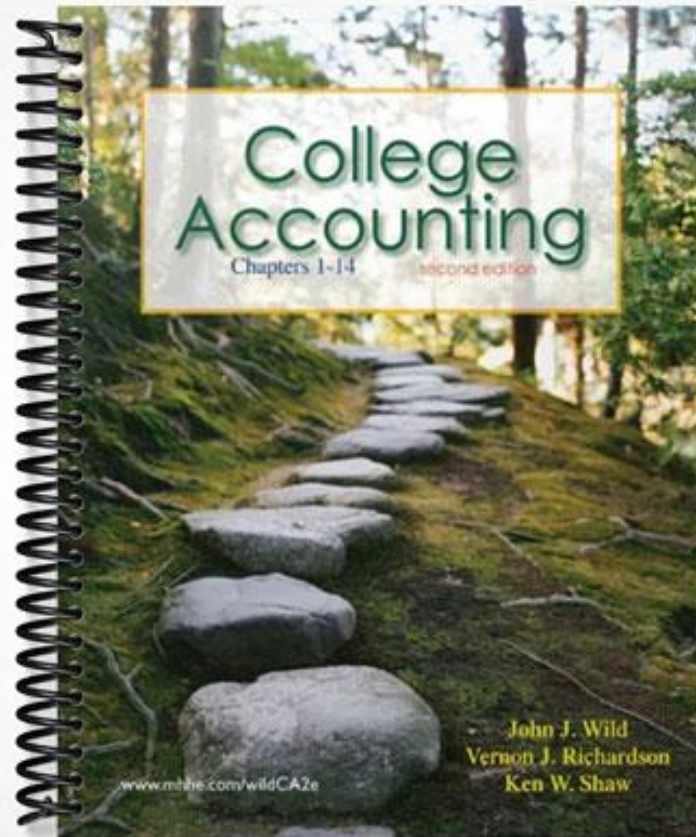


TEST BANK



College Accounting
Chapters 1-14 second edition

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Chapter 02 Accounting for Business Transactions

True / False Questions

1. Revenues are gross increases in equity from a company's earning activities.

True False

2. A loss arises when revenues exceed expenses.

True False

3. Expenses decrease equity and are the costs of assets or services used to earn revenues.

True False

4. Liabilities are the owner's claim on assets.

True False

5. Creditor claims on the assets of a firm supersede those of an owner.

True False

6. Equity represents the claims of the owners on the assets of a company.

True False

7. Withdrawals are expenses.

True False

8. The accounting equation can be restated as: $\text{Assets} - \text{Equity} = \text{Liabilities}$.

True False

9. A company might provide a service or product on credit. "On credit" implies that the cash receipt will occur on a later date.

True False

10. Owner's investments are gross increases in equity from a company's earnings activities.

True False

11. The legitimate claims of a business's creditors take precedence over the claims of the business owner.

True False

12. Net income is the excess of expenses over revenues, whereas net loss is the excess of revenues over expenses.

True False

13. An external transaction is an exchange of value within an organization.

True False

14. An accounting transaction is a recordable event when a measurable exchange of value takes place.

True False

15. From an accounting perspective, an event is a happening that affects an entity's accounting equation, but cannot be measured.

True False

16. Owner's equity is increased when cash is received from customers in payment of previously recorded accounts receivable.

True False

17. Net assets always increase when revenue is recorded.

True False

18. The net assets of a firm decrease as withdrawals by the owner increase.

True False

19. The three basic financial statements discussed in this chapter include the balance sheet, income statement, statement of owner's equity.

True False

20. An income statement reports on investing and financing activities.

True False

21. A balance sheet covers a period of time such as a month or year.

True False

22. The balance sheet is also known as the statement of financial position.

True False

23. The first section of the income statement reports cash from operations.

True False

24. The balance sheet is based on the accounting equation.

True False

25. Owner's contributions and withdrawals are reported on the income statement.

True False

26. An income statement shows the results of operations at a point in time.

True False

27. The purchase of supplies appears on the balance sheet as an expense.

True False

28. The income statement reports on operating activities at a point in time.

True False

29. A net loss on an income statement results when expenses are greater than revenues.

True False

30. Both Accounts Receivable and Revenue increase when a service is performed and the customer agrees to pay in the future.

True False

31. The financial statement that reflects the financial position of a firm at a specific point in time is the Statement of Owner's Equity.

True False

32. Owner investments and withdrawals impact the profitability of the firm.

True False

33. The statement of Owner's Equity reports the changes in equity of the owner over time.

True False

Multiple Choice Questions

34. Net Income:

- A. Decreases equity.
- B. Represents the amount of assets owners put into a business.
- C. Equals assets minus liabilities.
- D. Is the excess of revenues over expenses.
- E. Represents owners' claims against assets.

35. If equity is 400,000 and liabilities are \$220,000, then assets equal:

- A. \$180,000.
- B. \$220,000.
- C. \$400,000.
- D. \$620,000.
- E. \$720,000.

36. Resources owned or controlled by a company that are expected to yield benefits are:

- A. Assets.
- B. Revenues.
- C. Liabilities.
- D. Owner's Equity.
- E. Expenses.

37. Gross increases in equity from a company's earnings activities are:

- A. Assets.
- B. Revenues.
- C. Liabilities.
- D. Owner's Equity.
- E. Expenses.

38. Creditors' claims on the assets of a company are called:

- A. Net losses.
- B. Expenses.
- C. Revenues.
- D. Equity.
- E. Liabilities.

39. Decreases in equity that represent costs of assets or services used to earn revenues are called:

- A. Liabilities.
- B. Equity.
- C. Withdrawals.
- D. Expenses.
- E. Owner's Investment.

40. Expenses:

- A. Increase equity.
- B. Are gross increases in equity from a company's earning activity.
- C. Are the costs of assets or services used to earn revenues.
- D. Occur when equity exceeds revenue.
- E. Are creditors' claims on assets.

41. The Phrase "On Credit" indicates:

- A. That payment has already been made
- B. That payment will likely never be collected
- C. That the customer has a credit balance
- D. That the customer will need to pay their balance within 10 days
- E. That cash payment will occur at a later dated

42. If assets are \$109,000 and liabilities are \$32,000, then equity equals:

- A. \$32,000.
- B. \$77,000.
- C. \$109,000.
- D. \$141,000.
- E. \$198,000.

43. Another name for equity is:

- A. Net income.
- B. Expenses.
- C. Net assets.
- D. Revenue.
- E. Net loss.

44. The excess of expenses over revenues for a period is:

- A. Net assets.
- B. Equity.
- C. Net loss.
- D. Net income.
- E. A liability.

45. Which of the following statements is true about assets?

- A. They are economic resources owned or controlled by the business.
- B. They are expected to provide future benefits to the business.
- C. They appear on the balance sheet.
- D. Claims on them are shared between creditors and owners.
- E. All of these.

46. Net assets of a company are reflected in which of the following equations:

- A. $\text{Assets} = \text{liabilities} + \text{equity}$.
- B. $\text{Assets} + \text{liabilities} = \text{equity}$.
- C. $\text{Assets} - \text{liabilities} = \text{equity}$.
- D. $\text{Assets} + \text{equity} = \text{liabilities}$.
- E. None of the above.

47. A payment to an owner is called a(n):

- A. Liability.
- B. Withdrawal.
- C. Expense.
- D. Contribution.
- E. Investment.

48. Liabilities include:

- A. accounts payable.
- B. wages payable.
- C. unearned revenue.
- D. loans payable.
- E. All of the above.

