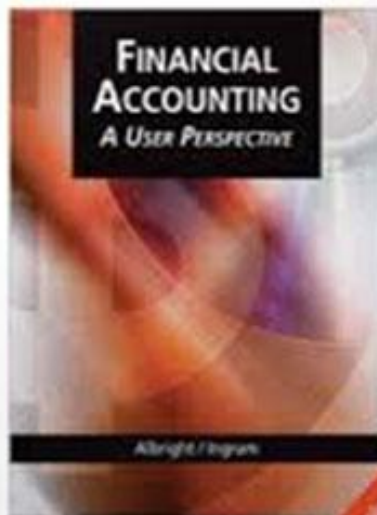


TEST BANK



INTERNATIONAL STUDENT EDITION



Not for Sale in the United States

Chapter 2--Business Activities--The Source of Accounting Information

True/ False	L.O.'s	Level of Diffi- culty	True/ False	L.O.'s	Level of Diffi- culty	True/ False	L.O.'s	Level of Diffi- culty
1	3	EASY	8	2	MOD	15	4	EASY
2	1	MOD	9	2	EASY	16	5	EASY
3	1	MOD	10	3	MOD	17	Appdx	MOD
4	2	MOD	11	2	EASY	18	Appdx	MOD
5	2	MOD	12	4	MOD	19	5	EASY
6	2	EASY	13	4	MOD	20	5	MOD
7	2	MOD	14	4	EASY			

Multiple Choice	L.O.'s	Level of Difficulty	Multiple Choice	L.O.'s	Level of Difficulty	Multiple Choice	L.O.'s	Level of Difficulty
1	1	EASY	26	2	MOD	50	5	MOD
2	1,2	EASY	27	3	EASY	51	5	MOD
3	1,2	MOD	28	4	MOD	52	5	MOD
4	3	EASY	29	4	MOD	53	5	MOD
5	1	EASY	30	4	MOD	54	5	MOD
6	1	EASY	31	4	MOD	55	5	DIFF
7	1	MOD	32	4	MOD	56	5	MOD
8	3	MOD	33	4	MOD	57	5	DIFF
9	1	MOD	34	4	MOD	58	5	MOD
10	2	EASY	35	1,3,4	MOD	59	5	DIFF
11	2	EASY	36	1,4	MOD	60	5	MOD
12	1	DIFF	37	4	MOD	61	5	MOD
13	2	EASY	38	4	DIFF	62	5	DIFF
14	2	MOD	39	2,4	MOD	63	5	MOD
15	2	MOD	40	2,4	MOD	64	5	DIFF
16	2	MOD	41	2,4	MOD	65	5	MOD
17	2	MOD	42	4	DIFF	66	5	MOD
18	2	MOD	43	4	EASY	67	3,5	EASY
19	2	EASY	44	4	EASY	68	5	MOD
20	2	MOD	45	4	MOD	69	5	MOD
21	2,5	DIFF	46	4	MOD	70	5	MOD
22	2	EASY	47	5	EASY	71	Appdx	MOD
23	2	MOD	48	5	MOD	72	Appdx	MOD
24	4	DIFF	49	5	MOD	73	Appdx	MOD
25	2	MOD						

Matching	L.O.'S	Level of Difficulty	Matching	L.O.'s	Level of Difficulty	Matching	L.O.'s	Level of Difficulty
1	2	EASY	11	2	EASY	20	4	MOD
2	4	MOD	12	3	MOD	21	3	MOD
3	2	MOD	13	1	MOD	22	1	DIFF
4	2	MOD	14	4	EASY	23	1	MOD
5	1	EASY	15	3	MOD	24	4	MOD
6	4	EASY	16	4	EASY	25	3	DIFF
7	2	EASY	17	1	MOD	26	4	MOD
8	4	EASY	18	3	MOD	27	4	EASY
9	4	EASY	19	1	MOD	28	1	DIFF
10	2	MOD						

Problem	L.O.'s	Level of Difficulty	Problem	L.O.'s	Level of Difficulty	Problem	L.O.'s	Level of Difficulty
1	12,3,4	MOD	6	1,2,3,4	DIF	11	5	DIF
2	1,2,3,4	MOD	7	1-5	MOD	12	5	DIF
3	1,2,3,4	MOD	8	1,2,4,5	MOD	13	5	DIF
4	1,2,3,4	MOD	9	5	DIFF	14	5	DIF
5	1,2,3,4	MOD	10	5	DIFF			

Essay	L.O.'s	Level of Difficulty	Essay	L.O.'s	Level of Difficulty
1	2	EASY	6	5	MOD
2	1,2,3	MOD	7	5	MOD
3	3	DIFF	8	5	MOD
4	1,3,4	MOD	9	5	DIFF
5	1,2,3,4	DIFF			

TRUE/FALSE

1. Investing activities are those that require the use of resources to produce, sell, and distribute goods and services.

ANS: F DIF: Easy OBJ: 3 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

2. Equity is created when a company obtains financial resources from owner(s).

ANS: T DIF: Moderate OBJ: 1 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

3. The sale of equipment is a financing activity.

ANS: F DIF: Moderate OBJ: 1 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

4. Assets are resources controlled by an organization and available for its use in the future.

ANS: T DIF: Moderate OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

5. A transaction is an event that will cause changes in a firm's resources.

ANS: T DIF: Moderate OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

6. Liabilities are amounts invested in an organization by its owners.

ANS: F DIF: Easy OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

7. Liabilities represent legal obligations of an organization to provide cash or goods or services to external parties in the future.

ANS: T DIF: Moderate OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

8. Transactions are events that result from the transformation process.

ANS: T DIF: Moderate OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

9. A balance among the elements of the accounting equation must be maintained at all times.

ANS: T DIF: Easy OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

10. Investing decisions involve choices about when and where to obtain financial resources and the amount needed.
- ANS: F DIF: Moderate OBJ: 3 TOP: AICPA BB- Industry
MSC: AACSB Analytic
11. Someone who loans financial resources to an organization is considered an owner of the business.
- ANS: F DIF: Easy OBJ: 2 TOP: AICPA BB-Industry
MSC: AACSB Analytic
12. Revenues represent resources received from selling goods or services that constitute the primary operating activities of an organization.
- ANS: T DIF: Moderate OBJ: 4 TOP: AICPA BB-Industry
MSC: AACSB Analytic
13. Contributions of resources into the business by its owner(s) are known as revenues.
- ANS: F DIF: Moderate OBJ: 4 TOP: AICPA BB-Industry
MSC: AACSB Analytic
14. The operating activities of a business are critical to its ongoing success.
- ANS: T DIF: Easy OBJ: 4 TOP: AICPA BB-Industry
MSC: AACSB Analytic
15. The payment of wages is a financing activity.
- ANS: F DIF: Easy OBJ: 4 TOP: AICPA BB-Industry
MSC: AACSB Analytic
16. The purpose of financial reports is to provide information useful to current and potential investors and creditors in making decisions.
- ANS: T DIF: Easy OBJ: 5 TOP: AICPA BB-Industry
MSC: AACSB Analytic
17. In accounting, debit refers to decreases in account balances.
- ANS: F DIF: Moderate OBJ: Appendix TOP: AICPA BB-Industry
MSC: AACSB Analytic
18. Equipment is purchased on credit. This transaction would be recorded with a debit to an asset account and a credit to a liability.
- ANS: T DIF: Moderate OBJ: Appendix TOP: AICPA BB-Industry
MSC: AACSB Analytic
19. Accounting can be described as a link between business activities and business decisions.
- ANS: T DIF: Easy OBJ: 5 TOP: AICPA BB-Industry
MSC: AACSB Analytic

20. Return on Assets is an analytical tool that can be used to evaluate profitability of a company.

ANS: T DIF: Moderate OBJ: 5 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

MULTIPLE CHOICE

1. _____ activities result when a company obtains financial resources from owners.
- Investing
 - Operating
 - Financing
 - Risk free

ANS: C DIF: Easy OBJ: 1 TOP: BB- Resource
 Management
 MSC: AACSB Analytic

2. The following amounts of capital were obtained to start operations of Lightning Enterprises at the beginning of 2007:

Owners' contribution of cash	\$80,000
Owners' contribution of machinery & equipment	18,000
Loan from the bank	<u>46,000</u>
	<u>\$144,000</u>

What is the amount of liabilities for this firm?

