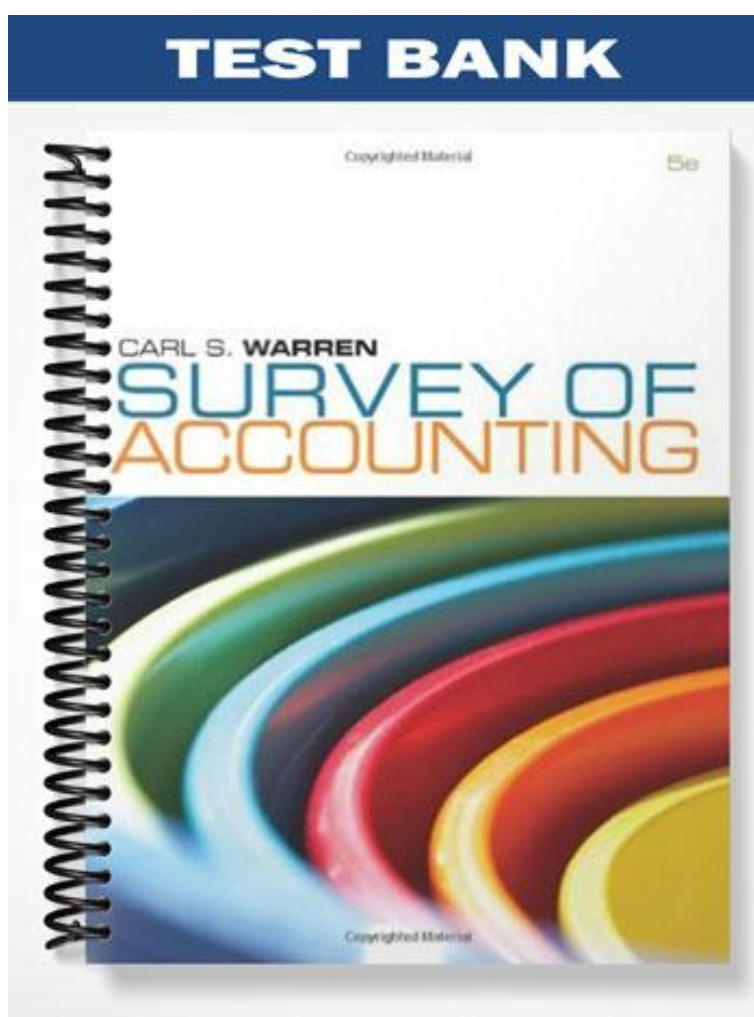


TEST BANK



Chapter 2—Basic Accounting Concepts

True/False

No.	Obj.	Difficulty	No.	Obj.	Difficulty
1	2-1	Easy	11	2-1	Easy
2	2-1	Easy	12	2-1/2-2	Moderate
3	2-1	Difficult	13	2-1	Moderate
4	2-1	Moderate	14	2-1	Moderate
5	2-1	Moderate	15	2-2	Easy
6	2-1	Easy	16	2-2	Easy
7	2-1	Moderate	17	2-2	Easy
8	2-1	Easy	18	2-2	Easy
9	2-1	Easy	19	2-3	Easy
10	2-1/2-2	Moderate	20	2-3	Easy

Multiple Choice

No.	Obj.	Difficulty	No.	Obj.	Difficulty	No.	Obj.	Difficulty
1	2-1	Easy	21	2-2	Easy	41	2-3	Moderate
2	2-1	Easy	22	2-2	Easy	42	2-3	Easy
3	2-1	Difficult	23	2-2	Moderate	43	2-3	Easy
4	2-1	Moderate	24	2-2	Moderate	44	2-3	Easy
5	2-1	Difficult	25	2-2	Moderate	45	2-3	Easy
6	2-1	Easy	26	2-2	Moderate	46	2-3	Easy
7	2-1	Moderate	27	2-2	Easy	47	2-3	Easy
8	2-1	Difficult	28	2-2	Moderate	48	2-3	Easy
9	2-1	Moderate	29	2-2	Moderate	49	2-3	Easy
10	2-1	Difficult	30	2-2	Moderate	50	2-3	Moderate
11	2-1	Easy	31	2-3	Easy	51	2-3	Easy
12	2-1	Moderate	32	2-3	Easy	52	2-3	Moderate
13	2-1	Moderate	33	2-3	Difficult	53	2-3	Moderate
14	2-2	Easy	34	2-3	Difficult	54	2-3	Easy
15	2-2	Easy	35	2-3	Difficult	55	2-3	Easy
16	2-2	Easy	36	2-3	Difficult	56	2-4	Easy
17	2-2	Easy	37	2-3	Difficult	57	2-4	Easy
18	2-2	Moderate	38	2-3	Moderate	58	2-5	Moderate
19	2-2	Moderate	39	2-3	Moderate	59	2-5	Moderate
20	2-2	Moderate	40	2-3	Moderate			