49. Distributions by a business to its owners are called:

- A. Withdrawals.
- B. Expenses.
- C. Assets.
- D. Retained earnings.
- E. Net Income.

50. Equity increase when:

- A. An owner contributes cash or assets to the company.
- B. The company provides a service or sells a product.
- C. The company expenses exceed their revenues.
- D. Both a and b.
- E. All of the above.

51. The assets of a company total \$900,000; the liabilities, \$200,000. What are the claims of the owners?

- A. \$900,000.
- B. \$700,000.
- C. \$500,000.
- D. \$200,000.
- E. It is impossible to determine unless the amount of this owners' investment is known.

52. On June 30 of the current year, the assets and liabilities of Phoenix Phildell are as follows: Cash \$20,500; Accounts Receivable, \$7,250; Supplies, \$650; Equipment, \$12,000; Accounts Payable, \$9,300. What is the amount of owner's equity as of July 1 of the current year?

- A. \$8,300
- B. \$13,050
- C. \$20,500
- D. \$31,100
- E. \$40,400

53. Assets created by selling goods and services on credit are:

- A. Accounts payable.
- B. Accounts receivable.
- C. Liabilities.
- D. Expenses.
- E. Equity.

54. Photometer Company paid off \$30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?

- A. Assets, \$30,000 increase; liabilities, no effect; equity, \$30,000 increase.
- B. Assets, \$30,000 decrease; liabilities, \$30,000 decrease; equity, no effect.
- C. Assets, \$30,000 decrease; liabilities, \$30,000 increase; equity, no effect.
- D. Assets, no effect; liabilities, \$30,000 decrease; equity, \$30,000 increase.
- E. Assets, \$30,000 decrease; liabilities, no effect; equity \$30,000 decrease.

55. How would the accounting equation of Boston Company be affected by the billing of a client for \$10,000 of consulting work completed?

- A. +\$10,000 accounts receivable, -\$10,000 accounts payable.
- B. +\$10,000 accounts receivable, +\$10,000 accounts payable.
- C. +\$10,000 accounts receivable, +\$10,000 cash.
- D. +\$10,000 accounts receivable, +\$10,000 revenue.
- E. +\$10,000 accounts receivable, -\$10,000 revenue.

56. Zion Company has assets of \$600,000, liabilities of \$250,000, and equity of \$350,000. It buys office equipment on credit for \$75,000. The effect of this transaction include:

- A. Assets increase by \$75,000 and expenses increase by \$75,000.
- B. Assets increase by \$75,000 and expenses decrease by \$75,000.
- C. Liabilities increase by \$75,000 and expenses decrease by \$75,000.
- D. Assets decrease by \$75,000 and expenses decrease by \$75,000.
- E. Assets increase by \$75,000 and liabilities increase by \$75,000.

57. Viscount Company collected \$42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:

- A. Total assets decrease and equity increases.
- B. Both total assets and total liabilities decrease.
- C. Total assets, total liabilities, and equity are unchanged.
- D. Both total assets and equity are unchanged and liabilities increase.
- E. Total assets increase and equity decreases.

58. If the liabilities of a business increased \$75,000 during a period of time and the owner's equity in the business decreased \$30,000 during the same period, the assets of the business must have:

- A. Decreased \$105,000.
- B. Decreased \$45,000.
- C. Increased \$30,000.
- D. Increased \$45,000.
- E. Increased \$105,000.

59. If the liabilities of a company increased \$74,000 during a period of time and equity in the company decreased \$19,000 during the same period, what was the effect on the assets?

- A. Assets would have increased \$55,000.
- B. Assets would have decreased \$55,000.
- C. Assets would have increased \$19,000.
- D. Assets would have decreased \$19,000.
- E. None of the above.

60. If assets are \$365,000 and equity is \$120,000, then liabilities are:

- A. \$120,000.
- B. \$245,000.
- C. \$365,000.
- D. \$485,000.
- E. \$610,000.

61. The statement of owner's equity:

- A. Reports how equity changes at a point in time.
- B. Reports how equity changes over a period of time.
- C. Reports on cash flows for operating, financing, and investing activities over a period of time.
- D. Reports on cash flows for operating, financing, and investing activities at a point in time.
- E. Reports on amounts for assets, liabilities, and equity at a point in time.

62. The financial statement that shows the beginning balance of owner's equity; the changes in equity that resulted from new investments by the owner, net income (or net loss), and withdrawals; and the ending balance, is the:

- A. Statement of financial position.
- B. Statement of cash flows.
- C. Balance sheet.
- D. Income statement.
- E. Statement of owner's equity.

63. Accounts payable appear on which of the following statements?

- A. Balance sheet.
- B. Income statement.
- C. Statement of owner's equity.
- D. a and b above.
- E. All of the above.

64. Determine the net income of a company for which the following information is available

	Employee salaries expense...	\$180,000
	Interest expense.....	10,000
	Rent expense.....	20,000
for the month of May.	Consulting revenue.....	400,000

- A. \$190,000.
- B. \$210,000.
- C. \$230,000.
- D. \$400,000.
- E. \$610,000.

65. Rent expense that is paid with cash appears on which of the following statements?

- A. Balance sheet.
- B. Income statement.
- C. Statement of owner's equity.
- D. a and b above.
- E. All of the above.

66. Fees earned (but not yet received in cash) by a business in exchange for services it provided appear on which of the following statements?

- A. Balance sheet.
- B. Income statement.
- C. Statement of owner's equity.
- D. Bank reconciliation report.
- E. Both A and B.

67. A company's balance sheet shows: cash \$22,000, accounts receivable \$16,000, office equipment \$50,000, and accounts payable \$17,000. What is the amount of owner's equity?

- A. \$17,000.
- B. \$29,000.
- C. \$71,000.
- D. \$88,000.
- E. \$105,000.

68. A company reported total equity of \$155,000 on its December 31, 2009 balance sheet. The following information is available for the year ended December 31, 2010:

2010 Revenues	\$325,000
2010 Expenses	\$180,000
Liabilities at Dec 31, 2010	\$120,000

What are the total assets of the company at December 31, 2010?

- A. \$25,000.
- B. \$120,000.
- C. \$300,000.
- D. \$325,000.
- E. \$420,000.

69. Fast Forward has beginning equity of \$257,000, net income of \$51,000, withdrawals of \$40,000 and investments by owners of \$6,000. Its ending equity is:

- A. \$223,000.
- B. \$240,000.
- C. \$268,000.
- D. \$274,000.
- E. \$208,000.

Essay Questions

70. Classify each of the following as an Asset, Liability or Owner's Equity account for numbers 1 through 6 into the appropriate category a, b, and c.

- a. Asset
- b. Liability
- c. Owner's Equity

Cash

Accounts Payable

Expenses

Notes Payable

Revenue

Supplies

71. Match each of the following items 1 through 6 with the financial statement a through c in which each item would most likely appear. An item may appear on more than one statement.

- a. Income statement
- b. Statement of owner's equity
- c. Balance sheet

Assets.

Withdrawals.

Revenues.

Costs and expenses.

Liabilities.

Equity.

72. Select the appropriate financial statement for each of the following accounts. (Note: Some items may appear on more than one financial statement.)

- a. Income statement
- b. Statement of owner's equity
- c. Balance sheet

Cash

Withdrawals

Notes payable

Fees earned

Jay Miller, Capital

Accounts receivable

Rent Expense

Supplies Expense

73. Select the appropriate financial statement for each of the following items. (Note: some items may appear on more than one financial statement.)