- \$18,000
- \$46,000
- \$98,000
- \$126,000
- \$144,000

ANS: B DIF: Easy OBJ: 1,2 TOP: AICPA FN -
 Measurement
 MSC: AACSB Analytic

3. The Angstrom Company was established at the beginning of 2007 with the following capital:

Owners' cash contributions	\$46,000
Cash obtained from a group of creditors	30,000
Loan obtained from the local bank	<u>10,000</u>
Total	<u>\$86,000</u>

What is the amount of the contributed capital for this firm?

- \$10,000
- \$40,000
- \$46,000
- \$76,000
- \$86,000

ANS: C DIF: Moderate OBJ: 1,2 TOP: AICPA FN -
 Measurement
 MSC: AACSB Analytic

4. Investing activities involve
- the purchase of machinery and equipment
 - purchasing office supplies
 - obtaining financial resources from financial markets
 - payment of employee salaries

ANS: A DIF: Easy OBJ: 3 TOP: AICPA BB-Industry
MSC: AACSB Analytic

5. The methods an organization uses to obtain financial resources from investors, owners, and creditors are called
- operating activities
 - financing activities
 - investing activities
 - marketing activities

ANS: B DIF: Easy OBJ: 1
TOP: AICPA BB-Resource Management MSC: AACSB Communication

6. A decision whether to borrow money or sell stock is an example of
- a financing decision
 - an investing decision
 - an operating decision
 - a future decision

ANS: A DIF: Easy OBJ: 1 TOP: AICPA BB-Industry
MSC: AACSB Analytic

7. Which of the following is a financing activity?
- inventory for resale is purchased on credit
 - equipment to be used in the firm is purchased with cash
 - employees are paid their weekly wages in cash
 - a loan is obtained from the bank

ANS: D DIF: Moderate OBJ: 1 TOP: AICPA BB-Industry
MSC: AACSB Analytic

8. Which one of the following is an investing activity?
- sale of worn out factory equipment
 - sale of inventory to customers
 - collection of a loan
 - borrowing money from a bank

ANS: A DIF: Moderate OBJ: 3 TOP: AICPA BB-Industry
MSC: AACSB Analytic

9. Paying off of a bank loan is a(n) _____ activity?
- operating
 - financing
 - investing
 - operating if it was a short-term loan; financing if it was a long-term loan

ANS: B DIF: Moderate OBJ: 1 TOP: BB-Resource
Management
MSC: AACSB Analytic

10. Assets can be defined as
- resources under an organization's legal control
 - obligations of the organization
 - the amount of investment made by owners in a business
 - the profits earned by a corporation

ANS: A DIF: Easy OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

11. Liabilities can be defined as
- resources under an organization's legal control
 - obligations owed by an organization to its creditors
 - the amount of investment made by owners in a business
 - the profits earned by a corporation

ANS: B DIF: Easy OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

12. Owners' equity will decrease when
- owners receive money from their corporation
 - an organization's profits are reinvested in the company
 - an organization borrows money
 - an organization pays cash for equipment

ANS: A DIF: Difficult OBJ: 1 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

13. Which one of the following is NOT an asset?
- revenue
 - cash
 - inventory
 - equipment

ANS: A DIF: Easy OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

14. Which of the following is the correct representation of the accounting equation?
- $\text{Assets} = \text{Liabilities} + \text{Owners' Equity} - (\text{Revenues} - \text{Expenses})$
 - $\text{Assets} + (\text{Revenues} + \text{Expenses}) = \text{Liabilities} + \text{Owners' Equity}$
 - $\text{Assets} + \text{Liabilities} + \text{Owners' Equity} = \text{Revenues} - \text{Expenses}$
 - $\text{Assets} - \text{Liabilities} = \text{Owners' Equity} + (\text{Revenues} - \text{Expenses})$

ANS: D DIF: Moderate OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

15. Which of the following is NOT one of the categories of accounts used by the accounting information system?
- asset
 - liability
 - cash flow
 - expense

ANS: C DIF: Moderate OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

16. During an accounting period, total assets increased by \$500 while owners' equity increased by \$800. The change in total liabilities during this period must have been a
- \$300 increase
 - \$300 decrease
 - \$1,300 increase
 - \$1,300decrease

ANS: B DIF: Moderate OBJ: 2 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

17. Which of the following accounts is a liability?
- interest expense
 - interest payable
 - interest revenue
 - interest receivable

ANS: B DIF: Moderate OBJ: 2 TOP: AICPA BB-Industry
MSC: AACSB Analytic

18. The record that reflects changes in dollar amounts associated with a specific resource or activity is referred to as a(n)
- transaction
 - system
 - balance
 - account

ANS: D DIF: Moderate OBJ: 2 TOP: AICPA BB-Industry
MSC: AACSB Analytic

19. A transaction is
- a record of increases and decreases in the dollar amount associated with a resource
 - an event that causes increases or decreases in an account balance
 - another term for the accounting process
 - a check register for a bank account

ANS: B DIF: Easy OBJ: 2 TOP: AICPA BB-Industry
MSC: AACSB Analytic

20. Marvin and Clark formed a sports marketing partnership. Each contributed \$60,000 cash to the new company. When this information is recorded in the new company's accounting system, it will affect which of the following?
- assets only
 - assets and liabilities
 - assets and owners' equity
 - liabilities and owners' equity

ANS: C DIF: Moderate OBJ: 2 TOP: AICPA BB-Industry
MSC: AACSB Analytic

21. At the end of an accounting period, the amount of net income earned by a company is transferred to the balance sheet and reported under which one of the following categories?
- owners' equity
 - liabilities
 - assets
 - all of the above

ANS: A DIF: Difficult OBJ: 2,5 TOP: AICPA BB- Industry
 MSC: AACSB Analytic

22. Which of the following is not an asset?
- inventory
 - contributed capital
 - equipment
 - furniture

ANS: B DIF: Easy OBJ: 2 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

23. The Fast Freight Company purchased a new delivery truck by making a cash down payment and signing a note payable for the balance. How will assets, liabilities, and owners' equity be affected by this transaction?

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
a.	decreased	increased	no change
b.	increased	increased	no change
c.	increased	decreased	increased
d.	no change	increased	decreased
e.	no change	decreased	increased

ANS: B DIF: Moderate OBJ: 2 TOP: AICPA FN-Reporting
 MSC: AACSB Analytic

24. Arch Company is a retailer. It sold goods to customers for cash, from its inventory. Which of the following effects would occur as part of this event?

	<u>An asset would be decreased</u>	<u>An asset would be increased</u>
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

ANS: A DIF: Difficult OBJ: 4 TOP: AICPA FN-Reporting
 MSC: AACSB Analytic

25. Lunar Company sold goods to customers from its inventory at a price greater than its cost. Which of the following effects would occur as part of this event?

	<u>Total assets</u> <u>would increase</u>	<u>Total owners</u> <u>equity would increase</u>
a.	No	No
b.	No	Yes
c.	Yes	No
d.	Yes	Yes

ANS: D DIF: Moderate OBJ: 2 TOP: AICPA FN-Reporting
MSC: AACSB Analytic

26. Orlando owns a supper club and needed to obtain funds for the business. A bank loaned the supper club \$20,000. Concerning the supper club, which of the following increased as a result of this loan?