Problems

No.	Obj.	Difficulty	No.	Obj.	Difficulty
1	2-1	Moderate	6	2-3	Moderate
2	2-1	Difficult	7	2-3	Moderate
3	2-1	Moderate	8	2-5	Difficult
4	2-2	Moderate	9	2-5	Difficult
5	2-2/2-3	Difficult			

Other

No.	Obj.	Difficulty	No.	Obj.	Difficulty
1	2-2	Easy			

TRUE/FALSE

- The basic elements of a financial accounting system include a framework for preparing financial statements.
ANS: T PTS: 1 DIF: Easy OBJ: 2-1
NAT: AACSB Reflective Thinking | AICPA FN-Reporting
- The accounting equation is expressed as follows: Assets = Liabilities + Stockholders' Equity.
ANS: T PTS: 1 DIF: Easy OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Reporting
- Any given transaction must affect at least two different parts of the accounting equation.
ANS: F PTS: 1 DIF: Difficult OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Reporting
- Dividends are an example of an expense.
ANS: F PTS: 1 DIF: Moderate OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Measurement
- Retained earnings will be increased by the amount in the dividend account.
ANS: F PTS: 1 DIF: Moderate OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Measurement
- By keeping a running total of the effects of transactions, the accounting equation provides a framework for summarizing the effects of a series of transactions.
ANS: T PTS: 1 DIF: Easy OBJ: 2-1
NAT: AACSB Reflective Thinking | AICPA FN-Reporting
- A business receives \$10,000 cash for a sale of merchandise and records this receipt of cash as an increase in accounts receivable by mistake. The accounting equation is still in balance.
ANS: T PTS: 1 DIF: Moderate OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Reporting

8. The effect of every transaction is an increase or a decrease in one or more of the accounting equation elements.

ANS: T PTS: 1 DIF: Easy OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Reporting

9. The accounting equation can be expressed: Assets - Liabilities = Revenues.

ANS: F PTS: 1 DIF: Easy OBJ: 2-1
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

10. When an accounts payable account is paid in cash, the stockholders' equity in the business increases.

ANS: F PTS: 1 DIF: Moderate OBJ: 2-1 | 2-2
NAT: AACSB Analytic | AICPA FN-Measurement

11. A transaction can affect at most two elements of the accounting equation.

ANS: F PTS: 1 DIF: Easy OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Reporting

12. When an account receivable is collected in cash, the total assets of the business increase.

ANS: F PTS: 1 DIF: Moderate OBJ: 2-1 | 2-2
NAT: AACSB Analytic | AICPA FN-Measurement

13. Equality of the accounting equation means that no errors have occurred.

ANS: F PTS: 1 DIF: Moderate OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Reporting

14. It is possible for a transaction to change the makeup of assets, but to NOT affect assets in total.

ANS: T PTS: 1 DIF: Moderate OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Reporting

15. When capital stock is issued by a corporation for cash, both the income statement and the balance sheet are affected.

ANS: F PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

16. Fees earned and received in cash will increase operating activity cash flows as well as retained earnings.

ANS: T PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

17. Miscellaneous expenses are expenses that have an undetermined amount to be paid.

ANS: F PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

18. The payment of utilities expense in cash would affect the operating activities in the statement of cash flows and the income statement but NOT the balance sheet.

ANS: F PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

19. Revenues decrease stockholders' equity.

ANS: F PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

20. The two sides of the accounting equation do NOT have to be equal.

ANS: F PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

MULTIPLE CHOICE

1. The basic financial statements do NOT include the
- income statement.
 - tax return.
 - balance sheet.
 - statement of cash flows.

ANS: B PTS: 1 DIF: Easy OBJ: 2-1
NAT: AACSB Communication | AICPA FN-Reporting

2. Which of the following is NOT an element of the financial accounting system?
- A set of rules for determining the recording of economic events
 - A framework for preparing financial statements
 - A set of rules for the stock exchange
 - Controls to determine whether errors occur during recording

ANS: C PTS: 1 DIF: Easy OBJ: 2-1
NAT: AACSB Communication | AICPA FN-Reporting

3. If a \$15,000 purchase of equipment for cash is incorrectly recorded as an increase to equipment and as an increase to cash, at the end of the period assets will
- exceed liabilities and stockholders' equity by \$15,000.
 - equal liabilities and stockholders' equity.
 - exceed liabilities and stockholders' equity by \$30,000.
 - exceed liabilities and stockholders' equity by \$40,000.