- a. Income statement
- b. Statement of owner's equity
- c. Balance sheet

Supplies

Cash withdrawals by owner.

Ahmad Khan, Capital

Advertising Expense

The purchase of equipment

Cash investments by owner

Consulting Revenue

74. Identify the accounts affected in the following transactions. Each question will have at least **TWO** answers.

- a. Cash
- b. Equipment
- c. Accounts Payable
- d. Accounts Receivable
- e. Drawing
- f. Expenses
- g. Capital
- h. Revenue

Cash received from sale of used office equipment.

Sold merchandise to customer on account.

Cash received from customers who bought on credit.

Cash received from owner contributions.

Cash paid for utilities.

Bought a machine on credit.

75. Describe the relation between revenues, expenses, and net income.

76. Explain the accounting equation, and define its terms.

77. What distinguishes liabilities from equity?

78. Identify and describe the three financial statements discussed in this chapter.

79. Lorton's Web Services has assets of \$265,000 and liabilities of \$130,000. Calculate the amount of equity.

80. At the beginning of the year, a company had \$120,000 worth of liabilities. During the year, assets increased by \$160,000 and at year-end they equaled \$360,000. Liabilities decreased \$20,000 during the year. Calculate the beginning and ending values of equity.

81. The accounts of Garfield Company with the increases or decreases that occurred during

<u>Account</u>	<u>Increase</u>	<u>Decrease</u>
Cash	\$25,000	
Accounts receivable		\$(5,000)
Accounts payable		(11,000)
Notes payable	16,000	

the past year are as follows:

Except for net income, an investment of \$3,000 by the owner, and a withdrawal of \$11,000 by the owner, no other items affected the owner's capital account. Using the balance sheet equation, compute net income for the past year.

82. A company spent \$52,000 in cash for this period's advertising activities. Enter the appropriate amounts that reflect this transaction into the accounting equation format shown

Assets	=	Liabilities	+	Equity

below.

83. A company performed testing services for a client. The client paid the company \$3,000 in cash. Enter the appropriate amounts that reflect this transaction into the company's accounting

Assets	=	Liabilities	+	Equity

equation format shown below.

84. Harry Burton began a Web Consulting practice and completed these transactions during September of the current year:

- Sept. 1 Invested \$100,000 of his personal savings into a checking account opened in the name of the business.
- 2 Rented office space and paid \$1,200 cash for the month of September.
- 3 Purchased office equipment for \$30,000, paying \$8,000 cash and agreeing to pay the balance in one year.
- 4 Purchased office supplies for \$750 cash.
- 8 Completed work for a client and immediately collected \$2,700 cash for the services.
- 15 Completed \$3,600 services for a client on credit.
- 20 Received \$3,600 from a client for the work completed on September 15.
- 30 Paid the office secretary's monthly salary, \$3,000 cash.
- 30 Burton withdrew \$2,000 for personal use.

Show the effects of the above transactions on the accounting equation of Halley Burton, Consultant. Use the following format for your answers. The first item is shown as an example.

Increase = I Decrease = D No effect = N

Date	Assets	Liabilities	Equity
Example:			
September 1	I	N	I

85. For each of the following transactions, identify the effects as reflected in the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A", "L", and "E" to indicate assets, liabilities, and equity, respectively. Part A has been completed as an

a.	L. Berryman invested \$100,000 in a sole proprietorship	+A	+E
b.	Land was purchased for \$50,000. A down payment of \$15,000 cash was made and a note was signed for the balance.	_____	_____
c.	Services were rendered to customers for cash.	_____	_____
d.	A building was purchased for cash.	_____	_____
e.	Supplies were purchased for cash.	_____	_____
f.	Paid the office secretary's salary.	_____	_____
g.	The amount owed on the land from Part (b) was paid.	_____	_____

example.

86. The following schedule reflects the first month's transactions of the Bill Blue Real Estate Company:

	<i>Cash</i>	+ <i>Accounts Receivable</i>	+ <i>Supplies</i>	+ <i>Equipment</i>	=	<i>Accounts Payable</i>	+ <i>B. Blue Capital</i>
1.	+20,000						+20,000
2.	-5,000			+5,000			
3.			+\$1,500			+1,500	
4.	+3,000						+3,000
5.	+1,000	+1,500					+2,500
6.	-750					-750	
7.	+500	-500					
8.			-400				-400
9.	-2,000						-2,000

Provide descriptions for each transaction.

87. Fast Forward reported net income of \$17,500 for the past year. At the beginning of the year the company had \$200,000 in assets and \$70,000 in liabilities. By the end of the year, assets had increased to \$300,000. Fast Forward did not pay a dividend or receive additional investment capital. What amount of liabilities existed at the end of the current year?

88. Par Four's total liabilities are \$130,000 and its equity is \$340,000. Calculate the company's total assets.

89. Determine the ending balance of each applicable account using the beginning balances listed below. Note: This is not intended to balance as all normal accounts are not present.

Cash: \$42,400	Drawing: \$350
Supplies: \$350	Accounts Payable: \$1,200
Accounts Receivable: \$5,000	Expenses: \$4,000

Samolis LLC bought a. \$4500 worth of supplies from Tavella Warehouse on account, b. withdrew \$420 for personal use, c. bought \$350 in supplies on account, d. received payment of \$650 from customers on account, e. paid salaries of \$1,290.

On November 1 of the current year, Lois Bell began Lois Bell, Interior Design with an initial investment of \$50,000 cash. On November 30 her records showed the following (alphabetically arranged) items and amounts:

Accounts payable	\$12,000	Office furnishings	\$40,000
Accounts receivable	23,000	Owner's withdrawals	6,000
Cash	17,200	Rent expense	3,600
Fees earned	30,000	Salaries expense	6,200
Notes payable	4,250	Telephone expense	250

90. From the information given, prepare a November income statement.

91. From the information given, prepare a November statement of owner's equity.

92. From the information given, prepare a November 30 balance sheet.

93. The following information is available for the Skate and Boards Rental.

Assets at December 31, 2010.....	\$152,000
2010 Cash inflows from operating activities.....	105,000
2010 Cash outflows from financing activities....	(44,000)
2010 Cash outflows from investing activities.....	(84,000)
Equity at December 31, 2009.....	62,000
Liabilities at December 31, 2010.....	28,000
2010 Revenues.....	135,000
2010 Withdrawals.....	(30,000)

Using the above information prepare an Income Statement and Statement of Owner's Equity, for the Skate and Boards Rental for 2010. Also prepare its Balance Sheet as of December 31, 2010.

94. Data for Madison Realty are as follows:

	Total assets at December 31, 2009 ..	\$100,000
	Total liabilities at December 31, 2009	35,000
	Total revenues for 2010.....	79,000
	Total expenses for 2010.....	47,000

The owner, Mary Madison, withdrew a total of \$30,000 for personal use during 2010. From the above data, prepare Madison Realty's Statement of Owner's Equity for the year ended December 31, 2010.

95. Use the following information to complete an Income Statement for Robbins Concrete for the month of March, 2010:

- Revenues: \$23,950
- Advertising Expense: \$3,670
- Wages Expense: \$11,250
- Maintenance Expense: \$2,310
- Insurance Expense: \$2,900

The records of Skymaster Airplane Rentals show the following information as of December 31, 2010:

Accounts payable	\$36,000	2010 Wages expense	\$75,000
Insurance expense	2,000	2010 Advertising expense	22,000
Accounts receivable	24,000	Cash	11,000
H. Skymaster, capital,			
December 31, 2009	150,000	Office Furniture	15,000
Airplanes	150,000	2010 Maintenance expense	39,000
Notes payable	47,000	2010 Revenues	217,000
Hangar	60,000		

Skymaster withdrew \$52,000 during 2010 for personal expenses.