- owners' equity
- liabilities
- revenues
- expenses

ANS: B DIF: Moderate OBJ: 2 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

27. Which of the following events is properly classified as an investing activity?

- purchase of equipment
- borrowing money from creditors
- selling goods to customers
- running the factory

ANS: A DIF: Easy OBJ: 3 TOP: AICPA BB-Industry
MSC: AACSB Analytic

28. Which of the following is an operating activity?

- purchase of equipment
- payment of cash dividends
- sale of equipment
- purchase of inventory

ANS: D DIF: Moderate OBJ: 4 TOP: AICPA BB- Industry
MSC: AACSB Analytic

29. What effect do revenues and expenses eventually have on Retained Earnings?

	<u>Revenues</u>	<u>Expenses</u>
a.	decrease	decrease
b.	decrease	increase
c.	increase	increase
d.	increase	decrease

ANS: D DIF: Moderate OBJ: 4 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

30. Revenues are recorded when a business
- creates resources by selling goods or services
 - borrow money
 - receives money from owners of the business
 - pays its employees

ANS: A DIF: Moderate OBJ: 4 TOP: AICPA BB-Industry
MSC: AACSB Analytic

31. Expenses are recorded when a business
- sells equipment
 - consumes resources during the production and sale of goods or services
 - distributes money to owners
 - hires employees

ANS: B DIF: Moderate OBJ: 4 TOP: AICPA BB- Industry
MSC: AACSB Analytic

32. Which of these is NOT an expense?
- cost of goods sold
 - wages paid to employees for services consumed
 - merchandise inventory purchased
 - taxes paid to government

ANS: C DIF: Moderate OBJ: 4 TOP: AICPA BB- Industry
MSC: AACSB Analytic

33. Tiger Associates provided business services to another organization. As a result of this transaction, Tiger's assets increased. Which accounting term best describes the concept involved in this situation?
- liability
 - revenue
 - financing activity
 - investing activity

ANS: B DIF: Moderate OBJ: 4 TOP: AICPA BB- Industry
MSC: AACSB Analytic

34. Which type of activity is involved when goods are produced and delivered to customers or when services are provided to customers?
- financing activities
 - investing activities
 - operating activities
 - accounting activities

ANS: C DIF: Moderate OBJ: 4 TOP: AICPA BB-Industry
MSC: AACSB Analytic

35. When starting a new business, in general, which of the following types of activities would have to occur before operating activities could begin?

	<u>Investing Activities</u>	<u>Financing Activities</u>
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

ANS: A DIF: Moderate OBJ: 1,3,4 TOP: AICPA BB-Industry
MSC: AACSB Analytic

36. Match the event below to the proper category of activity.

	<u>Operating Activity</u>	<u>Financing Activity</u>
a.	paying employee salaries	paying off a bank loan
b.	obtaining a loan	designing a new product
c.	buying factory equipment	refunding a customer's money
d.	paying off a bank loan	buying new tools

ANS: A DIF: Moderate OBJ: 1,4 TOP: AICPA BB-Industry
MSC: AACSB Analytic

37. Which one of the following statements is generally TRUE regarding the relationship between the items mentioned?
- an increase in assets will always cause an increase in owners' equity
 - a decrease in assets will always cause a decrease in liabilities
 - an increase in revenues increases owners' equity
 - expenses decrease revenues

ANS: C DIF: Moderate OBJ: 4 TOP: AICPA BB-Industry
MSC: AACSB Analytic

38. Shari started a computer software firm by investing \$20,000 of her own money. She spent 3/4 of it on office furniture, fixtures for the business. After borrowing \$8,000 from First National Bank, she spent 1/2 of these funds on computer hardware. At this point, what balances should be recorded in her accounting system for total assets and total expenses?

	<u>Total Assets</u>	<u>Total Expenses</u>
a.	\$28,000	\$16,000
b.	\$12,000	\$16,000
c.	\$16,000	\$0
d.	\$28,000	\$0

ANS: D DIF: Difficult OBJ: 4 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

39. Cohen Enterprises sold inventory for which it had paid \$20,000. When this event is recorded in the company's accounting system, it will affect which of the following categories?
- assets only
 - liabilities and owners' equity
 - assets, revenues, and expenses
 - owners' equity only

ANS: C DIF: Moderate OBJ: 2,4 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

40. Revenues and expenses have what effect on the basic accounting equation of $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$?
- revenues and expenses are not related to the equation
 - the difference between revenues and expenses increases liabilities
 - revenues increase equity while expenses decrease it
 - revenues increase equity while expenses increase liabilities

ANS: C DIF: Moderate OBJ: 2,4 TOP: AICPA FN -
 Measurement
 MSC: AACSB Analytic

41. When an organization purchases a machine for \$12,000 cash, which of the following is true?
- total equity stays the same
 - total liabilities decrease
 - total expenses increase
 - total assets increase

ANS: A DIF: Moderate OBJ: 2,4 TOP: AICPA FN -
 Measurement
 MSC: AACSB Analytic

42. During May, the Family Resort had revenues of \$20,000 and expenses of \$8,000. The owner withdrew \$7,000 cash from the business during the month. If owners' equity on May 31 was \$18,200, owners' equity on May 1 must have been
- \$13,200
 - \$12,000
 - \$6,200
 - \$37,200

ANS: A DIF: Difficult OBJ: 4 TOP: AICPA FN -
 Measurement
 MSC: AACSB Analytic

43. Activities that involve the production or delivery of goods for sale or the providing of services for sale should be listed under which classification on a statement of cash flows?
- financing activities
 - refunding activities
 - operating activities
 - investing activities

ANS: C DIF: Easy OBJ: 4 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

44. A firm must depend on its _____ activities to generate profits.
- investing
 - operating
 - nonrecurring
 - financing

ANS: B DIF: Easy OBJ: 4 TOP: AICPA BB-Industry
MSC: AACSB Analytic

45. Which of the following is an operating activity?
- acquisition of inventory
 - contribution of cash from the owner(s) of the business
 - sale of long-term fixed assets
 - purchase of new factory building

ANS: A DIF: Moderate OBJ: 4 TOP: AICPA BB-Industry
MSC: AACSB Analytic

46. Which of the following is an operating activity?
- purchase of \$10,000 of inventory from suppliers
 - payoff of a bank loan of \$6,000
 - sale of fully depreciated assets for \$1,500 previously used in operations
 - purchase of new equipment for \$80,000 to be used in operations

ANS: A DIF: Moderate OBJ: 4 TOP: AICPA BB-Industry
MSC: AACSB Analytic

47. Revenues and expenses are reported on a(n)
- asset statement
 - cash flow statement
 - balance sheet
 - income statement

ANS: D DIF: Easy OBJ: 5 TOP: AICPA FN-Reporting
MSC: AACSB Analytic

48. Net income can be expressed as
- the excess of revenues over expenses that a business records during a period
 - the excess of expenses over revenues that a business records during a period
 - the amount of sales that a business reports during a period
 - the amount of resources created by a business during a period

ANS: A DIF: Moderate OBJ: 5 TOP: AICPA BB-Industry
MSC: AACSB Analytic

49. An income statement
- is prepared from information from the balance sheet of the business
 - shows cash flow
 - reports owner's equity
 - reveals expenses and revenues for a fiscal period

ANS: D DIF: Moderate OBJ: 5 TOP: AICPA BB-Industry
MSC: AACSB Analytic

50. Which of the following shows the typical order of the types of activities in the transformation process that takes place in organizations?
- operating, investing, financing
 - financing, investing, operating
 - investing, operating, financing
 - operating, financing, investing

ANS: B DIF: Moderate OBJ: 5 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

51. After months of planning, Alana opened a Natural Foods store on April 1 by investing \$15,000 of her own money. She spent \$10,000 on furnishings and fixtures that had been delivered and set up the night before. A friend had loaned Alana \$5,000 which she used to purchase inventory prior to opening. When Alana opened for business on April 1, her accounting system should have contained what balances for total assets and total liabilities?