ANS: C PTS: 1 DIF: Difficult OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Reporting

4. Which of the following is NOT considered to be a liability?
- Note payable
 - Accounts receivable
 - Unearned revenues
 - Accounts payable

ANS: B PTS: 1 DIF: Moderate OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Measurement

5. Which of the following statements is NOT true about liabilities?
- Liabilities are debts owed to outsiders.
 - Account titles of liabilities often include the term “payable.”
 - Cash received before services are performed is considered to be a liability.
 - Liabilities do not include wages owed to employees of the company.

ANS: D PTS: 1 DIF: Difficult OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Measurement

6. Which of the following accounts is a stockholders' equity account?
- Cash
 - Capital Stock
 - Prepaid Insurance
 - Accounts Payable

ANS: B PTS: 1 DIF: Easy OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Measurement

7. Which of the following group of accounts are all assets?
- Cash, Accounts Payable, Buildings
 - Accounts Receivable, Revenue, Cash
 - Prepaid Expenses, Buildings, Patents
 - Unearned Revenues, Prepaid Expenses, Cash

ANS: C PTS: 1 DIF: Moderate OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Measurement

8. Which of the following situations increase stockholders' equity?
- Supplies are purchased on account.
 - Services are provided on account.
 - Cash is received from customers.
 - Utility bill will be paid next month.

ANS: B PTS: 1 DIF: Difficult OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Measurement

9. Stockholders' Equity will be reduced by all of the following accounts EXCEPT:
- Revenues
 - Expenses
 - Dividends
 - All of the above reduce Stockholders' Equity.

ANS: A PTS: 1 DIF: Moderate OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Measurement

10. Expenses can be defined as
- assets consumed.
 - services used in the process of generating revenues.
 - costs that have been incurred during the normal course of business.
 - all of these.

ANS: D PTS: 1 DIF: Difficult OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Measurement

11. The gross increases in stockholders' equity attributable to business activities are called
- assets.
 - liabilities.
 - revenues.
 - net income.

ANS: C PTS: 1 DIF: Easy OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Measurement

12. The payment of \$15,000 for expenses was recorded by Spears Co. as an increase in cash of \$15,000 and a decrease in retained earnings of \$15,000. What is the effect of this error on the accounting equation?
- Total assets will exceed total liabilities and stockholders' equity by \$15,000.
 - Total assets will exceed total liabilities and stockholders' equity by \$30,000.
 - Total assets will be less than total liabilities and stockholders' equity by \$30,000.
 - The error will not affect the accounting equation.

ANS: B PTS: 1 DIF: Moderate OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Reporting

13. Which of the following will increase stockholders' equity?
- Expenses > revenues
 - Owner investment
 - Accounts payable
 - Dividends

ANS: B PTS: 1 DIF: Moderate OBJ: 2-1
NAT: AACSB Analytic | AICPA FN-Measurement

14. A _____ is an economic event that under generally accepted accounting principles affects an element of the financial statements and must be recorded.
- framework
 - control
 - set of rules
 - transaction

ANS: D PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Communication | AICPA FN-Reporting

15. The statement of cash flows is integrated with the balance sheet because
- the cash at the beginning of the period plus or minus the cash flows from operating, investing, and financing activities equals the end of period cash reported on the balance sheet.
 - the cash at the beginning of the period plus or minus the net income equals the end of period cash reported on the balance sheet.
 - the cash at the beginning of the period plus or minus assets and liabilities equals the end of period cash reported on the balance sheet.
 - the cash at the beginning of the period plus or minus the cash flows from operating activities equals the end of period cash reported on the balance sheet.

ANS: A PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

16. Hodges, Inc. had the following assets and liabilities as of September 30, 2011:

Assets	\$56,327
Liabilities	\$28,416

What is the stockholders' equity of Hodges as of September 30, 2011?

- a. \$0
- b. \$27,911
- c. \$84,743
- d. Cannot be determined with this information

ANS: B PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Analytic | AICPA FN-Reporting

17. Hodges, Inc. had the following assets and liabilities as of September 30, 2011:

Assets	\$56,327
Liabilities	\$28,416

If assets increased by \$3,914 and equity increased by \$2,290, what is the increase or decrease in liabilities of Hodges as of October 31, 2011?

- a. (\$1,624)
- b. \$1,624
- c. \$6,204
- d. (\$6,204)

ANS: B PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Analytic | AICPA FN-Reporting

18. Rush Corporation borrowed \$25,000 from the bank. Which of the following accurately shows the effects of the transaction?

- a. Increase cash \$25,000 and decrease notes payable \$25,000
- b. Increase cash \$25,000 and increase notes payable \$25,000
- c. Decrease cash \$25,000 and decrease notes payable \$25,000
- d. Decrease cash \$25,000 and increase notes payable \$25,000

ANS: B PTS: 1 DIF: Moderate OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

19. Flow, Inc. received cash from fees earned. How does this transaction affect the Statement of Cash Flows?

- a. Increase cash from Operating Activities
- b. Increase cash from Investing Activities
- c. Increase cash from Financing Activities
- d. No effect on the Statement of Cash Flows

ANS: A PTS: 1 DIF: Moderate OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

20. Philip Corporation purchased equipment on account. What is the effect of this transaction?

- a. Cash will decrease and equipment will increase.
- b. Total assets will remain unchanged.
- c. Cash flow from Investing Activities will decrease.
- d. Total assets and total liabilities will both increase.