96. Using the above information, prepare an income statement for 2010.

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97. Using the above information, prepare a Statement of Owner's Equity for 2010

98. Using the above information, prepare a balance sheet at December 31, 2010.

Fill in the Blank Questions

99. The accounting equation is: Assets = _____ + Equity.

100. Assets removed from the business by the business owner for personal use are called _____.

101. The _____ reports revenues earned and expenses incurred by a business over a period of time.

102. _____ are the gross increases in equity from a company's earnings activities.

103. A common characteristic of _____ is their ability to provide expected future benefits to a business.

104. _____ is increased by owner's investments and revenues. It is decreased by withdrawals and expenses.

105. Creditors claims on assets that reflect obligations to transfer assets are called _____.

106. The owner's claim on assets is called _____.

107. During the accounting period, the assets of a business increased \$64,000 and liabilities decreased \$17,000; consequently, equity in the business must have _____ (increased, decreased) \$_____.

108. The term _____ refers to a liability that promises a future outflow of resources.

109. Using the accounting equation, equity is equal to _____.

110. For a proprietorship, owner investment and revenues increase _____ and owner withdrawals and expenses decrease it.

111. A _____ occurs when expenses exceed revenues.

112. _____ means that payment will occur at a later date.

113. _____ reports changes in the owner's claim on the business's assets over a period of time.

114. The _____ describes a company's financial position and types and amounts of assets, liabilities, and equity at a point in time.

115. Indicate the three basic financial statements and the order in which they are prepared. _____.

Chapter 02 Accounting for Business Transactions **Answer Key**

True / False Questions

1. Revenues are gross increases in equity from a company's earning activities.

TRUE

*AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1*

2. A loss arises when revenues exceed expenses.

FALSE

*AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1*

3. Expenses decrease equity and are the costs of assets or services used to earn revenues.

TRUE

*AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1*

4. Liabilities are the owner's claim on assets.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

5. Creditor claims on the assets of a firm supersede those of an owner.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: LO1

6. Equity represents the claims of the owners on the assets of a company.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: LO1

7. Withdrawals are expenses.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

8. The accounting equation can be restated as: $\text{Assets} - \text{Equity} = \text{Liabilities}$.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

9. A company might provide a service or product on credit. "On credit" implies that the cash receipt will occur on a later date.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

10. Owner's investments are gross increases in equity from a company's earnings activities.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Hard
Learning Objective: 1

11. The legitimate claims of a business's creditors take precedence over the claims of the business owner.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Hard
Learning Objective: 1

12. Net income is the excess of expenses over revenues, whereas net loss is the excess of revenues over expenses.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

13. An external transaction is an exchange of value within an organization.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 2

14. An accounting transaction is a recordable event when a measurable exchange of value takes place.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 2

15. From an accounting perspective, an event is a happening that affects an entity's accounting equation, but cannot be measured.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 2

16. Owner's equity is increased when cash is received from customers in payment of previously recorded accounts receivable.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 2

17. Net assets always increase when revenue is recorded.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Hard
Learning Objective: 2

18. The net assets of a firm decrease as withdrawals by the owner increase.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 2

19. The three basic financial statements discussed in this chapter include the balance sheet, income statement, statement of owner's equity.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 3

20. An income statement reports on investing and financing activities.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 3

21. A balance sheet covers a period of time such as a month or year.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 3

22. The balance sheet is also known as the statement of financial position.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 3

23. The first section of the income statement reports cash from operations.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 3

24. The balance sheet is based on the accounting equation.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 3

25. Owner's contributions and withdrawals are reported on the income statement.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 3

26. An income statement shows the results of operations at a point in time.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 3

27. The purchase of supplies appears on the balance sheet as an expense.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 3

28. The income statement reports on operating activities at a point in time.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Hard
Learning Objective: 3

29. A net loss on an income statement results when expenses are greater than revenues.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Hard
Learning Objective: 3

30. Both Accounts Receivable and Revenue increase when a service is performed and the customer agrees to pay in the future.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 2

31. The financial statement that reflects the financial position of a firm at a specific point in time is the Statement of Owner's Equity.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 3

32. Owner investments and withdrawals impact the profitability of the firm.

FALSE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 2

33. The statement of Owner's Equity reports the changes in equity of the owner over time.

TRUE

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 3

Multiple Choice Questions

34. Net Income:

- A. Decreases equity.
- B. Represents the amount of assets owners put into a business.
- C. Equals assets minus liabilities.
- D.** Is the excess of revenues over expenses.
- E. Represents owners' claims against assets.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

35. If equity is 400,000 and liabilities are \$220,000, then assets equal:

- A. \$180,000.
- B. \$220,000.
- C. \$400,000.
- D.** \$620,000.
- E. \$720,000.

$$\text{Assets} = \$220,000 + \$400,000 = \$620,000$$

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Easy
Learning Objective: 1

36. Resources owned or controlled by a company that are expected to yield benefits are:

- A.** Assets.
- B. Revenues.
- C. Liabilities.
- D. Owner's Equity.
- E. Expenses.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

37. Gross increases in equity from a company's earnings activities are:

- A. Assets.
- B.** Revenues.
- C. Liabilities.
- D. Owner's Equity.
- E. Expenses.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

38. Creditors' claims on the assets of a company are called:

- A. Net losses.
- B. Expenses.
- C. Revenues.
- D. Equity.
- E.** Liabilities.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

39. Decreases in equity that represent costs of assets or services used to earn revenues are called:

- A. Liabilities.
- B. Equity.
- C. Withdrawals.
- D.** Expenses.
- E. Owner's Investment.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

40. Expenses:

- A. Increase equity.
- B. Are gross increases in equity from a company's earning activity.
- C.** Are the costs of assets or services used to earn revenues.
- D. Occur when equity exceeds revenue.
- E. Are creditors' claims on assets.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

41. The Phrase "On Credit" indicates:

- A. That payment has already been made
- B. That payment will likely never be collected
- C. That the customer has a credit balance
- D. That the customer will need to pay their balance within 10 days
- E.** That cash payment will occur at a later dated

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 2

42. If assets are \$109,000 and liabilities are \$32,000, then equity equals:

- A. \$32,000.
- B.** \$77,000.
- C. \$109,000.
- D. \$141,000.
- E. \$198,000.