	<u>Total Assets</u>	<u>Total Liabilities</u>
a.	\$20,000	\$0
b.	\$20,000	\$5,000
c.	\$15,000	\$5,000
d.	\$15,000	\$0

ANS: B DIF: Moderate OBJ: 5 TOP: AICPA FN -
 Measurement
 MSC: AACSB Analytic

52. On October 1, Hanover Trucking started business when Ed and Ralph each contributed \$15,000 to the firm. That same day, a \$20,000 truck was purchased with a cash down payment of 5,000 and a loan to be paid in the future for \$15,000. No other transactions occurred in October. What were total assets equal to immediately after these transactions:

- \$50,000
- \$45,000
- \$30,000
- \$15,000

ANS: B DIF: Moderate OBJ: 5 TOP: AICPA FN -
 Measurement
 MSC: AACSB Analytic

53. On June 1, Tropical Tours started business when Fernando and Juanita each contributed \$8,000 to the firm. That same day, the company borrowed \$10,000 to purchase a truck. Immediately after these transactions, total assets equal

- \$18,000
- \$26,000
- \$8,000
- \$16,000

ANS: B DIF: Moderate OBJ: 5 TOP: AICPA FN -
 Measurement
 MSC: AACSB Analytic

54. Connie started a business by contributing \$30,000 cash and a truck worth \$34,000. The company then purchased equipment by making a \$24,000 down payment (which accounted for half its purchase price) and financed the other half by signing a note payable at the bank. After the above transactions, Connie's company balance sheet is composed of

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
a.	\$64,000	\$0	\$64,000
b.	\$88,000	\$0	\$88,000
c.	\$88,000	\$24,000	\$64,000
d.	\$112,000	\$24,000	\$88,000

ANS: C DIF: Moderate OBJ: 5 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

55. Quick Frame Corporation had the following transactions during the month of August:

1. Owners started the company by investing \$500,000 in cash.
2. Purchased \$100,000 of equipment by making a \$50,000 cash down payment and signed a 90-day note payable for the balance.
3. Purchased a building for \$220,000, paying \$20,000 cash and signing a note payable for the remaining amount.
4. Earned \$60,000 of services revenue.

What are total assets for the Quick Frame Corporation at the end of August?

- a. \$600,000
- b. \$550,000
- c. \$750,000
- d. \$810,000

ANS: D DIF: Difficult OBJ: 5 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

56. The accounting records of Sonia's Catering show the following balances at December 31:

Cash	\$ 6,000	Notes payable	\$ 2,000
Equipment	24,000	Owners' investment	10,000
Merchandise	4,000	Revenue from catering	18,000
Owed to Owners	8,000	Expenses	4,000

Total assets as of December 31 are

- a. \$24,000
- b. \$44,000
- c. \$34,000
- d. \$38,000

ANS: C DIF: Moderate OBJ: 5 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

57. Net cash flow is generally NOT thought to be a valid measure of an organization's performance for a period because it
- is usually smaller than the amount of net income
 - includes the results of activities not related to operations
 - focuses only on the net change in owners' equity
 - violates the periodic measurement concept

ANS: B DIF: Difficult OBJ: 5 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

58. Harrison, Inc., had the following transactions during the month of August:

1. sold merchandise for \$500,000 cash
2. paid wages of \$30,000
3. sold equipment for \$100,000
4. paid \$60,000 cash for utilities

What was the cash flow from operating activities?

- \$510,000
- \$410,000
- \$470,000
- \$540,000

ANS: B DIF: Moderate OBJ: 5 TOP: AICPA FN -
 Measurement
 MSC: AACSB Analytic

59. During the first month of operations, Rodriguez Tax Service provided services and billed customers in the amount of \$7,000. By the end of the first month, \$4,600 had been collected and it was expected that the other \$2,400 would be collected during the following month. On Rodriguez' income statement for the first month, what amount of revenue should be reported?
- \$0
 - \$2,400
 - \$4,600
 - \$7,000

ANS: D DIF: Difficult OBJ: 5 TOP: AICPA FN -
 Measurement
 MSC: AACSB Analytic

60. Blackbeard has the following account balances in its accounting system at year end:

Advertising revenue	\$1200
Salaries & wages expense	680
Rent expense	240
Machinery	400
Insurance expense	140
Interest revenue	80
Interest expense	100

The net income (or loss) for the period is

- \$520
- \$(280)
- \$120
- \$40
- \$(520)

ANS: C DIF: Moderate OBJ: 5 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

61. At the end of April 2007, the CleanWater Company received \$270,000 from customers for water used during March, 2007. CleanWater's employees were paid \$70,000 during April and the company paid \$10,000 in rent on their building and \$4,000 in utility cost during the month. Determine profit from operations for the month of April, 2007.

Net Profit

- \$200,000
- \$210,000
- \$186,000
- \$190,000

ANS: C DIF: Moderate OBJ: 5 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

62. Cat Production Company began operations and acquired inventory for \$80,000 on the first day of August. One-half of the inventory purchase price was paid in cash with the balance due in 60 days. During August, one-fourth of the inventory was sold to customers for \$64,000 cash. Wages of \$10,000 were paid to employees in cash. By month-end, a \$600 electric bill had been received but not paid. Determine net cash flow from operations for August.

Net Cash Flow

- \$14,000
- \$64,000
- \$(26,000)
- \$13,400

ANS: A DIF: Difficult OBJ: 5 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

63. Merchandise inventory costing \$20,000 was sold to customers for \$28,000 cash. What amount of revenue and cash flow resulted from this transaction?

	<u>Revenue</u>	<u>Cash Flow</u>
a.	\$20,000	\$28,000
b.	\$28,000	\$28,000
c.	\$28,000	\$8,000
d.	\$8,000	\$20,000
e.	\$0	\$0

ANS: B DIF: Moderate OBJ: 5 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

64. Tyler & Company had the following account balances at the end of September:

Cash received from customers	\$5,400
Sales revenue (all on account)	7,000
Purchase of land (all for cash)	700
Cash paid for equipment	2,200
Cost of goods sold	3,000
Other operating expenses	900

What amounts should be reported for each of the following?

	<u>Net Income</u>	<u>Cash Flow</u>
a.	\$8,500	\$1,600
b.	\$3,800	\$3,200
c.	\$6,300	\$(500)
d.	\$3,100	\$2,500

ANS: D DIF: Difficult OBJ: 5 TOP: AICPA FN -
Measurement
MSC: AACSB Analytic

65. The statement of cash flows reflects
- the costs of resources consumed in producing, selling, and distributing goods and services and the prices of goods and services sold during a period
 - the cash consequences of financing, investing, and operating activities during a period
 - the resources available for use in the transformation process and claims to those resources at a point in time
 - summaries of accounts by general categories

ANS: B DIF: Moderate OBJ: 5 TOP: AICPA BB-Industry
MSC: AACSB Analytic

66. Which of the following financial statements reports the resources available for use in the transformation process and claims to those resources at a point in time?
- the income statement
 - the cash-flow statement
 - the balance sheet
 - the retained earnings statement

ANS: C DIF: Moderate OBJ: 5 TOP: AICPA BB-Industry
MSC: AACSB Analytic

67. Which of the following is a cash flow from an investing activity?
- payment for advertising
 - cash receipt from a customer for a previous credit sale
 - cash received from sale of equipment
 - purchase of inventory

ANS: C DIF: Easy OBJ: 3,5 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

68. Which financial statements cover a specific period of time?
- Income Statement and Balance Sheet
 - Balance Sheet and Statement of Cash Flows
 - Income Statement and Statement of Cash Flows
 - Statement of Cash Flows and Statement of Assets, Liabilities and Owners' Equity

ANS: C DIF: Moderate OBJ: 5 TOP: AICPA FN-Reporting
 MSC: AACSB Analytic

69. The statement of cash flows is designed to report
- how the previous period's income statement relates to the current period's income statement
 - only the uses of cash during the current period
 - the cash received and used from operating, financing and investing activities of the company during the current period
 - the effects of the current period's income statement on the current period's balance sheet