ANS: D PTS: 1 DIF: Moderate OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

21. Johnson, Inc. paid rent expense of \$3,500 for the month of October. How are the accounts affected due to this transaction?
- Increase in cash \$3,500 and increase in retained earnings \$3,500
 - Increase in cash \$3,500 and decrease in retained earnings \$3,500
 - Decrease in cash \$3,500 and decrease in retained earnings \$3,500
 - Decrease in cash \$3,500 and increase in retained earnings \$3,500

ANS: C PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

22. Johnson, Inc. purchased land for cash. What effect does this transaction have on the following accounts:
- Increase in Cash and decrease in Land
 - Decrease in Cash and decrease in Land
 - Increase in Cash and increase in Land
 - Decrease in Cash and increase in Land

ANS: D PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

23. Johnson, Inc. issued \$15,000 in capital stock in exchange for cash. What is the effect of this transaction?
- Total assets remain unchanged.
 - Cash flow from Financing Activities will increase.
 - Net Income will increase.
 - Total Retained Earnings will increase.

ANS: B PTS: 1 DIF: Moderate OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

24. Johnson, Inc. receives \$5,000 cash for fees earned. What is the effect of this transaction?
- Total assets remain unchanged.
 - Cash flow from Financing Activities will increase.
 - Net income will increase.
 - Retained earnings will remain unchanged.

ANS: C PTS: 1 DIF: Moderate OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

25. Stockholders' Equity will be increased by all of the following accounts EXCEPT:
- Dividends
 - Revenues
 - Owner investments
 - All of the above increase Stockholders' Equity.

ANS: A PTS: 1 DIF: Moderate OBJ: 2-2
NAT: AACSB Analytic | AICPA FN-Measurement

26. ABC Company deposited \$20,000 in a bank account in return for issuing shares in the corporation. This transaction would affect which two financial statement elements?
- Assets and stockholders' equity
 - Assets and liabilities
 - Liabilities and stockholders' equity
 - None of these

ANS: A PTS: 1 DIF: Moderate OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

27. BNC Company earns revenues and as a result collects cash. Which of the following financial statement elements are increased?
- Cash only
 - Stockholders' equity only
 - Liabilities
 - Cash and stockholders' equity

ANS: D PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

28. DAF Company paid a utility bill of \$300 and paid rent of \$700 in December. By how much would these events reduce stockholders' equity?
- \$300
 - \$1,000
 - \$400
 - \$700

ANS: B PTS: 1 DIF: Moderate OBJ: 2-2
NAT: AACSB Analytic | AICPA FN-Reporting

29. Declaring and paying cash dividends affects which balance sheet accounts?
- Cash only
 - Stockholders' equity only
 - Cash and stockholders' equity
 - Cash and capital stock

ANS: C PTS: 1 DIF: Moderate OBJ: 2-2
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

30. Which of the following transactions changes the mix of assets only?
- Paid for supplies with cash
 - Borrowed money from Second National Bank
 - Received money for fees earned
 - Received a utility bill

ANS: A PTS: 1 DIF: Moderate OBJ: 2-2
NAT: AACSB Analytic | AICPA FN-Reporting

31. If Assets have a balance of \$40,000 and Stockholders' Equity has a balance of \$30,000, then Liabilities must have a balance of
- \$70,000.
 - \$30,000.
 - \$40,000.
 - \$10,000.

ANS: D PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

32. If Liabilities have a balance of \$10,000 and Stockholders' Equity has a balance of \$60,000, then Assets must have a balance of
- \$50,000.
 - \$60,000.
 - \$70,000.
 - \$10,000.

ANS: C PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

Exhibit 2-1

	Total Assets	Total Liabilities
Beginning of the year	\$100,000	\$ 60,000
End of the year	\$500,000	\$325,000

33. Refer to Exhibit 2-1. What is net income, assuming no stock was issued and no dividends were paid?
- \$215,000
 - \$175,000
 - \$135,000
 - \$40,000

ANS: C PTS: 1 DIF: Difficult OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

34. Refer to Exhibit 2-1. What is net income, assuming no stock was issued and dividends of \$25,000 were paid?
- \$110,000
 - \$150,000
 - \$160,000
 - \$200,000

ANS: C PTS: 1 DIF: Difficult OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

35. Refer to Exhibit 2-1. What is net income, assuming \$50,000 of stock was issued and no dividends were paid?
- \$110,000
 - \$85,000
 - \$70,000
 - \$200,000