Feedback: Equity = \$109,000 - \$32,000 = \$77,000

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Medium
Learning Objective: 1

43. Another name for equity is:

- A. Net income.
- B. Expenses.
- C.** Net assets.
- D. Revenue.
- E. Net loss.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

44. The excess of expenses over revenues for a period is:

- A. Net assets.
- B. Equity.
- C. Net loss.**
- D. Net income.
- E. A liability.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

45. Which of the following statements is true about assets?

- A. They are economic resources owned or controlled by the business.
- B. They are expected to provide future benefits to the business.
- C. They appear on the balance sheet.
- D. Claims on them are shared between creditors and owners.
- E. All of these.**

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

46. Net assets of a company are reflected in which of the following equations:

- A. $\text{Assets} = \text{liabilities} + \text{equity}$.
- B. $\text{Assets} + \text{liabilities} = \text{equity}$.
- C. $\text{Assets} - \text{liabilities} = \text{equity}$.**
- D. $\text{Assets} + \text{equity} = \text{liabilities}$.
- E. None of the above.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

Chapter 02 - Accounting for Business Transactions

47. A payment to an owner is called a(n):

- A. Liability.
- B. Withdrawal.**
- C. Expense.
- D. Contribution.
- E. Investment.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

48. Liabilities include:

- A. accounts payable.
- B. wages payable.
- C. unearned revenue.
- D. loans payable.
- E. All of the above.**

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

49. Distributions by a business to its owners are called:

- A. Withdrawals.**
- B. Expenses.
- C. Assets.
- D. Retained earnings.
- E. Net Income.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Hard
Learning Objective: 1

50. Equity increase when:

- A. An owner contributes cash or assets to the company.
- B. The company provides a service or sells a product.
- C. The company expenses exceed their revenues.
- D.** Both a and b.
- E. All of the above.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

51. The assets of a company total \$900,000; the liabilities, \$200,000. What are the claims of the owners?

- A. \$900,000.
- B.** \$700,000.
- C. \$500,000.
- D. \$200,000.
- E. It is impossible to determine unless the amount of this owners' investment is known.

$$\$900,000 - \$200,000 = \$700,000$$

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Medium
Learning Objective: 1

52. On June 30 of the current year, the assets and liabilities of Phoenix Phildell are as follows: Cash \$20,500; Accounts Receivable, \$7,250; Supplies, \$650; Equipment, \$12,000; Accounts Payable, \$9,300. What is the amount of owner's equity as of July 1 of the current year?

- A. \$8,300
- B. \$13,050
- C. \$20,500
- D. \$31,100**
- E. \$40,400

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Hard
Learning Objective: 1

53. Assets created by selling goods and services on credit are:

- A. Accounts payable.
- B. Accounts receivable.**
- C. Liabilities.
- D. Expenses.
- E. Equity.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 2

54. Photometer Company paid off \$30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?

- A. Assets, \$30,000 increase; liabilities, no effect; equity, \$30,000 increase.
- B.** Assets, \$30,000 decrease; liabilities, \$30,000 decrease; equity, no effect.
- C. Assets, \$30,000 decrease; liabilities, \$30,000 increase; equity, no effect.
- D. Assets, no effect; liabilities, \$30,000 decrease; equity, \$30,000 increase.
- E. Assets, \$30,000 decrease; liabilities, no effect; equity \$30,000 decrease.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Medium
Learning Objective: 2

55. How would the accounting equation of Boston Company be affected by the billing of a client for \$10,000 of consulting work completed?

- A. +\$10,000 accounts receivable, -\$10,000 accounts payable.
- B. +\$10,000 accounts receivable, +\$10,000 accounts payable.
- C. +\$10,000 accounts receivable, +\$10,000 cash.
- D.** +\$10,000 accounts receivable, +\$10,000 revenue.
- E. +\$10,000 accounts receivable, -\$10,000 revenue.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Analysis
Difficulty: Medium
Learning Objective: 2

56. Zion Company has assets of \$600,000, liabilities of \$250,000, and equity of \$350,000. It buys office equipment on credit for \$75,000. The effect of this transaction include:

- A. Assets increase by \$75,000 and expenses increase by \$75,000.
- B. Assets increase by \$75,000 and expenses decrease by \$75,000.
- C. Liabilities increase by \$75,000 and expenses decrease by \$75,000.
- D. Assets decrease by \$75,000 and expenses decrease by \$75,000.
- E.** Assets increase by \$75,000 and liabilities increase by \$75,000.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension; Analysis
Difficulty: Medium
Learning Objective: 2

57. Viscount Company collected \$42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:

- A. Total assets decrease and equity increases.
- B. Both total assets and total liabilities decrease.
- C. Total assets, total liabilities, and equity are unchanged.**
- D. Both total assets and equity are unchanged and liabilities increase.
- E. Total assets increase and equity decreases.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Analysis
Difficulty: Medium
Learning Objective: 2

58. If the liabilities of a business increased \$75,000 during a period of time and the owner's equity in the business decreased \$30,000 during the same period, the assets of the business must have:

- A. Decreased \$105,000.
- B. Decreased \$45,000.
- C. Increased \$30,000.
- D. Increased \$45,000.**
- E. Increased \$105,000.

Change in Assets = Change in Liabilities + Change in Owner's Equity
Change in Assets = \$75,000 + (-\$30,000) = +\$45,000

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension; Analysis
Difficulty: Hard
Learning Objective: 2

59. If the liabilities of a company increased \$74,000 during a period of time and equity in the company decreased \$19,000 during the same period, what was the effect on the assets?

- A.** Assets would have increased \$55,000.
- B. Assets would have decreased \$55,000.
- C. Assets would have increased \$19,000.
- D. Assets would have decreased \$19,000.
- E. None of the above.

Assets = Liabilities + Equity

$$\text{Assets} = \$74,000 + (-\$19,000) = \$55,000$$

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension; Analysis
Difficulty: Hard
Learning Objective: 2

60. If assets are \$365,000 and equity is \$120,000, then liabilities are:

- A. \$120,000.
- B.** \$245,000.
- C. \$365,000.
- D. \$485,000.
- E. \$610,000.

$$\text{Liabilities} = \$365,000 - \$120,000 = \$245,000$$

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Medium
Learning Objective: 2

61. The statement of owner's equity:

- A. Reports how equity changes at a point in time.
- B.** Reports how equity changes over a period of time.
- C. Reports on cash flows for operating, financing, and investing activities over a period of time.
- D. Reports on cash flows for operating, financing, and investing activities at a point in time.
- E. Reports on amounts for assets, liabilities, and equity at a point in time.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 3

62. The financial statement that shows the beginning balance of owner's equity; the changes in equity that resulted from new investments by the owner, net income (or net loss), and withdrawals; and the ending balance, is the:

- A. Statement of financial position.
- B. Statement of cash flows.
- C. Balance sheet.
- D. Income statement.
- E.** Statement of owner's equity.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 3

63. Accounts payable appear on which of the following statements?

- A.** Balance sheet.
- B. Income statement.
- C. Statement of owner's equity.
- D. a and b above.
- E. All of the above.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 3

64. Determine the net income of a company for which the following information is available

Employee salaries expense...	\$180,000
Interest expense.....	10,000
Rent expense.....	20,000
Consulting revenue.....	400,000

for the month of May.

- A.** \$190,000.
- B. \$210,000.
- C. \$230,000.
- D. \$400,000.
- E. \$610,000.

Expenses: $\$180,000 + \$10,000 + \$20,000 = \$210,000$

Net income = $\$400,000 - \$210,000 = \$190,000$

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 3

65. Rent expense that is paid with cash appears on which of the following statements?

- A. Balance sheet.
- B.** Income statement.
- C. Statement of owner's equity.
- D. a and b above.
- E. All of the above.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Hard
Learning Objective: 3

66. Fees earned (but not yet received in cash) by a business in exchange for services it provided appear on which of the following statements?

- A. Balance sheet.
- B. Income statement.
- C. Statement of owner's equity.
- D. Bank reconciliation report.
- E.** Both A and B.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Hard
Learning Objective: 3

67. A company's balance sheet shows: cash \$22,000, accounts receivable \$16,000, office equipment \$50,000, and accounts payable \$17,000. What is the amount of owner's equity?