ANS: C DIF: Moderate OBJ: 5 TOP: AICPA FN-Reporting
 MSC: AACSB Analytic

70. A statement of cash flows has been prepared. The sum of the three major components (operating activities, investing activities, financing activities) will add up to an amount equal to
- the ending amount of working capital
 - the net change in the cash account during a fiscal period
 - the ending cash balance reported on the balance sheet
 - net income for the period on the accrual basis

ANS: B DIF: Moderate OBJ: 5 TOP: AICPA BB-Industry
 MSC: AACSB Analytic

71. Which of the following accounts would be increased as a result of the sale of inventory to a customer?
- cost of goods sold
 - owners' equity
 - accounts payable
 - inventory

ANS: A DIF: Moderate OBJ: Appendix TOP: AICPA FN -
 Measurement
 MSC: AACSB Analytic

72. A credit entry is used to record increases to
- cost of goods sold
 - notes payable
 - wages expense
 - cash

ANS: B DIF: Moderate OBJ: Appendix TOP: Broad Business -
Industry
MSC: Analytic

73. As used in accounting, what do the terms "debit" and "credit" mean?
- bad and good things, respectively, that happen to a business
 - down and up, respectively
 - left and right sides, respectively, of an account
 - first and second, respectively

ANS: C DIF: Moderate OBJ: Appendix TOP: AICPA BB-Industry
MSC: AACSB Analytic

MATCHING

For each of the account names below, identify which type of account it is. Use the following identification system:

- asset
 - liability
 - owners' equity
 - revenue
 - expense
- Contributed capital
 - Cost of goods sold
 - Land
 - Supplies inventory
 - Investment by owners
 - Retained earnings
 - Notes payable
 - Employee wages
 - Sales
 - Merchandise inventory
 - Cash
 - Equipment

- | | | | | |
|-----|---------------------|---------------|--------|------------------------|
| 1. | ANS: C | DIF: Easy | OBJ: 2 | TOP: AICPA BB-Industry |
| | MSC: AACSB Analytic | | | |
| 2. | ANS: E | DIF: Easy | OBJ: 4 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 3. | ANS: A | DIF: Easy | OBJ: 2 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 4. | ANS: A | DIF: Moderate | OBJ: 2 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 5. | ANS: C | DIF: Easy | OBJ: 1 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 6. | ANS: C | DIF: Easy | OBJ: 4 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 7. | ANS: B | DIF: Easy | OBJ: 2 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 8. | ANS: E | DIF: Easy | OBJ: 4 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 9. | ANS: D | DIF: Easy | OBJ: 4 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 10. | ANS: A | DIF: Moderate | OBJ: 2 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 11. | ANS: A | DIF: Easy | OBJ: 2 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 12. | ANS: A | DIF: Moderate | OBJ: 3 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |

Indicate the organizational activity which best describes the events listed below:

- a. Financing
- b. Investing
- c. Operating

- | | | | | |
|-----|---------------------|---------------|--------|------------------------|
| 13. | ANS: A | DIF: Moderate | OBJ: 1 | TOP: AICPA BB-Industry |
| | MSC: AACSB Analytic | | | |
| 14. | ANS: C | DIF: Easy | OBJ: 4 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 15. | ANS: B | DIF: Moderate | OBJ: 3 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 16. | ANS: C | DIF: Easy | OBJ: 4 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 17. | ANS: A | DIF: Moderate | OBJ: 1 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 18. | ANS: B | DIF: Moderate | OBJ: 3 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |

For each of the following transactions for Bartlett Co., indicate whether it is a:

- a. Financing Activity
- b. Investing Activity
- c. Operating Activity

19. Borrowed \$45,000 from a bank
20. Paid \$300 for electricity
21. Paid \$3,000 for a delivery truck
22. Paid \$600 toward the loan in #19 above
23. Received \$3,000 cash from owner
24. Paid \$800 for inventory
25. Sold Equipment for \$1,000
26. Received \$900 for sale of inventory
27. Paid \$2,000 to employees for wages
28. Owner withdrew \$75

- | | | | | |
|-----|---------------------|----------------|--------|------------------------|
| 19. | ANS: A | DIF: Moderate | OBJ: 1 | TOP: AICPA BB-Industry |
| | MSC: AACSB Analytic | | | |
| 20. | ANS: C | DIF: Moderate | OBJ: 4 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 21. | ANS: B | DIF: Moderate | OBJ: 3 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 22. | ANS: A | DIF: Difficult | OBJ: 1 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 23. | ANS: A | DIF: Moderate | OBJ: 1 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 24. | ANS: C | DIF: Moderate | OBJ: 4 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 25. | ANS: B | DIF: Difficult | OBJ: 3 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 26. | ANS: C | DIF: Moderate | OBJ: 4 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 27. | ANS: C | DIF: Easy | OBJ: 4 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |
| 28. | ANS: A | DIF: Difficult | OBJ: 1 | TOP: AICPA BB Industry |
| | MSC: AACSB Analytic | | | |

PROBLEM

1. William & Sons had the following transactions during February:

1. Received cash from owners investing in the business.
2. Paid wages for February.
3. Purchased equipment and signed a note payable for payment in the future.
4. Performed services for customers for cash.
5. Paid utilities for February.
6. Paid an amount on the note payable(in #3) .

Required:

For each transaction, show how its financial effects would affect the different elements of the firm's accounting system. Indicate increases with a plus (+) sign and decreases with a minus (-). Where there is no effect on an item, leave the space blank.

Item	Assets	Liabilities	Equity	Revenue	Expenses

ANS:

Item	Assets	Liabilities	Equity	Revenue	Expenses
1.	+		+		
2.	-				+
3.	+	+			
4.	+			+	
5.	-				+
6.	-	-			

DIF: Moderate OBJ: 1,2,3,4 TOP: AICPA FN - Measurement
 MSC: AACSB Analytic

2. For each event below, determine which of the categories in the firm's accounting system would be changed. If a category would increase, indicate this with a plus (+). If a category would decrease, indicate this with a minus (-). If a category would not change, leave that line blank. (Item "a" is completed as an example.)

NOTE: Do NOT make entries to the accounting system here. Instead, you are determining the EFFECT of a transaction on account balances.

		Assets	Liabilities	Equity	Revenue	Expense
a.	Wages earned by employees but not yet paid		+			+
b.	\$2,000 of inventory was purchased using a note payable to be paid later					
c.	\$8,000 was borrowed from a bank					
d.	Cash was distributed to owners of the firm					
e.	Equipment was acquired for cash					
f.	Inventory costing \$600 was sold for \$800 cash					

ANS:

		Assets	Liabilities	Equity	Revenue	Expense
a.	Wages were earned by employees but not yet paid		+			+
b.	\$2,000 of inventory was purchased using a note payable to be paid for later	+	+			
c.	\$8,000 was borrowed from a bank	+	+			
d.	Cash was distributed to owners of the firm	-		-		
e.	Equipment was acquired for cash	The increase in equipment is exactly offset by the decrease in cash.				
f.	Inventory costing \$600 was sold for \$800 cash	+			+	+

DIF: Moderate OBJ: 1,2,3,4
 MSC: AACSB Analytic

TOP: AICPA FN - Measurement

3. Adams Enterprises had the following events occur during a recent month. For each event, determine which of the categories in the firm's accounting system would be changed. If a category would increase, indicate this with a plus (+). If a category would decrease, indicate this with a minus (-). If a category would not change, leave that line blank. (Item "a" is completed as an example.)

NOTE: Do NOT make entries to the accounting system here. Instead, you are determining the EFFECT of a transaction on account balances.