ANS: B PTS: 1 DIF: Difficult OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

36. Refer to Exhibit 2-1. What is net income, assuming \$50,000 of stock was issued and \$25,000 of dividends were paid?
- \$110,000
 - \$150,000
 - \$190,000
 - \$15,000

ANS: A PTS: 1 DIF: Difficult OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

37. Gibbs Company has \$16,000 in Retained Earnings, \$27,000 in Assets, and \$5,000 in Liabilities. How much is in Common Stock?
- \$22,000
 - \$16,000
 - \$11,000
 - \$6,000

ANS: D PTS: 1 DIF: Difficult OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

38. A to Z Corporation engaged in the following transaction "Paid a \$10,000 cash dividend." On the Statement of Cash Flows, the transaction would be classified as
- Cash Flows from Operating Activities.
 - Cash Flows from Investing Activities.
 - Cash Flows from Financing Activities.
 - Noncash transaction.

ANS: C PTS: 1 DIF: Moderate OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

39. A to Z Corporation engaged in the following transaction "Purchased a building for \$80,000 cash." On the Statement of Cash Flows, the transaction would be classified as
- Cash Flows from Operating Activities.
 - Cash Flows from Investing Activities.
 - Cash Flows from Financing Activities.
 - Noncash transaction.

ANS: B PTS: 1 DIF: Moderate OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

40. A to Z Corporation engaged in the following transaction "Issued a \$30,000 note payable to borrow cash from the bank." On the Statement of Cash Flows, the transaction would be classified as
- Cash Flows from Operating Activities.
 - Cash Flows from Investing Activities.
 - Cash Flows from Financing Activities.
 - Noncash transaction.

ANS: C PTS: 1 DIF: Moderate OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

41. An increase in Stockholders' Equity from revenues earned will also result in an increase in
- liabilities.
 - assets.
 - expenses.
 - cash flow from financing activities.

ANS: B PTS: 1 DIF: Moderate OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

42. For EFG Co., the transaction "Payment to creditors" would
- increase total assets.
 - decrease total assets.
 - have no effect on total assets.
 - decrease stockholders' equity.

ANS: B PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

43. For EFG Co., the transaction "Cash sales to customers" would
- increase total assets.
 - decrease total assets.
 - have no effect on total assets.
 - decrease stockholders' equity.

ANS: A PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

44. For EFG Co., the transaction "Payment of interest expense" would
- increase total assets.
 - decrease total assets.
 - have no effect on total assets.
 - increase stockholders' equity.

ANS: B PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

45. For EFG Co., the transaction "Purchase of store equipment with cash" would
- increase total assets.
 - decrease total assets.
 - have no effect on total assets.
 - decrease stockholders' equity.

ANS: C PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

46. For EFG Co., the transaction "Payment of dividends" would
- increase total assets.
 - decrease total assets.
 - have no effect on total assets.
 - increase stockholders' equity.

ANS: B PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

47. For EFG Co., the transaction "Purchase of store equipment with a note payable" would
- increase total assets.
 - decrease total assets.
 - have no effect on total assets.
 - decrease total liabilities.

ANS: A PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

48. For EFG Co., the transaction "Payment of quarterly taxes" would
- increase total assets.
 - decrease total assets.
 - have no effect on total assets.
 - increase stockholders' equity.

ANS: B PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

49. For EFG Co., the transaction "Receipt of interest income" would
- increase total assets.
 - decrease total assets.
 - have no effect on total assets.
 - decrease total liabilities.

ANS: A PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

50. For EFG Co., the transaction "Receipt of a utility bill" would
- increase total assets.
 - decrease total assets.
 - have no effect on total assets.
 - decrease total liabilities.

ANS: C PTS: 1 DIF: Moderate OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

51. For EFG Co., the transaction "Billed a customer for fees earned" would
- increase total assets.
 - decrease total assets.
 - have no effect on total assets.
 - increase total liabilities.

ANS: A PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

52. The income statement for August indicates net income of \$50,000. The corporation also paid \$10,000 in dividends during the same period. If there was no beginning balance in stockholders' equity, what is the ending balance in stockholders' equity?
- \$40,000
 - \$50,000
 - \$10,000
 - \$60,000

ANS: A PTS: 1 DIF: Moderate OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

53. Anthony, Inc. buys land for \$50,000 cash. The net affect on assets is
- \$50,000 increase.
 - \$0.
 - \$50,000 decrease.
 - \$25,000 increase.