- A. \$17,000.
- B. \$29,000.
- C. \$71,000.**
- D. \$88,000.
- E. \$105,000.

$$\text{Assets} = \$22,000 + \$16,000 + \$50,000 = \$88,000$$

$$\text{Liabilities} = \$17,000$$

$$\text{Owner's Equity} = \$88,000 - \$17,000 = \$71,000$$

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension; Application
Difficulty: Hard
Learning Objective: 3

68. A company reported total equity of \$155,000 on its December 31, 2009 balance sheet. The following information is available for the year ended December 31, 2010:

2010 Revenues	\$325,000
2010 Expenses	\$180,000
Liabilities at Dec 31, 2010	\$120,000

What are the total assets of the company at December 31, 2010?

- A. \$25,000.
- B. \$120,000.
- C. \$300,000.
- D. \$325,000.
- E. \$420,000.**

$$\text{Net income} = \$325,000 - \$180,000 = \$145,000$$

$$\text{2010 equity} = \$145,000 + \$155,000 = \$300,000$$

$$\text{2010 assets} = \$300,000 + \$120,000 = \$420,000$$

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Hard
Learning Objective: 3

69. Fast Forward has beginning equity of \$257,000, net income of \$51,000, withdrawals of \$40,000 and investments by owners of \$6,000. Its ending equity is:

- A. \$223,000.
- B. \$240,000.
- C. \$268,000.
- D. \$274,000.**
- E. \$208,000.

$$\$257,000 + \$51,000 - \$40,000 + \$6,000 = \$274,000$$

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension; Application
Difficulty: Medium
Learning Objective: 2

Essay Questions

70. Classify each of the following as an Asset, Liability or Owner's Equity account for numbers 1 through 6 into the appropriate category a, b, and c.

- a. Asset
 - b. Liability
 - c. Owner's Equity
- Cash
Accounts Payable
Expenses
Notes Payable
Revenue
Supplies

1. a, 2. b, 3. c, 4. b, 5. c, 6. a

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

71. Match each of the following items 1 through 6 with the financial statement a through c in which each item would most likely appear. An item may appear on more than one statement.

- a. Income statement
 - b. Statement of owner's equity
 - c. Balance sheet
- Assets.
Withdrawals.
Revenues.
Costs and expenses.
Liabilities.
Equity.

1. c, 2. b, 3. a, 4. a, 5. c. 6. b. & c.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 3

72. Select the appropriate financial statement for each of the following accounts. (Note: Some items may appear on more than one financial statement.)

- a. Income statement
 - b. Statement of owner's equity
 - c. Balance sheet
- Cash
Withdrawals
Notes payable
Fees earned
Jay Miller, Capital
Accounts receivable
Rent Expense
Supplies Expense

1. c, 2. b, 3. c, 4. a, 5. b, c, 6. c, 7. a, 8. a

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 3

73. Select the appropriate financial statement for each of the following items. (Note: some items may appear on more than one financial statement.)

- a. Income statement
- b. Statement of owner's equity
- c. Balance sheet

Supplies

Cash withdrawals by owner.

Ahmad Khan, Capital

Advertising Expense

The purchase of equipment

Cash investments by owner

Consulting Revenue

1. c, 2. b, 3. b, c, 4. a, 5. c, 6. b, 7. a

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 3

74. Identify the accounts affected in the following transactions. Each question will have at least **TWO** answers.

- a. Cash
- b. Equipment
- c. Accounts Payable
- d. Accounts Receivable
- e. Drawing
- f. Expenses
- g. Capital
- h. Revenue

Cash received from sale of used office equipment.

Sold merchandise to customer on account.

Cash received from customers who bought on credit.

Cash received from owner contributions.

Cash paid for utilities.

Bought a machine on credit.

1. a, b, 2. h, d, 3. a, d, 4. a, g, 5. a, f, 6. b, c

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 2

75. Describe the relation between revenues, expenses, and net income.

Revenues are the gross increases in equity from a company's earnings activities. Expenses are the costs of assets or services used to earn revenues. Net income is the excess of revenues over expenses.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

76. Explain the accounting equation, and define its terms.

The accounting equation is stated as: $\text{Assets} = \text{Liabilities} + \text{Equity}$. Assets are resources owned or controlled by a business. Creditors' claims on assets are called liabilities. The owner's claim on assets is called equity. The accounting equation shows that the ownership of business assets can be shared between creditors and owners.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

77. What distinguishes liabilities from equity?

Liabilities are creditors' claims on assets. They reflect obligations to transfer assets or provide products or services to others. Equity is owner's claim to assets. Equity is also called net assets or residual interest.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Hard
Learning Objective: 1

78. Identify and describe the three financial statements discussed in this chapter.

The four basic financial statements are the balance sheet, income statement, statement of owner's equity, and statement of cash flows. The balance sheet describes the company's financial position and lists the types and amounts of assets, liabilities, and equity at a point in time. The income statement describes the company's revenues, expenses, and net income over a period of time. The statement of owner's equity explains changes in equity from net income or loss, and from owner investments and withdrawals over a period of time.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Hard
Learning Objective: L03

79. Lorton's Web Services has assets of \$265,000 and liabilities of \$130,000. Calculate the amount of equity.

$$\$265,000 - \$130,000 = \$135,000$$

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Easy
Learning Objective: 1

80. At the beginning of the year, a company had \$120,000 worth of liabilities. During the year, assets increased by \$160,000 and at year-end they equaled \$360,000. Liabilities decreased \$20,000 during the year. Calculate the beginning and ending values of equity.

Beginning equity = \$80,000

Ending equity = \$260,000

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Analysis
Difficulty: Hard
Learning Objective: 1

81. The accounts of Garfield Company with the increases or decreases that occurred during

<u>Account</u>	<u>Increase</u>	<u>Decrease</u>
Cash	\$25,000	
Accounts receivable		\$(5,000)
Accounts payable		(11,000)
Notes payable	16,000	

the past year are as follows:

Except for net income, an investment of \$3,000 by the owner, and a withdrawal of \$11,000 by the owner, no other items affected the owner's capital account. Using the balance sheet equation, compute net income for the past year.

To maintain the balance sheet equation, Assets = Liabilities + Equity, net income must be \$23,000.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Hard
Learning Objective: 1
Learning Objective: 3

82. A company spent \$52,000 in cash for this period's advertising activities. Enter the appropriate amounts that reflect this transaction into the accounting equation format shown

Assets	=	Liabilities	+	Equity

below.

Assets	=	Liabilities	+	Equity
-\$52,000	=	\$0	+	-\$52,000

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Easy
Learning Objective: 2

Chapter 02 - Accounting for Business Transactions

83. A company performed testing services for a client. The client paid the company \$3,000 in cash. Enter the appropriate amounts that reflect this transaction into the company's accounting

equation format shown below.

Assets	=	Liabilities	+	Equity

Assets	=	Liabilities	+	Equity
+\$3,000	=	\$0	+	+\$3,000

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Easy
Learning Objective: 2

84. Harry Burton began a Web Consulting practice and completed these transactions during September of the current year:

- Sept. 1 Invested \$100,000 of his personal savings into a checking account opened in the name of the business.
- 2 Rented office space and paid \$1,200 cash for the month of September.
- 3 Purchased office equipment for \$30,000, paying \$8,000 cash and agreeing to pay the balance in one year.
- 4 Purchased office supplies for \$750 cash.
- 8 Completed work for a client and immediately collected \$2,700 cash for the services.
- 15 Completed \$3,600 services for a client on credit.
- 20 Received \$3,600 from a client for the work completed on September 15.
- 30 Paid the office secretary's monthly salary, \$3,000 cash.
- 30 Burton withdrew \$2,000 for personal use.

Show the effects of the above transactions on the accounting equation of Halley Burton, Consultant. Use the following format for your answers. The first item is shown as an example.