		Assets	Liabilities	Equity	Revenue	Expense
a.	\$8,000 was borrowed from a bank on a note payable	+	+			
b.	Inventory was sold for cash at a price above cost					
c.	Equipment costing \$5,000 was purchased for cash					
d.	Services were performed for customers who paid cash					
e.	Inventory was purchased for cash					
f.	Owners contributed cash to start the company					

ANS:

		Assets	Liabilities	Equity	Revenue	Expense
a.	\$8,000 was borrowed from a bank on a note payable	+	+			
b.	Inventory was sold for cash at a price above cost	+			+	+
c.	Equipment costing \$5,000 was purchased for cash	No net change				
d.	Services were performed for customers who paid cash	+			+	
e.	Inventory was purchased for cash	The increase in inventory is exactly offset by the decrease in cash. No entry is needed.				
f.	Owners contributed cash to start the company	+		+		

DIF: Moderate OBJ: 1,2,3,4
MSC: AACSB Analytic

TOP: AICPA FN - Measurement

4. Young & Company completed the following transactions during October, its first month of operations:
1. Owners invested \$60,000 cash in the business.
 2. \$1,800 was paid for one month's office rent.
 3. Equipment was purchased by signing a \$8,000 note.
 4. Services were performed for customers for \$5,000 cash.
 5. Goods were sold to customers for \$8,000 cash.
 6. Paid \$2,000 on the note signed in transaction #3.

Required:

After these transactions, what is the total amount of:

- a. Assets
- b. Liabilities
- c. Owners' equity
- d. Net income

ANS:

a. Assets	\$77,200
b. Liabilities	\$ 6,000
c. Owners' equity	\$71,200
d. Net income	\$11,200

	Cash	+Other Assets	=Liabilities	+Equity	+Revenues	-Expenses
1	\$60,000			\$60,000		
2	-1,800					-1,800
3	8,000		8,000			
4	5,000				5,000	
5	8,000				8,000	
6	<u>-2,000</u>	<u> </u>	<u>-2,000</u>	<u> </u>	<u> </u>	<u> </u>
	77,200	0	6,000	60,000	13,000	-1,800
	77,200			77,200		

DIF: Moderate OBJ: 1,2,3,4 TOP: AICPA FN - Measurement
 MSC: AACSB Analytic

5. Seaside Company completed the following transactions during, March, its first month of operations:
1. Owners invested \$100,000 cash in the business.
 2. \$3,200 was paid for one month's office rent.
 3. Equipment was purchased by signing a \$120,000 note.
 4. Services were performed for customers for \$10,000 cash.
 5. Goods were sold to customers for \$14,000 cash.
 6. Paid \$4,000 on the note signed in transaction #3.

Required:

After these transactions, what is the total amount of:

- a. Assets
- b. Liabilities
- c. Notes payable
- d. Owners' equity

ANS:

a. Assets	\$236,800
b. Liabilities	\$116,000
c. Owners' equity	\$120,800
d. Net income	\$ 20,800

Item	Cash	Other Assets	Liabilities	Equity	Revenue	Expenses
1.	100,000			100,000		
2.	-3,200					-3,200
3.		120,000	120,000			
4.	10,000				10,000	
5.	14,000				14,000	
6.	<u>-4,000</u>	<u> </u>	<u>-4,000</u>	<u> </u>	<u> </u>	<u> </u>
Totals	116,800	120,000	116,000	100,000	24,000	-3,200

DIF: Moderate OBJ: 1,2,3,4 TOP: AICPA FN - Measurement
 MSC: AACSB Analytic

6. Marine Stock Company began business on September 1. Transactions for the first month of business were as follows:

- Sept 1: Tony and Ken each contributed \$5,400 to the firm.
- Sept 5: Equipment costing \$4,320 was purchased with cash.
- Sept 12: Inventory costing \$1,440 was acquired for cash.
- Sept 21: Supplies having a cost of \$585 were purchased for cash.
- Sept 25: The entire inventory was sold to a customer for \$3,780 cash.
- Sept 30: The last of the supplies were used up.

Required:

Answer the following questions as of the close of business on September 30:

- a. Total assets
- b. Total expenses for the month of September
- c. Cost of sales for September
- d. Total liabilities
- e. Total owners' equity
- f. Retained earnings

ANS:

a. Total assets	\$12,555
b. Total expenses for the month of September	2,025
c. Cost of sales for September	1,440
d. Total liabilities	0
e. Total owners' equity	12,555
f. Retained earnings	1,755

Account	Balance Sheet				Income Statement	
	Cash	+Other Assets	=Liabilities	+Equity	+Revenues	-Expenses
Cash Owner's Investment	10,800			10,800		
Cash Equipment	-4,320	4,320				
Cash Inventory	-1,440	1,440				
Cash Supplies	-585	585				
Cash Sales Revenue	3,780				3,780	
Inventory Cost of goods sold		-1,440				-1,440
Supplies Supplies Expense		-585				-585
Totals	8,235	4,320	0	10,800	3,780	-2,025
	12,555				1,755	
	12,555			12,555		

DIF: Difficult OBJ: 1,2,3,4 TOP: AICPA FN - Measurement
 MSC: AACSB Analytic

7. The five major categories of information in an accounting system are assets, liabilities, equities, revenues, and expenses. Below are listed several business events. Indicate which category (or categories) of information will be INCREASED by each event.

Information category (or categories)
that will increase

- a. An auto dealership sold three cars, costing a total of \$60,000, for \$90,000.
- b. Mark Evers, the owner of Evers Company, rented a video projector to show his employees three training films. At the time of renting, he paid the fee.
- c. Fox Drugstore borrowed \$6,000 from the local bank.
- d. Martin Supply paid \$8,000 to its landlord for the current month's rent.
- e. Sage Corporation sold \$200,000 in stock to investors.

ANS:

- a. Assets (by the amount the selling price exceeds cost), revenue (by the selling price), expense (by the cost)' Equity (by the amount of net profit on the sale of the cars).
- b. Expenses
- c. Assets, liabilities
- d. Expenses
- e. Assets, equities

DIF: Moderate OBJ: 1,2,3,4,5 TOP: AICPA FN - Measurement
MSC: AACSB Analytic

8. For each of the transactions that follow, identify the accounts in the accounting system that would be affected by the transaction and indicate whether the account balance would increase or decrease:

<u>Transaction</u>	<u>Account</u>	<u>Increase or Decrease?</u>
a. Three partners invested \$50,000 in their partnership.		
b. A carpet cleaning business cleaned the carpeting in an office building for \$1,000 cash.		
c. Office supplies costing \$300 were used during the month.		
d. Owners withdrew cash totaling \$15,000.		
e. A grocery sold inventory costing \$25,000, for \$35,000.		
f. Meyerson Company paid off a \$800 note it owed to a supplier.		

ANS:

<u>Transaction</u>	<u>Account</u>	<u>Increase or Decrease?</u>
a. Three partners invested \$50,000 in their partnership.	Cash	Increase
	Investment by owner (or, capital, partners)	Increase
b. A carpet cleaning business cleaned the carpeting in an office building \$1,000 cash.	Cash	Increase
	Revenue (service revenue)	Increase
	Retained Earning	Increase
c. Office supplies costing \$300 were used during the month.	Supplies	Decrease
	Expense (supplies expense)	Increase
	Retained Earnings	Decrease
d. Owners were paid dividends totaling \$15,000.	Cash	Decrease
	Retained earnings	Decrease
e. A grocery sold inventory costing \$25,000, for \$35,000.	Cash	Increase
	Revenue (sales revenue)	Increase
	Inventory	Decrease
	Cost of goods sold	Increase
f. Meyerson Company paid off a \$800 note it owed to a supplier.	Retained Earnings	Increase
	Note payable	Decrease
	Cash	Decrease

DIF: Moderate OBJ: 1,2,4,5
 MSC: AACSB Analytic

TOP: AICPA FN - Measurement

9. Saunders Enterprises had the following account balances at December 31, 2007:

Cash	225,000
Contributed capital	240,000
Computer equipment	41,000
Cost of goods sold	290,000
Inventory	30,000
Land	60,000
Loans payable	18,000
Machinery	50,000
Notes payable	50,000
Rent expense	12,000
Retained earnings, beginning of year	0
Sales revenue	500,000
Supplies	6,000
Supplies expense	14,000
Wages expense	80,000

Required:

Prepare an income statement for the year.