ANS: B PTS: 1 DIF: Moderate OBJ: 2-3
NAT: AACSB Analytic | AICPA FN-Reporting

54. Declaring and paying cash dividends affects which accounts?
- Cash only
 - Capital stock only
 - Cash and retained earnings
 - Cash and capital stock

ANS: C PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

55. Buying equipment for cash affects which accounts?
- Cash only
 - Retained earnings only
 - Equipment and retained earnings
 - Cash and equipment

ANS: D PTS: 1 DIF: Easy OBJ: 2-3
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

56. Receiving cash for fees earned affects which financial statement elements?
- Assets only
 - Stockholders' equity only
 - Assets and stockholders' equity
 - Assets and liabilities

ANS: C PTS: 1 DIF: Easy OBJ: 2-4
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

57. Paying expenses affects which financial statement elements?
- Assets only
 - Stockholders' equity only
 - Assets and stockholders' equity
 - Assets and liabilities

ANS: C PTS: 1 DIF: Easy OBJ: 2-4
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

58. The payment of a liability
- decreases assets and stockholders' equity.
 - increases assets and decreases liabilities.
 - decreases assets and increases liabilities.
 - decreases assets and decreases liabilities.

ANS: D PTS: 1 DIF: Moderate OBJ: 2-5
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

59. The first month of operation showed the net cash from operating activities to be \$3,760, the net cash from investing activities to be (\$5,415), and the ending cash balance to be \$3,425. The net cash from financing activities must be
- \$1,770.
 - \$5,080.
 - \$5,750.
 - \$12,600.

ANS: B PTS: 1 DIF: Moderate OBJ: 2-5
NAT: AACSB Analytic | AICPA FN-Reporting

PROBLEM

1. What are the basic elements of a financial accounting system?

ANS:

A financial accounting system is designed to produce financial statements. The basic elements of a financial accounting system include:

- (1) A set of rules for determining what, when, and how much should be recorded for economic events
- (2) A framework for preparing financial statements
- (3) One or more controls to determine whether errors may have arisen in the recording process.

PTS: 1 DIF: Moderate OBJ: 2-1
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

2. Calculate the following:
- (a) Determine the cash receipts for May based on the following data:
- | | |
|------------------------------|----------|
| Cash payments during May | \$42,500 |
| Cash account balance, May 1 | 3,750 |
| Cash account balance, May 31 | 6,000 |
- (b) Determine the cash received from customers on account during May based on the following data:
- | | |
|---|----------|
| Accounts receivable account balance, May 1 | \$11,500 |
| Accounts receivable account balance, May 31 | 8,250 |
| Fees billed to customers during May | 28,000 |

ANS:

- (a) \$44,750 (\$6,000 + \$42,500 - \$3,750)
 (b) \$31,250 (\$11,500 + \$28,000 - \$8,250)

PTS: 1 DIF: Difficult OBJ: 2-1
 NAT: AACSB Analytic | AICPA FN-Measurement

3. The accounting equation "Assets = Liabilities + Stockholders' Equity" is affected by transactions. Is it possible to have a transaction that only impacts one financial element of the equation? Two elements? Give examples.

ANS:

Yes to both questions. Examples include: (1) increase cash and decrease equipment;
 (2) increase cash and increase stockholders' equity.

PTS: 1 DIF: Moderate OBJ: 2-1
 NAT: AACSB Reflective Thinking | AICPA FN-Reporting

4. Letty's Laundry and Dry Cleaning incorporated and started business on January 1, 2011.
- 1 Letty's Laundry and Dry Cleaning began business by depositing \$30,000 in a checking account in the name of Letty's Laundry and Dry Cleaning, Inc. Capital stock is issued.
 - 2 Borrowed \$6,000 from City Bank.
 - 3 Purchased equipment from Washers Wholesale, \$16,200.
 - 4 Purchased supplies costing \$3,000 from Suds 'n Stuff with cash.
 - 5 Paid one month's rent for business space in Pine Plaza, \$1,000.
 - 6 Services provided to customers during January totaled \$13,400. All services were paid for in cash.
 - 7 Paid employees for January, \$2,240.
 - 8 Received and paid the utility bill, \$500.
 - 9 Received and paid the telephone bill, \$250.
 - 10 Paid dividends to the stockholders, \$2,140.

Indicate the effect of each transaction on the accounting equation by listing the numbers identifying the transactions, (1) through (10) in a vertical column, and inserting at the right of each number the appropriate letter from the following list:

a.	Increase in an asset, decrease in another asset.
b.	Increase in an asset, increase in a liability.
c.	Increase in an asset, increase in stockholders' equity.
d.	Decrease in an asset, decrease in a liability.
e.	Decrease in an asset, decrease in stockholders' equity

ANS:

- 1. c
- 2. b
- 3. a
- 4. a
- 5. e
- 6. c
- 7. e
- 8. e
- 9. e
- 10. e

PTS: 1 DIF: Moderate OBJ: 2-2
NAT: AACSB Analytic | AICPA FN-Reporting

5. **Part A**

Indicate the effect of each transaction during the month of October 2011 and the balances for the accounting equation after all transactions have been recorded. No beginning balances exist in the accounts. An accounting equation has been provided.