Increase = I Decrease = D No effect = N

Date	Assets	Liabilities	Equity
Example:			
September 1	I	N	I

Date	Assets	Liabilities	Equity
September 1	I	N	I
September 2	D	N	D
September 3	I,D	I	N
September 4	I,D	N	N
September 8	I	N	I
September 15	I	N	I
September 20	I,D	N	N
September 30	D	N	D
September 30	D	N	D

Chapter 02 - Accounting for Business Transactions

AACSB: Analytic; Communications
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 AICPA FN: Measurement; Reporting
 Bloom's Taxonomy: Comprehension
 Difficulty: Medium
 Learning Objective: 2

85. For each of the following transactions, identify the effects as reflected in the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A", "L", and "E" to indicate assets, liabilities, and equity, respectively. Part A has been completed as an

a.	L. Berryman invested \$100,000 in a sole proprietorship	+A	+E
b.	Land was purchased for \$50,000. A down payment of \$15,000 cash was made and a note was signed for the balance.	_____	_____
c.	Services were rendered to customers for cash.	_____	_____
d.	A building was purchased for cash.	_____	_____
e.	Supplies were purchased for cash.	_____	_____
f.	Paid the office secretary's salary.	_____	_____
g.	The amount owed on the land from Part (b) was paid.	_____	_____

example.

- a. +A +E
- b. +A +L
- c. +A +E
- d. +A -A
- e. +A -A
- f. -A -E
- g. -A -L

AACSB: Analytic; Communications
 AICPA BB: Critical Thinking; Industry
 AICPA FN: Measurement; Reporting
 Bloom's Taxonomy: Application
 Difficulty: Medium
 Learning Objective: 3

86. The following schedule reflects the first month's transactions of the Bill Blue Real Estate Company:

	<i>Cash</i>	+ <i>Accounts Receivable</i>	+ <i>Supplies</i>	+ <i>Equipment</i>	=	<i>Accounts Payable</i>	+ <i>B. Blue Capital</i>
1.	+20,000						+20,000
2.	-5,000			+5,000			
3.			+\$1,500			+1,500	
4.	+3,000						+3,000
5.	+1,000	+1,500					+2,500
6.	-750					-750	
7.	+500	-500					
8.			-400				-400
9.	-2,000						-2,000

Provide descriptions for each transaction.

1. Investment of cash in business by owner *or* performed services for cash.
2. Purchased equipment for cash.
3. Purchased supplies on credit.
4. Performed services for cash *or* investment of cash in business by owner.
5. Performed services for both cash and on credit.
6. Paid accounts payable.
7. Received cash for an account receivable.
8. Used supplies in business.
9. Withdrawal of cash from business by owner for personal use or paid expense of business.

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Medium
Learning Objective: 2

87. Fast Forward reported net income of \$17,500 for the past year. At the beginning of the year the company had \$200,000 in assets and \$70,000 in liabilities. By the end of the year, assets had increased to \$300,000. Fast Forward did not pay a dividend or receive additional investment capital. What amount of liabilities existed at the end of the current year?

$$\text{\$200,000} = 70,000 + \text{\$130,000 end of prior year}$$

$$\text{\$300,000} = L + \text{\$130,000} + \text{\$17,500}$$

$$\text{Liabilities} = \text{\$152,500}$$

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Analysis
Difficulty: Hard
Learning Objective: 2

88. Par Four's total liabilities are \$130,000 and its equity is \$340,000. Calculate the company's total assets.

$$\text{\$130,000} + \text{\$340,000} = \text{\$470,000.}$$

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Easy
Learning Objective: 1

89. Determine the ending balance of each applicable account using the beginning balances listed below. Note: This is not intended to balance as all normal accounts are not present.

Cash: \$42,400	Drawing: \$350
Supplies: \$350	Accounts Payable: \$1,200
Accounts Receivable: \$5,000	Expenses: \$4,000

Samolis LLC bought a. \$4500 worth of supplies from Tavella Warehouse on account, b. withdrew \$420 for personal use, c. bought \$350 in supplies on account, d. received payment of \$650 from customers on account, e. paid salaries of \$1,290.

Cash: \$42,400 -b. \$420 + d. \$650 -e. \$1,290 = \$41,340
 Supplies: \$350 + a. \$4,500 + c. \$350 = \$5,200
 Accounts Receivable: \$5,000 -e. \$650 = \$4,350
 Drawing: \$350 + b. \$420 = \$770
 Accounts Payable: a. \$4,500 + \$1,200 + c. \$350 = \$6,050
 Expenses: \$4,000 + e. \$1,290 = \$5,290

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Analysis
Difficulty: Hard
Learning Objective: 2

On November 1 of the current year, Lois Bell began Lois Bell, Interior Design with an initial investment of \$50,000 cash. On November 30 her records showed the following (alphabetically arranged) items and amounts:

Accounts payable	\$12,000	Office furnishings	\$40,000
Accounts receivable	23,000	Owner's withdrawals	6,000
Cash	17,200	Rent expense	3,600
Fees earned	30,000	Salaries expense	6,200
Notes payable	4,250	Telephone expense	250

90. From the information given, prepare a November income statement.

LOIS BELL, INTERIOR DESIGN		
Income Statement		
For Month Ended November 30		
Revenue:		
Fees earned		\$30,000
Operating expenses:		
Rent expense	\$3,600	
Salaries expense	6,200	
Telephone expense	250	10,050
Net income		\$19,950

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Medium
Learning Objective: 3

91. From the information given, prepare a November statement of owner's equity.

LOIS BELL, INTERIOR DESIGN		
Statement of Owner's Equity		
For Month Ended November 30		
Lois Bell, Capital, November 1		\$ 0
Plus: Investments by owner	\$50,000	
Net income	19,950	69,950
		69,950
Less withdrawals by owner		(6,000)
Lois Bell, Capital, November 30		\$63,950

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Hard
Learning Objective: 3

92. From the information given, prepare a November 30 balance sheet.

LOIS BELL, INTERIOR DESIGN			
Balance Sheet			
November 30			
Assets		Liabilities	
Cash	\$17,200	Accounts payable	\$ 12,000
Accounts receivable	23,000	Notes payable	<u>4,250</u>
Office furnishings	<u>40,000</u>	Total liabilities	\$ 16,250
		Equity	
		Lois Bell, capital	<u>63,950</u>
Total assets	<u>\$80,200</u>	Total liabilities and equity	<u>\$80,200</u>

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Application
Difficulty: Hard
Learning Objective: 3

93. The following information is available for the Skate and Boards Rental.

Assets at December 31, 2010.....	\$152,000
2010 Cash inflows from operating activities.....	105,000
2010 Cash outflows from financing activities....	(44,000)
2010 Cash outflows from investing activities.....	(84,000)
Equity at December 31, 2009.....	62,000
Liabilities at December 31, 2010.....	28,000
2010 Revenues.....	135,000
2010 Withdrawals.....	(30,000)

Using the above information prepare an Income Statement and Statement of Owner's Equity, for the Skate and Boards Rental for 2010. Also prepare its Balance Sheet as of December 31, 2010.