ANS:

Saunders Enterprises		
Income Statement		
For the Year Ended Dec. 31, 2007		
Sales revenue		\$500,000
Expenses:		
Cost of goods sold	\$290,000	
Rent expense	12,000	
Supplies expense	14,000	
Wages expense	<u>80,000</u>	
Total expenses		<u>396,000</u>
Net income		<u>\$104,000</u>

DIF: Difficult OBJ: 5
MSC: AACSB Communication

TOP: AICPA FN-Reporting

10. Hamilton Company had the following account balances at December 31, 2007:

Buildings	335,000
Cash	40,000
Contributed capital	180,000
Cost of goods sold	125,000
Equipment	122,000
Fees earned for service	75,000
Land	80,000
Merchandise inventory	34,000
Owed to owners	38,000
Retained earnings, beginning of year	0
Sales revenue	540,000
Interest expense	2,000
Supplies expense	8,000
Utilities expense	15,000
Wages expense	72,000

Required:

Prepare an income statement for the year.

ANS:

Hamilton Company
Income Statement
For the Year Ended Dec. 31, 2007

Sales revenue		\$540,000
Fees earned for service		75,000
Expenses:		
Cost of goods sold	\$125,000	
Interest expense	2,000	
Supplies expense	8,000	
Utilities expense	15,000	
Wages expense	72,000	
Total expenses		<u>222,000</u>
Net income		<u>\$393,000</u>

DIF: Difficult OBJ: 5
MSC: AACSB Communication

TOP: AICPA FN-Reporting

11. Williams Company had the following account balances at December 31, 2007:

Buildings	165,000
Cash	48,000
Contributed capital	150,000
Cost of goods sold	180,000
Equipment	70,000
Furniture	8,000
Land	80,000
Merchandise inventory	66,000
Notes payable	116,000
Retained earnings, January 1	0
Sales revenue	400,000
Supplies inventory	3,000
Utilities expense	6,000
Wages expense	40,000

Required:

Prepare a balance sheet at December 31, 2007.

ANS:

Williams Company
Balance Sheet
December 31, 2007

<u>Assets</u>		<u>Liabilities and Owners' Equity</u>	
Cash	\$ 48,000	Notes payable	\$ 116,000
Supplies Inventory	3,000	Contributed capital	150,000
Merchandise Inventory	66,000	Retained earnings	<u>174,000</u>
Land	80,000		
Equipment	70,000		
Furniture	8,000		
Buildings	<u>165,000</u>		
Total assets	<u>\$440,000</u>	Total liabilities and owners' equity	<u>\$440,000</u>

Calculation for Retained Earnings:

Sales Revenues	400,000
Cost of Goods Sold	(180,000)
Supplies Expense	(6,000)
<u>Wages Expense</u>	<u>(40,000)</u>
Net Income	174,000
Retained Earnings Jan. 1, 2004	<u>0</u>
Retained Earnings Dec. 31, 2004	174,000

DIF: Difficult OBJ: 5
MSC: AACSB Communication

TOP: AICPA FN-Reporting

12. Beltway Company had the following account balances at December 31, 2007:

Buildings	335,000
Cash	70,800
Contributed capital	180,000
Cost of goods sold	150,000
Equipment	52,000
Fees earned for service	5,000
Land	80,000
Merchandise inventory	34,000
Note payable to bank	10,000
Loan payable to owner	38,000
Retained earnings, beginning of year	0
Sales revenue	565,000
Interest expense	1,200
Supplies expense	11,000
Wages expense	64,000

Required:

Prepare a balance sheet at December 31, 2007

ANS:

Beltway Company			
Balance Sheet			
December 31, 2007			
	<u>Assets</u>		<u>Liabilities and Owners' Equity</u>
Cash	\$70,800	Note Payable to Bank	\$10,000
Merchandise Inventory	34,000	Loan Payable to Owner	38,000
Land	80,000	Contributed Capital	180,000
Equipment	52,000	Retained earnings	<u>343,800</u>
Buildings	<u>335,000</u>	Total liabilities and	
Total assets	<u>\$571,800</u>	owners' equity	<u>\$571,800</u>

Calculation for Retained Earnings:

Sales Revenue	\$ 565,000
Fee Earned for Service	5,000
Cost of Goods Sold	(150,000)
Interest Expense	(1,200)
Supplies Expense	(11,000)
<u>Wages Expense</u>	<u>(64,000)</u>
Net Income	\$343,800
Retained Earnings Jan 1, 2007	<u>0</u>
Retained Earnings Dec. 31, 2007	\$343,800

DIF: Difficult OBJ: 5
 MSC: AACSB Communication

TOP: AICPA FN-Reporting

13. Following are the first six transactions of the Fine Thread Shirt Company:

1. The company was established by its owners depositing \$90,000 into the company checking account.
2. A loan was obtained from friends in the amount of \$52,000.
3. Manufacturing equipment was purchased for \$80,000. A \$10,000 down payment was made and the balance was on a note payable.
4. A manager was hired who will be paid \$10,000 per month when she starts work in two weeks.
5. Materials inventory costing \$15,200 were purchased for cash.
6. Services totaling \$16,000 were performed for customers.

Required:

After these six transactions, what is the total amount of:

- a. Assets
- b. Liabilities
- c. Revenues
- d. Expenses

ANS:

	Assets	Liabilities	Equity	Revenue	Expense
1.	\$ 90,000		\$90,000		
2.	52,000	\$ 52,000			
3.	80,000	70,000			
	-10,000				
4.	0	0	0	0	0
5.	15,200				
	-15,200				
6.	<u>16,000</u>	<u> </u>	<u> </u>	<u>\$16,000</u>	
	<u>\$228,000</u>	<u>\$122,000</u>	<u>\$90,000</u>	<u>\$16,000</u>	<u> 0</u>

DIF: Difficult OBJ: 5 TOP: AICPA FN - Measurement
 MSC: AACSB Analytic

14. Mort Kramer had the following activities during July:

- July 1 Paid \$1,200 rent on building.
- 2 Purchased \$400 of supplies for cash.
- 5 Purchased merchandise inventory for cash, \$5,600.
- 10 Sold goods to customers for \$4,000 cash, that had cost Simpson \$1,800.
- 15 Paid employees \$1,000.
- 25 Sold goods to customers for \$4,800 cash, that had cost Simpson \$2,200.
- 31 Paid employees \$1,000
- 31 Paid \$3,600 to creditor for note payable.

At the beginning of July, Mort had \$5,000 in his cash account.

Required:

- a. Prepare, in good form, a statement of Kramer's net income.
- b. Prepare, in good form, a statement of Kramer's cash flow activities for July.

ANS:

a.

Mort Kramer Income Statement For the Month Ended July 31		
Sales		\$ 8,800
Expenses		
Cost of goods sold	\$4,000	
Rent expense	1,200	
Wages expense	<u>2,000</u>	
Total expenses		<u>7,200</u>
Net income		<u>\$ 1,600</u>

b.

Mort Kramer Statement of Cash Flows For the Month Ended July 31		
Operating Activities		
Collected from customers	\$ 8,800	
Paid for merchandise inventory	(5,600)	
Paid for rent	(1,200)	
Paid for supplies	(400)	
Paid for wages	<u>(2,000)</u>	
Net cash flow from operating activities		\$(400)
Financing Activities		
Paid to creditor	(3,600)	
Net cash flow from financing activities		<u>(3,600)</u>
Net cash flow of July		\$(4,000)
Cash balance, July 1		<u>5,000</u>
Cash balance, July 31		<u>\$1,000</u>

DIF: Difficult OBJ: 5
MSC: AACSB Communication

TOP: AICPA FN-Reporting

ESSAY

1. Two basic concepts in accounting are asset and revenue. Clearly define each term and describe how they are related.

ANS:

An asset is a resource over which an organization has future control. Generally, an asset is owned by the organization. Examples would be cash, accounts receivable, buildings, and land. Revenue is a measurement of earning activity (or effort) that has been performed by the organization.