- a. Opened a business bank account for Jones, Inc., with an initial deposit of \$45,000 in exchange for capital stock.
- b. Paid rent on the office building for the month, \$2,000.
- c. Received cash for fees earned of \$5,000.
- d. Purchased equipment, \$7,000.
- e. Borrowed \$20,000 by issuing a note payable.
- f. Paid salaries for the month, \$1,000.
- g. Received cash for fees earned of \$8,000.
- h. Paid dividends, \$3,000.
- i. Paid interest on the note, \$100.

Assets = Liabilities + Stockholders' Equity					
	Cash	Equipment	Notes Payable	Capital Stock	Retained Earnings
a.					
b.					
c.					
d.					
e.					
f.					
g.					
h.					
i.					
Bal.					

Statement of Cash Flows

Income Statement

Part B

Using the information from Part A, prepare (1) an income statement, (2) a statement of retained earnings, (3) a balance sheet, and (4) a statement of cash flows for the month of October.

Jones, Inc.		
Income Statement		

Jones, Inc.		
Retained Earnings Statement		

Jones, Inc.		
Balance Sheet		

ANS:

Part A

Assets = Liabilities + Stockholders' Equity					
	Cash	Equipment	Notes Payable	Capital Stock	Retained Earnings
a.	45,000			45,000	
b.	-2,000				-2,000 Rent Expense
c.	5,000				5,000 Fees Earned
d.	-7,000	7,000			
e.	20,000		20,000		
f.	-1,000				-1,000 Salaries Expense
g.	8,000				8,000 Fees Earned
h.	-3,000				-3,000 Dividends
i.	-100				-100 Interest Expense
Bal.	64,900	7,000	20,000	45,000	6,900

Part B

Jones, Inc.		
Income Statement		
For the Month Ended October 31, 2011		
Revenues:		
Fees Earned		\$13,000
Expenses:		
Rent Expense	\$2,000	
Salaries Expense	1,000	
Interest Expense	<u>100</u>	
Total Expenses		<u>3,100</u>
Net Income		<u>\$ 9,900</u>

Jones, Inc.		
Retained Earnings Statement		
For the Month Ended October 31, 2011		
Retained Earnings, October 1, 2011		0
Add: Net Income		\$ 9,900
Less Dividends		<u>(3,000)</u>
Retained Earnings, October 31, 2011		<u>\$ 6,900</u>

Jones, Inc.		
Balance Sheet		
October 31, 2011		
Assets		
Cash		\$64,900
Equipment		<u>7,000</u>
Total Assets		<u>\$71,900</u>
Liabilities		
Liabilities		
Notes Payable		\$20,000
Stockholders' Equity		
Capital Stock		\$45,000
Retained Earnings		<u>6,900</u>
Total Liabilities and Stockholders' Equity		<u>\$71,900</u>

Jones, Inc.		
Statement of Cash Flows		
For the Month Ended October 31, 2011		
Cash flows from operating activities:		
Cash receipts from operating activities	\$13,000	0
Cash payments for operating activities	<u>(3,100)</u>	
Net cash flows from operating activities		\$ 9,900
Cash flows from investing activities:		
Cash payments for equipment		(7,000)
Cash flows from financing activities:		
Cash receipts from issuing capital stock	\$45,000	
Cash receipts from note payable	20,000	
Cash payments for dividends	<u>(3,000)</u>	
Net cash flows from financing activities		<u>62,000</u>
Cash as of October 31, 2011		<u>\$ 64,900</u>

PTS: 1 DIF: Difficult OBJ: 2-2|2-3
 NAT: AACSB Analytic | AICPA FN-Reporting

6. Explain how the four financial statements are linked.

ANS:

A financial accounting system is designed to produce four financial statements. The income statement, statement of retained earnings, and statement of cash flows are linked to an element of the balance sheet.

- (1) The income statement shows the net effects of revenues and expenses, which affects the retained earnings on the balance sheet.
- (2) The statement of retained earnings reflects the net income and dividends paid and shows how retained earnings in the balance sheet moves from the beginning balance to the ending balance.
- (3) The statement of cash flows explains how the cash balance in the balance sheet moves from the beginning balance to the ending balance by looking at the cash effects of operating, investing, and financing activities.

PTS: 1 DIF: Moderate OBJ: 2-3
 NAT: AACSB Reflective Thinking | AICPA FN-Reporting

7. How can a company earn a large net income and have a small balance in retained earnings?

ANS:

The company may pay out most of its earnings in dividends.

PTS: 1 DIF: Moderate OBJ: 2-3
 NAT: AACSB Reflective Thinking | AICPA FN-Reporting

8. The following are included in Ace Auto Parts, Inc.'s December 31, 2010 balance sheet:

Accounts Receivable	\$ 50,000
Building	100,000
Cash	60,000
Land	130,000
Accounts Payable	40,000
Notes Payable	70,000
Stockholders' Equity	?

Below are the balances for December 31, 2011:

Accounts Receivable	\$ 90,000
Building	100,000
Cash	150,000
Land	130,000
Accounts Payable	60,000
Notes Payable	50,000
Stockholders' Equity	?

Analyze the changes in these balances and determine net income for 2011, assuming that the only change to stockholders' equity is from net income.

ANS:

	Assets	=	Liabilities	+	Stockholder's Equity
	50,000		40,000		
	100,000				
	60,000				
	<u>130,000</u>		<u>70,000</u>		
Bal. 12/31/2010	<u>340,000</u>		<u>110,000</u>		<u>230,000</u>

	Assets	=	Liabilities	+	Stockholder's Equity
	90,000				
	100,000				
	150,000		60,000		
	<u>130,000</u>		<u>50,000</u>		
Bal. 12/31/2011	<u>470,000</u>		<u>110,000</u>		<u>360,000</u>

Stockholders' Equity ending balance	\$360,000
Stockholders' Equity beginning balance	<u>230,000</u>
Change - Net income	<u>\$130,000</u>

PTS: 1 DIF: Difficult OBJ: 2-5
 NAT: AACSB Analytic | AICPA FN-Reporting

THE COCA-COLA COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

December 31,	2008	2007
(In millions except par value)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,701	\$ 4,093
Marketable securities	278	215
Trade accounts receivable, less allowances of \$51 and \$56, respectively	3,090	3,317
Inventories	2,187	2,220
Prepaid expenses and other assets	1,920	2,260
TOTAL CURRENT ASSETS	12,176	12,105
INVESTMENTS		
Equity method investments:		
Coca-Cola Hellenic Bottling Company S.A.	1,487	1,549
Coca-Cola FEMSA, S.A.B. de C.V.	877	996
Coca-Cola Amatil Limited	638	806
Coca-Cola Enterprises Inc.	—	1,637
Other, principally bottling companies and joint ventures	2,314	2,301
Other investments, principally bottling companies	463	488
TOTAL INVESTMENTS	5,779	7,777
OTHER ASSETS	1,733	2,675
PROPERTY, PLANT AND EQUIPMENT — net	8,326	8,493
TRADEMARKS WITH INDEFINITE LIVES	6,059	5,153
GOODWILL	4,029	4,256
OTHER INTANGIBLE ASSETS	2,417	2,810
TOTAL ASSETS	\$ 40,519	\$ 43,269
LIABILITIES AND SHAREOWNERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 6,205	\$ 6,915
Loans and notes payable	6,066	5,919
Current maturities of long-term debt	465	133
Accrued income taxes	252	258
TOTAL CURRENT LIABILITIES	12,988	13,225
LONG-TERM DEBT	2,781	3,277
OTHER LIABILITIES	3,401	3,133
DEFERRED INCOME TAXES	877	1,890
SHAREOWNERS' EQUITY		
Common stock, \$0.25 par value; Authorized — 5,600 shares; Issued — 3,519 and 3,519 shares, respectively	880	880
Capital surplus	7,966	7,378
Reinvested earnings	38,513	36,235
Accumulated other comprehensive income (loss)	(2,674)	626
Treasury stock, at cost — 1,207 and 1,201 shares, respectively	(24,213)	(23,375)
TOTAL SHAREOWNERS' EQUITY	20,472	21,744
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	\$ 40,519	\$ 43,269

Refer to Notes to Consolidated Financial Statements.

9. Refer to Coke's balance sheet and answer the following questions:
- (a) Did Coke issue any stock in 2008? If so, how many shares were issued and where might this information be found?
 - (b) Did Coke repurchase any common stock in 2008? If so, how many shares were repurchased and where might this information be found?

ANS:

- (a) No, for both 2008 and 2007, Coke had 3,519,000,000 shares issued. The information is in the Stockholders' Equity section of the Balance Sheet.
- (b) Yes, Coke repurchased 6,000,000 shares of its common stock. The information is in the Stockholders' Equity section of the Balance Sheet.

PTS: 1 DIF: Difficult OBJ: 2-5
NAT: AACSB Reflective Thinking | AICPA FN-Reporting

OTHER

1. On May 1, the cash account balance was \$72,600. During May, cash receipts totaled \$345,600 and the May 31 balance was \$95,230. Determine the cash payments made during May.

ANS:

$$95,230 = 72,600 + 345,600 - ?$$
$$\text{Cash payments} = \$322,970$$

PTS: 1 DIF: Easy OBJ: 2-2
NAT: AACSB Analytic | AICPA FN-Measurement