Skate and Boards Rental Income Statement For the year ended December 31, 2010	
Revenues	\$135,000
Expenses	<u>43,000</u>
Net Income	<u>\$92,000</u>
Skate and Boards Rental Statement of Owner's Equity For the year ended December 31, 2010	
Equity, December 31, 2009	\$ 62,000
Add net income	92,000
Less withdrawals.....	<u>(30,000)</u>
Equity, December 31, 2010	<u>\$124,000</u>
Skate and Boards Rental Balance Sheet December 31, 2010	
Assets	<u>\$152,000</u>
Liabilities	\$ 28,000
Equity	<u>124,000</u>
Total liabilities and equity	<u>\$152,000</u>

Chapter 02 - Accounting for Business Transactions

AACSB: Analytic; Communications
 AICPA BB: Critical Thinking; Industry
 AICPA FN: Measurement; Reporting
 Bloom's Taxonomy: Application
 Difficulty: Hard
 Learning Objective: 3

94. Data for Madison Realty are as follows:

	Total assets at December 31, 2009 ..	\$100,000
	Total liabilities at December 31, 2009	35,000
	Total revenues for 2010	79,000
	Total expenses for 2010	47,000

The owner, Mary Madison, withdrew a total of \$30,000 for personal use during 2010. From the above data, prepare Madison Realty's Statement of Owner's Equity for the year ended December 31, 2010.

MADISON REALTY Statement of Owner's Equity For year Ended December 31, 2010		
Mary Madison, Capital, December 31, 2009*	\$ 65,000	
Plus Net income	<u>32,000</u>	
	\$ 97,000	
Less Withdrawals by owner	<u>(30,000)</u>	
Mary Madison, Capital, December 31, 2010	<u>\$ 67,000</u>	
*Total assets, December 31, 2009	\$100,000	
Less total liabilities, December 31, 2009	<u>35,000</u>	
Total owner's equity, December 31, 2009	<u>\$ 65,000</u>	

AACSB: Analytic; Communications
 AICPA BB: Critical Thinking; Industry
 AICPA FN: Measurement; Reporting
 Bloom's Taxonomy: Application
 Difficulty: Hard
 Learning Objective: 3

95. Use the following information to complete an Income Statement for Robbins Concrete for the month of March, 2010:

Revenues: \$23,950

Advertising Expense: \$3,670

Wages Expense: \$11,250

Maintenance Expense: \$2,310

Insurance Expense: \$2,900

ROBBINS CONCRETE Income Statement For Year Ended March 31, 2010			
	Revenues		\$ 23,950
	Expenses:		
	Insurance expense	\$ 2,900	
	Wages expense	11,250	
	Advertising expense	3,670	
	Maintenance expense	<u>2,310</u>	
	Total expenses		<u>\$ 20,130</u>
	Net income		<u>\$ 3,820</u>

AACSB: Analytic; Communications
 AICPA BB: Critical Thinking; Industry
 AICPA FN: Measurement; Reporting
 Bloom's Taxonomy: Application
 Difficulty: Medium
 Learning Objective: 3

The records of Skymaster Airplane Rentals show the following information as of December 31, 2010:

Accounts payable	\$36,000	2010 Wages expense	\$75,000
Insurance expense	2,000	2010 Advertising expense	22,000
Accounts receivable	24,000	Cash	11,000
H. Skymaster, capital, December 31, 2009	150,000	Office Furniture	15,000
Airplanes	150,000	2010 Maintenance expense	39,000
Notes payable	47,000	2010 Revenues	217,000
Hangar	60,000		

Skymaster withdrew \$52,000 during 2010 for personal expenses.

96. Using the above information, prepare an income statement for 2010.

SKYMASTER AIRPLANE RENTALS			
Income Statement			
For Year Ended December 31, 2010			
	Revenues		\$ 217,000
	Expenses:		
	Insurance expense	\$ 2,000	
	Wages expense	75,000	
	Advertising expense	22,000	
	Maintenance expense	<u>39,000</u>	
	Total expenses		<u>\$ 138,000</u>
	Net income		<u>\$ 79,000</u>

AACSB: Analytic; Communications
 AICPA BB: Critical Thinking; Industry
 AICPA FN: Measurement; Reporting
 Bloom's Taxonomy: Application
 Difficulty: Hard
 Learning Objective: 3

97. Using the above information, prepare a Statement of Owner's Equity for 2010

SKYMASTER AIRPLANE RENTALS		
Statement of Owner's Equity		
For Year Ended December 31, 2010		
	H. Skymaster, Capital, December 31, 2009.....	\$150,000
	Add: Net income.....	79,000
	Less: Withdrawals.....	(52,000)
	H. Skymaster, Capital, December 31, 2010.....	<u>\$177,000</u>

AACSB: Analytic; Communications
 AICPA BB: Critical Thinking; Industry
 AICPA FN: Measurement; Reporting
 Bloom's Taxonomy: Application
 Difficulty: Hard
 Learning Objective: 3

98. Using the above information, prepare a balance sheet at December 31, 2010.

SKYMASTER AIRPLANE RENTALS				
Balance Sheet				
December 31, 2010				
Assets			Liabilities	
Cash	\$ 11,000		Accounts payable	\$ 36,000
Accounts receivable	24,000		Notes payable	<u>47,000</u>
Airplanes	150,000		Total liabilities	\$ 83,000
Hangar	60,000		Equity	
Office furniture	15,000		H. Skymaster, Capital	<u>177,000</u>
			Total liabilities and	
Total assets	<u>\$260,000</u>		equity	<u>\$260,000</u>

AACSB: Analytic; Communications
 AICPA BB: Critical Thinking; Industry
 AICPA FN: Measurement; Reporting
 Bloom's Taxonomy: Application
 Difficulty: Hard
 Learning Objective: 3

Fill in the Blank Questions

99. The accounting equation is: Assets = _____ + Equity.

Liabilities

AACSB: Analytic; Communications
 AICPA BB: Critical Thinking; Industry
 AICPA FN: Measurement; Reporting
 Bloom's Taxonomy: Comprehension
 Difficulty: Easy
 Learning Objective: 1

100. Assets removed from the business by the business owner for personal use are called

_____.

Withdrawals

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

101. The _____ reports revenues earned and expenses incurred by a business over a period of time.

Income statement

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 3

102. _____ are the gross increases in equity from a company's earnings activities.

Revenues

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

103. A common characteristic of _____ is their ability to provide expected future benefits to a business.

Assets

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

104. _____ is increased by owner's investments and revenues. It is decreased by withdrawals and expenses.

Owner's equity

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

105. Creditors claims on assets that reflect obligations to transfer assets are called _____.

Liabilities

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

106. The owner's claim on assets is called _____.

Equity

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 1

107. During the accounting period, the assets of a business increased \$64,000 and liabilities decreased \$17,000; consequently, equity in the business must have _____ (increased, decreased) \$ _____.

Increased \$81,000

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Analysis
Difficulty: Medium
Learning Objective: 1

108. The term _____ refers to a liability that promises a future outflow of resources.

Payable

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

109. Using the accounting equation, equity is equal to _____.

Assets minus liabilities

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

110. For a proprietorship, owner investment and revenues increase _____ and owner withdrawals and expenses decrease it.

Equity

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

111. A _____ occurs when expenses exceed revenues.

Net loss

AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1

112. _____ means that payment will occur at a later date.

On Credit

*AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: 1*

113. _____ reports changes in the owner's claim on the business's assets over a period of time.

The statement of owner's equity

*AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 3*

114. The _____ describes a company's financial position and types and amounts of assets, liabilities, and equity at a point in time.

Balance Sheet

*AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Easy
Learning Objective: 3*

115. Indicate the three basic financial statements and the order in which they are prepared. _____.

Income Statement, Statement of Owners' Equity, Balance Sheet

*AACSB: Analytic; Communications
AICPA BB: Critical Thinking; Industry
AICPA FN: Measurement; Reporting
Bloom's Taxonomy: Comprehension
Difficulty: Medium
Learning Objective: L03*