The two concepts are related in that one of the indicators that revenue has been earned is that there has been an inflow of an asset. For example, when a firm sells inventory at a price of \$500 cash, there has been \$500 of revenue earned and an inflow to the firm of a \$500 asset (cash).

It is not true, however, that revenue is an asset. They are two distinct concepts that often arise in the same transaction.

DIF: Easy OBJ: 2 TOP: AICPA BB Industry
MSC: AACSB Communication

2. Accounting activities often include the concepts of liabilities and equity. Clearly define each term and describe how they are similar and how they are different.

ANS:

A liability represents an obligation to convey assets to another entity at some time in the future. Common examples are accounts payable, notes payable, or wages payable. Equity is the ownership interest in an organization. In accounting, ownership is usually recorded in two categories: investments (contributions) made by owners, and retained earnings.

Liabilities and equity are similar in that they are both sources of finances for an organization. For example, every asset the company owns is financed either by liabilities or by equity. The capital to acquire every asset must be raised either from contributions of owners or earnings retained not distributed to owners (equity) or from creditors (liabilities).

Liabilities and equity are different in that the two categories of finances have different rights and privileges. Equity is always a residual interest which means that liabilities have a priority over equity.

DIF: Moderate OBJ: 2,3 TOP: AICPA BB-Industry
MSC: AACSB Communication

3. In discussing a well-known company, a recent newspaper article reported that "management has to deal with a lack of factory capacity, rising wages because of skilled-worker shortages, and a higher cost of capital than that faced by competitors." The firm had borrowed heavily in the long-term capital markets in recent years and now interest rates have declined substantially.

For each of these problems, identify which of the three types of activities (operating, financing, or investing) is involved. Also, indicate the probable effect on cash flow from dealing with each of these problems.

ANS:

The lack of factory capacity suggests that management may soon have to engage in investing activities. Management, to relieve the shortage, will need to invest in more land, buildings, machinery, and support equipment. This will result in a significant cash outflow for the firm.

Rising wages is an operating activity issue. When wages rise, the amount earned by employees rises, and will affect both the income statement and the statement of cash flows. Total expenses will rise on the income statement (causing net income to decrease) while, on the statement of cash flows, cash paid to employees will increase which will cause cash provided by operations to decrease.

The declining interest rate situation involves financing activities. In the past, the firm has financed much of its assets by borrowing, probably through bonds payable or notes payable. The firm is stuck paying high rates of interest on these old borrowings while its competitors presumably are paying lower rates because their borrowings are more recent. If no action is taken, there will be no effect on either cash flow or net income. To rectify the situation, the firm will have to refinance this debt with either new bonds (or notes) or by selling stock. Assuming the old debt can be repaid without incurring substantial penalties, the net effect of refinancing would be to reduce cash paid for interest (an operating activity).

DIF: Difficult OBJ: 3 TOP: AICPA BB-Critical Thinking
MSC: AACSB Reflective Thinking

4. Define financing, investing, and operating activities and give two examples of each type of activity in which a retail store (i.e. Sears, Wal-Mart, etc.) would be engaged.

ANS:

Financing activities are methods an organization uses to obtain financial resources from financial markets and how it manages these resources. A retail company might sell stock to investors and borrows money from lenders.

Investing activities involve the acquisition and management of resources in the form of long-term assets, that will be used to develop, produce, and sell goods and services. A retail company purchases, maintains, and on occasion disposes of buildings that it uses as stores and warehouses. It also acquires many other assets such as trucks and display equipment for the distribution and selling of its products.

Operating activities involve the use of resources to design, produce, and market goods and services. A retail company hires workers (human resources) and markets its products (marketing). It also purchases inventory (purchasing) and distributes that inventory (distribution) to its stores.

DIF: Moderate OBJ: 1,3,4 TOP: AICPA BB-Industry
MSC: AACSB Communication

5. Creativity is one of your strong qualities. Recently, you had a clever idea for a new "Relaxation System" for relieving stress. You have begun thinking about how to get started on this project, which potentially could make you a lot of money. In order to get this product to market, you must have a plan. In your financial accounting course, you have learned about the transformation process. By planning the steps in the transformation process, you can begin to get your project underway. Describe several key steps of the transformation process you believe are necessary for your project. Be sure that you identify and describe briefly at least two financing activities, two investing activities, and two operating activities.

ANS:

The solutions will vary widely but a sample is as follows:

First, I would have to raise capital for the venture. Two sources of financing would be (1) use some of my own savings, and (2) borrow from my parents who have great faith in me and my ideas. Second, I would have to acquire some type of production facility and production equipment. To keep costs down, I'll lease a building but will engage in two separate investment activities by purchasing some used plastic-molding equipment and various hand tools necessary for production. Third, I will have to employ a couple of workers and purchase materials for use in production. Both of these are operating activities.

DIF: Difficult OBJ: 1,2,3,4 TOP: AICPA BB-Critical Thinking
MSC: AACSB Communication

6. What is the difference between the information reported on the balance sheet and the information that is reported on the income statement? Discuss. How are the income statement and balance sheet related? Discuss.

ANS:

The information reported by the balance sheet consists of asset, liability, and equity accounts. Assets are the resources owned by the entity, liabilities are the obligations of the entity, and equity is the difference between assets and liabilities.

The income statement reports revenue and expense accounts, as well as net income. Revenues are increases in assets (or decreases in liabilities) that occur from selling goods or services to customers. Expenses, on the other hand, represent the cost goods or services that have been consumed by a company in the process of generating revenue. The difference between total revenues and total expenses is net income.

The income statement and balance sheet are related in at least two ways. First, many economic events affect both a balance sheet account and an income statement account. A second relationship between the income statement and the balance sheet is that once net income is computed, that amount is transferred to the income statement under the category of Retained Earnings.

DIF: Moderate OBJ: 5 TOP: AICPA FN-Reporting
MSC: AACSB Analytic

7. What is the relationship between "net income" reported on the income statement and "net cash flow from operating activities" reported on the statement of cash flows?

ANS:

In general, net income and net cash flow from operating activities are merely different measurements of the same set of activities. Both are summary indicators of the operating activities carried out by the firm during the period. The term "net income" might be more fully labeled "net income from operating activities."

Net income is a measurement of the results of all transactions that fall under operating activities while net cash flow from operating activities is a measurement of those same activities using only those transactions that affect cash. If the income statement were prepared showing only cash transactions, then net income would equal net cash flow from operating activities.

DIF: Moderate OBJ: 5 TOP: AICPA BB-Industry
MSC: AACSB Analytic

8. Discuss the purpose of the Transformation Process and its relationship to the accounting information system.

ANS:

A common purpose of organizations is to transform resources into goods and services as output to be sold to customers. Resources include: natural resources, physical resources, management resources, financial resources, legal rights, information resources. Accounting measures and reports on the results of the transformation process by describing how Financing, Operating, and Investing Activities carry out the transformation process. Accounting information is summarized in the Income Statement, Balance Sheet, Statement of Cash Flows, and Retained Earning Statements.

DIF: Moderate OBJ: 5 TOP: AICPA BB-Resource Management
MSC: AACSB Communication

9. What information can one derive from the Statement of Cash Flows? How is this information important to decision making?

ANS:

The Statement of Cash Flows contains information from the three activities crucial to the financial success of a business; it reports on the events occurring in the Financing, Operating, and Investing activities that affect a company's cash account during a specific period in time.

The Operating Activities section reports cash from sales or service revenue and expenses relating to those activities. The information in the Investing Activities section, includes cash paid for equipment and other long-term assets and the cash received from disposing of such assets. Cash received from creditors and principals, repayment of debt, and owners' withdrawals are reported in the Financing Activities section. By analyzing where the cash comes from and more important, where it's going, better decisions may be made regarding the future needs of the business to grow and be successful.

DIF: Difficult OBJ: 5 TOP: AICPA BB-Critical Thinking
MSC: AACSB Communication