IS	h. Rent expense
CF	b. Net cash used by operating activities	IS	i. Sales revenue
BS	c. Inventory	BS, RE	j. Retained earnings
BS	d. Accounts payable	BS	k. Accounts receivable
BS	e. Common stock	BS	l. Note payable
IS	f. Service revenue	IS, RE	m. Net income
CF	g. Increase in cash	RE	n. Dividends

LO: 1-5

Difficulty: 2

EOC REF: S1-14

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-15

ABC, Inc. has the following assets, liabilities, revenues and expenses for the current year. The company has a December 31, 2011 year end.

Equipment	\$45,000	Rent expense	\$24,000
Salary expense	68,000	Cash	10,000
Land	18,000	Service revenue	125,000
Note payable	30,000	Supplies expense	4,000
Interest payable	500	Building	100,000
Interest expense	2,000	Supplies	1,500
Accounts receivable	14,500	Common stock	21,000
Accounts payable	19,500	Utilities expense	12,000

Beginning retained earnings was \$106,000 and dividends were \$3,000 for the year. Prepare the Income Statement and Statement of Retained Earnings for ABC, Inc. for the current year.

Answer:

ABC, Inc.  
Income Statement  
For the period ended December 31, 2011

Service revenue	\$125,000
Expenses:	
Salary expense	68,000
Rent expense	24,000
Utilities expense	12,000
Supplies expense	4,000
Interest expense	2,000
Total expenses	110,000
Net income	\$15,000

ABC, Inc  
Statement of Retained Earnings  
For the period ended December 31, 2011

Beginning balance	\$106,000
Net income	15,000
Dividends	(3,000)
Ending balance	\$118,000

LO: 1-5

Difficulty: 3

EOC REF: P1-59

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking