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Chapter 02

Investing and Financing Decisions and the Balance Shee

True / False Questions

1. The primary objective of financial reporting is to provide useful information to external decision makers.

   True False

2. In order for information to be relevant, the information needs to be complete, neutral, and free from error.

   True False

3. In order for information to be relevant, the information should have both predictive and/or feedback value.

   True False

4. The continuity assumption states that a business will continue to operate into

the foreseeable future.

True False

5. The current assets section of a balance sheet includes both inventory and prepaid expenses. True False

6. The stockholders' equity section of a balance sheet includes capital contributed by owners and also retained earnings.

True False

7. Under the stable monetary unit assumption, accounting information should be measured and reported in terms of the national monetary unit, with an adjustment for changes in purchasing power.

True False

8. Assets are reported on the balance sheet in the order of liquidity. True False

9. Many valuable assets such as trademarks and copyrights are not reported on a company's balance sheet.

True False

10. Stockholders' equity reflects the financing provided by

owners. True False

11. Common stock and additional-paid in capital represent the financing sources from

shareholders. True False

12. Financial reporting focuses on reporting the impact of transactions on an entity's financial position.

True False

13. Unearned revenue is reported on the balance sheet as a liability and represents amounts paid to an entity in exchange for future services and/or goods.

True False

14. A transaction may be an exchange of assets or services by one business for assets, services, or promises to pay from a different business.

True False

15. The dual effects concept implies that every transaction has at least two effects on the accounting equation.

True False

16. The accounting equation does not have to be in balance after the recording of each transaction.

True False

17. Additional-paid in capital is reported on the balance sheet as a component of shareholders' equity.

True False

18. Common stock and additional-paid in capital are both reported on the balance sheet as a component of shareholders' equity.

True False

19. A company's assets and stockholders' equity both increase when the company sells additional shares of stock in exchange for cash.

True False

20. Purchasing supplies for cash results in an increase in total assets for the purchasing

company. True False

21. The normal balance for an asset account is a debit and the normal balance for a liability

account is a credit.

True False

22. The recording of a journal entry precedes the posting to the general

ledger.

True False

23. An asset account normally has a debit balance and is increased by debiting the

account. True False

24. Liability and stockholders' equity accounts normally have credit balances and are

decreased by debiting the accounts.

True False

25. A journal entry is a written expression of the effects of a transaction on accounts and has equal debits and credits.

True False

26. The T-account is an actual account in the general ledger of the accounting records. True False

27. The T-account is very useful for accumulating the effects of transactions on account balances and for determining individual account balances.

True False

28. The trial balance is similar to the balance sheet in that it is a listing of assets, liabilities, and stockholders' equity and is provided to external decision makers.

True False

29. The trial balance is a listing of account balances that are found in the general ledger. True False

30. An objective of preparing the trial balance is to test the equality of debits and credits.

True False

31. Current assets include accounts receivable and prepaid

expenses. True False

32. The current ratio is current assets divided bycurrent

liabilities. True False

33. Current liabilities are defined as obligations to be paid withinsix

months. True False

34. The current ratio measures the ability of a company to pay its short-term obligations with short-term assets.

True False

35. A company with a high current ratio should never have liquidity problems.

True False

36. When a company borrows money from a bank, the statement of cash flows will report a cash increase from an investing activity.

True False

37. Issuing stock in exchange for cash creates an increase in cash from a financing activity. True False

Multiple Choice Questions

38. Which of the following statements about stockholders' equity is false?

A. Stockholders' equity is the shareholders' residual interest in the company resulting from the difference in assets and liabilities.

B. Stockholders' equity accounts are increased with credits.

C. Stockholders' equity results only from contributions of the owners.

D. The purchase of land for cash has no effect on stockholders' equity.

39. Assets, liabilities, and stockholders' equity are all found within which of the following financial statements?

A. Balance sheet.

B. Income statement.

C. Statement of retained earnings.

D. Statement of stockholders' equity.

40. An account payable would be reported within which of the following financial statements?

A. Statement of cash flows.

B. Income statement.

C. Balance sheet.

D. Statement of retained earnings.

41. Which of the following assumptions implies that a business can continue to remain in operation into the foreseeable future?

A. Historical cost principle.

B. Stable monetary unit assumption.

C. Continuity assumption.

D. Separate-entity assumption.

42. Which of the following best describes assets?

A. Resources with possible future economic benefits owed by an entity as a result of past transactions.

B. Resources with probable future economic benefits owned by an entity as a result of past transactions.

C. Resources with probable future economic benefits owned by an entity as a result of future transactions.

D. Resources with possible future economic benefits owed by an entity as a result of future transactions.

43. Which of the following assumptions implies that the assets and liabilities of the business are accounted for separately from the assets and liabilities of the owners?

A. Stable monetary unit assumption.

B. Continuity assumption.

C. Historical cost principle.

D. Separate entity assumption.

44. Which of the following best describes liabilities?

A. Possible debts or obligations of an entity as a result of future transactions, which will be paid with assets or services.

B. Possible debts or obligations of an entity as a result of past transactions, which will be paid with assets or services.

C. Probable debts or obligations of an entity as a result of future transactions, which will be paid with assets or services.

D. Probable debts or obligations of an entity as a result of past transactions, which will be paid with assets or services.

45. Which of the following is included within current assets on a balance sheet?

A. Land.

B. A truck.

C. Inventory.

D. Intangible assets.

46. Chad Jones is the sole owner and manager of Jones Glass Repair Shop. Jones purchased a truck, to be used in the business, for its market value of $35,000. Which of the following fundamentals requires Jones to record the truck at the price paid to buy it?

A. Separate-entity assumption.

B. Revenue principle.

C. Stable monetary unit assumption.

D. Historical cost principle.

47. In what order are current assets listed on a balance sheet?

A. By dollar amount (largest first).

B. By date of acquisition (earliest

first). C. By liquidity.

D. By relevance to the operation of the business.

48. In what order would the following assets be listed on a balance sheet?

A. Cash, Short-term Investments, Accounts Receivable, Inventory.

B. Cash, Intangible Assets, Accounts Receivable, Property and Equipment. C.

Cash, Accounts Receivable, Property and Equipment, Inventory.

D. Cash, Inventory, Intangible Assets, Accounts Receivable.

49. Where would changes in stockholders' equity resulting from financing provided by

operations be reported?

A. Within a long-term asset account.

B. Within the additional paid-in capital account.

C. Within a liability account.

D. Within the retained earnings account.

50. Which of the following events will cause retained earnings to increase?

A. Dividends declared by the Board of Directors.

B. Net income reported for the period.

C. Net loss reported for the period.

D. Issuance of stock in exchange for cash.

51. Which of the following correctly describes retained earnings?

A. It is the cumulative earnings of a company.

B. It represents the investments by stockholders in a company.

C. It equals total assets minus total liabilities.

D. It is the cumulative earnings of a company less dividends declared.

52. Which of the following statements is false?

A. The benefits of providing financial reporting information should outweigh the costs.

B. An item is considered relevant if it has the ability to influence a decision.

C. Information is considered to be faithfully represented when it is complete, neutral, and free from error.

D. Accounting information should be reported in the national monetary unit with adjustment for inflation.

53. Which of the following describes the primary objective of financial accounting?

A. To provide useful financial information only to stockholders.

B. To provide information about a business' future business strategies.

C. To provide useful financial information about a business to help external parties make informed decisions.

D. To provide useful financial information about a business to help internal parties make informed decisions.

54. For accounting information to be useful, it must be which of the following?

A. It must be consistent and comparable.

B. It must be a faithful representation and relevant.

C. It must be comparable and reliable.

D. It must be relevant and consistent.

55. Which of the following would not be considered a current asset?

A. Inventory.

B. Prepaid expenses.

C. Land used in daily operations.

D. Accounts receivable.

56. Which of the following statements is true?

A. Contributed capital is a noncurrent asset.

B. Current liabilities are debts expected to be paid within the next year.

C. Current assets are resources of a company that might include cash and copyrights.

D. Patents, copyrights, and research and development expense are classified as intangible assets on the balance sheet.

57. Which of the following does not correctly describe business transactions or events?

A. They include exchanges of assets or services by one business for assets, services, or promises to pay from another business.

B. They include the using up of insurance paid for in advance.

C. They have an economic impact on a business entity.

D. They do not include measurable internal events such as the use of assets inoperations.

58. Which of the following would not be included under the account category of expenses within the chart of accounts?

A. Cost of goods sold.

B. Interest expense.

C. Prepaid insurance expense.

D. Income tax expense.

59. Which of the following liability accounts does not usually require a future cash payment?

A. Accounts payable.

B. Unearned revenues.

C. Taxes payable.

D. Notes payable.

60. Which of the following transactions would not be considered an external exchange?

A. The purchase of supplies on credit.

B. Cash received from the issuance of common stock.

C. Cash paid to a bank for interest on a loan.

D. Using up insurance, which had been paid for in advance.

61. Which of the following reflects the impact of a transaction where $200,000 cash was invested by stockholders in exchange for stock?

A. Assets and retained earnings each increased $200,000.

B. Assets and revenues each increased $200,000.

C. Stockholders' equity and revenues each increased $200,000. D.

Stockholders' equity and assets each increased $200,000.

62. A corporation purchased factory equipment using cash. Which of the following statements regarding this purchase is correct?

A. The cost of the factory equipment is an expense at the time of purchase.

B. The total assets will not change.

C. The total liabilities will increase.

D. The current stockholders' equity will decrease.

63. Which of the following direct effects on the accounting equation is not possible as a result of a single business transaction which impacts only two accounts?

A. An increase in a liability and a decrease in an asset.

B. An increase in stockholders' equity and an increase in an asset.

C. An increase in an asset and a decrease in an asset.

D. A decrease in stockholders' equity and a decrease in an asset.

64. Which of the following direct effects on the accounting equation is not possible as a result of a single business transaction?

A. An increase in an asset and a decrease in another asset.

B. An increase in an asset and an increase in stockholders' equity.

C. A decrease in stockholders' equity and an increase in anasset.

D. An increase in a liability and an increase in an asset.

65. A company's January 1, 2014 balance sheet reported total assets of $150,000 and total liabilities of $60,000. During January 2014, the company completed the following transactions: (A) paid a note payable using $10,000 cash (no interest was paid); (B) collected a $9,000 accounts receivable; (C) paid a $5,000 accounts payable; and (D) purchased a truck for $5,000 cash and by signing a $20,000 note payable from a bank. The company's January 31, 2014 balance sheet would report which of the following?

	Assets	Liabilities	Stockholders' Equity
A.	$150,000	$60,000	$90,000
B.	$155,000	$65,000	$90,000
C.	$160,000	$75,000	$85,000
D.	$170,000	$100,000	$70,000

A. Option A

B. Option B

C. Option C

D. Option D

66. Which of the following is a result of equipment purchased with cash?

A. Total assets decrease.

B. Current assets do not change.

C. Current assets increase.

D. Stockholders' equity does not change.

67. A company's January 1, 2014 balance sheet reported total assets of $120,000 and total liabilities of $40,000. During January 2014, the following transactions occurred: (A) the company issued stock and collected cash totaling $30,000; (B) the company paid an account payable of $6,000; (C) the company purchased supplies for $1,000 with cash; (D) the company purchased land for $60,000 paying $10,000 with cash and signing a note payable for the balance. What is total stockholders' equity after the transactions above?

A. $30,000.

B. $110,000.

C. $80,000.

D. $194,000.

68. Which of the following describes the impact on the balance sheet of purchasing supplies for cash?

A. Current assets will decrease.

B. Current assets will increase.

C. Stockholders' equity will decrease.

D. Total assets remain the same.

69. Which of the following describes the impact on the balance sheet of paying a current liability using cash?

A. Current assets will decrease.

B. Current liabilities will increase.

C. Stockholders' equity will decrease.

D. Total assets will remain the same.

70. Which of the following describes the impact on the balance sheet when cash is received from the collection of an account receivable?

A. Current assets will not change.

B. Current assets will increase.

C. Stockholders' equity will increase.

D. Total assets will increase.

71. A corporation has $80,000 in total assets, $36,000 in total liabilities, and a $12,000 credit balance in retained earnings. What is the balance in the contributed capital accounts?

A. $56,000.

B. $44,000.

C. $48,000.

D. $32,000.

72. The dual effects concept states that:

A. Both the income statement and balance sheet are impacted by every transaction.

B. Every transaction has an impact on assets and stockholders' equity.

C. There are only two accounts involved in every transaction.

D. Every transaction has at least two effects on the accounting equation.

73. Which of the following is not considered to be a recordable transaction?

A. Signing a contract to have an outside cleaning service clean offices nightly.

B. Paying employees their wages.

C. Selling stock to investors.

D. Buying equipment and agreeing to pay a note payable and interest at the end of ayear.

74. Which of the following transactions will cause both the left and right side of the accounting equation to decrease?

A. Collecting cash from a customer who owed us money.

B. Paying a supplier for inventory we previously purchased on account.

C. Borrowing money from a bank.

D. Purchasing equipment using cash.

75. When a company buys equipment for $150,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?

A. Total assets increase $150,000.

B. Total liabilities increase $150,000.

C. Total liabilities decrease $50,000.

D. Total assets increase $100,000.

76. Which of the following describes the impact on the balance sheet when a company uses cash to purchase the stock of another company?

A. Total assets increase.

B. Stockholders' equity increases.

C. Stockholders' equity decreases.

D. Total assets remain the same.

77. Which of the following transactions will not change a company's total stockholders' equity?

A. Reporting of net income.

B. Issuing stock to stockholders in exchange for cash.

C. The declaration of a cash dividend.

D. The purchase of a factory building.

78. Alpha Company issued 1,000 shares of $10 par value common stock to stockholders, in exchange for $15,000 cash. Which of the following correctly describes the impact of this transaction on Alpha's financial statements?

A. A $15,000 investment is reported as a long-term investment.

B. Stockholders have invested $25,000 as stockholders' equity.

C. Common stock is reported at $15,000 as a liability.

D. Additional paid-in capital of $5,000 is reported in stockholders' equity.

79. Which of the following statements is incorrect?

A. Stockholders' equity accounts normally have credit balances.

B. Liability accounts are decreased by credits.

C. Stockholders' equity accounts are increased by credits.

D. Asset accounts are increased by debits.

80. Selling stock to investors for cash would result in which of the following?

A. A debit to additional paid-in capital and a credit to cash.

B. A credit to both cash and additional paid-in capital.

C. A debit to cash and a credit to common stock.

D. A debit to cash and a credit to the investment account.

81. Borrowing cash from a bank would result in which of the following?

A. A debit to cash and a credit to notes payable.

B. A debit to notes payable and a credit to cash.

C. A debit to both cash and notes payable.

D. A debit to cash and a credit to additional paid-in capital.

82. Which of the following journal entries is correct when common stock is sold for cash at a price greater than par value?

A. Cash
    Retained earnings
B. Cash
    Additional paid-in capital
    Common Stock
C. Cash
    Common Stock
D. Cash
    Common stock
    Additional paid-in capital

A. Option A

B. Option B

C. Option C

D. Option D

83. Which of the following statements is false?

A. The common stock account has a credit balance.

B. The additional paid-in capital account has a credit balance.

C. Common stock may be issued for more than par value.

D. The par value of common stock represents the stock's market value.

84. A company purchases a delivery van by paying $5,000 cash and by signing a $25,000 note payable. Which of the following correctly describes the recording of the delivery van purchase?

A. The delivery van account is debited for $25,000.

B. Notes payable is debited for $25,000.

C. The delivery van account is debited for $30,000.

D. Cash is debited for $5,000.

85. Cadet Company paid an account payable of $1,000. This transaction should be recorded on the payment date as follows:

A.

Accounts payable	1,000	
Cash		1,000

B.

Cash	1,000	
Accounts payable		1,000

C.

Notes Payable	1,000	
Cash		1,000

D.

Cash	1,000	
Cost of Goods Sold		1,000

A. Option A

B. Option B

C. Option C

D. Option D

86. Centex, Inc. issued 50,000 shares of its $1 par value common stock for $20 per share. The journal entry to record the stock issue would include which of the following?

A. A credit to cash for $1,000,000.

B. A credit to additional paid-in capital for $1,000,000.

C. A credit to additional paid-in capital for $50,000.

D. A credit to common stock for $50,000.

87. Which of the following correctly describes the recording of a dividend declaration by a company's board of directors?

A. A debit to retained earnings and a credit to cash.

B. A debit to additional paid-in capital and a credit to dividends payable.

C. A debit to cash and a credit to retained earnings.

D. A debit to retained earnings and a credit to dividends payable.

88. Superior has provided the following information for its recent year of operation:

The common stock account balance at the beginning of the year was $20,000 and the year-end balance was $25,000.

The additional paid-in capital account balance increased $2,500 during the year.

The retained earnings balance at the beginning of the year was $75,000 and the year-end balance was $91,000.

Net income was $26,000.

How much were Superior's dividend declarations during its recent year of operation?

A. $10,000.

B. $42,000.

C. $26,000.

D. The dividend declarations can not be determined given the above information.

89. Superior has provided the following information for its recent year of operation:

The common stock account balance at the beginning of the year was $20,000 and the year-end balance was $25,000.

The additional paid-in capital account balance increased $2,500 during the year.

The retained earnings balance at the beginning of the year was $75,000 and the year-end balance was $91,000.

Net income was $26,000.

How much did Superior sell its common stock for during the year?

A. $5,000.

B. $2,500.

C. $7,500.

D. $27,500.

90. Which of the following statements is correct?

A. Assets normally have a credit balance and are increased with debits.

B. Assets normally have a debit balance and are increased with credits.

C. Liability accounts normally have debit balances and are increased with debits.

D. Stockholders' equity accounts normally have credit balances and are increased with credits.

91. Which of the following journal entries is correct when a business entity purchases land costing $30,000 by signing a one-year note payable?

A. Cash	30,000	
Notes Payable		30,000
B. Land	30,000	
Accounts payable		30,000
C. Land	30,000	
Notes Payable		30,000
D. Notes Payable	30,000	
Land		30,000

A. Option A

B. Option B

C. Option C

D. Option D

92. Which of the following journal entries is correct when a business entity issues common stock, above par value, to stockholders in exchange for cash?

A. Cash
    Common stock
    Retained Earnings

B. Cash
    Common stock
    Additional paid-in capital

C. Cash
    Investments

D. Common stock
    Cash

A. Option A

B. Option B

C. Option C

D. Option D

93. Which of the following journal entries is correct when a business entity purchases a building by paying cash and by signing a note payable for the balance?

A. Building
        Cash
        Notes Payable
B. Building
        Cash
C. Cash
    Notes Payable
        Building
D. Building
    Cash
        Notes Payable

A. Option A

B. Option B

C. Option C

D. Option D

94. Which of the following journal entries is correct when a business entity pays cash for advertising to be used next year?

A. Cash
    Advertising expense
B. Advertising expense
    Cash
C. Cash
    Prepaid advertising expense
D. Prepaid advertising expense
    Cash

A. Option A

B. Option B

C. Option C

D. Option D

95. Which of the following journal entries is correct when a business entity uses cash to pay an account payable?

A. Accounts Payable
    Cash
B. Accounts Receivable
    Cash
C. Cash
    Accounts Payable
D. Cash
    Notes Payable

A. Option A

B. Option B

C. Option C

D. Option D

96. Which of the following transactions would result in an increase in the current ratio?

A. Collection of cash from an account receivable.

B. Selling shares of stock to stockholders in exchange for cash.

C. Purchasing a building with cash.

D. Declaration of a cash dividend by the board of directors.

97. Which of the following transactions would result in a decrease in the current ratio?

A. Collection of cash from an account receivable.

B. Selling shares of stock to stockholders in exchange for cash.

C. Purchasing a delivery vehicle by signing a long-term note payable.

D. Purchasing land by paying cash.

98. Which of the following account balances would not be included in the calculation of the current ratio?

A. Accounts receivable.

B. Short-term notes payable.

C. Equipment.

D. Supplies.

99. Which of the following statements does not properly describe the current ratio?

A. It measures the ability of a firm to pay its debts in the short-run.
B. It is current assets divided by current liabilities.

C. It is a measure of a firm's short-run liquidity.

D. It measures a firm's ability to pay its long-term debts as they mature.

100. The Pioneer Company has provided the following account balances:

Cash $38,000; Short-term

investments $4,000;

Accounts receivable

$48,000; Supplies $6,000;

Long-term notes receivable

$2,000; Equipment $96,000;

Factory Building $180,000;

Intangible assets $6,000; Accounts

payable $30,000; Accrued liabilities

payable $4,000; Short-term notes

payable $14,000; Long-term notes

payable $92,000; Common stock

$180,000; Retained earnings

$60,000.

What are Pioneer's total current assets?

A. $48,000.

B. $96,000.

C. $90,000.

D. $42,000.

101. The Pioneer Company has provided the following account balances:

Cash $38,000;

Short-term investments

$4,000; Accounts receivable

$48,000; Supplies $6,000;

Long-term notes receivable

$2,000; Equipment $96,000;

Factory Building $180,000;

Intangible assets $6,000; Accounts

payable $30,000; Accrued

liabilities payable $4,000; Short-

term notes payable $14,000;

Long-term notes payable

$92,000; Common stock $180,000;

Retained earnings $60,000.

What are Pioneer's total current liabilities?

A. $44,000.

B. $34,000.

C. $48,000.

D. $140,000.

102 The Pioneer Company has provided the following account balances:

Cash $38,000;

Short-term investments

$4,000; Accounts receivable

$48,000; Supplies $6,000;

Long-term notes receivable

$2,000; Equipment $96,000;

Factory Building $180,000;

Intangible assets $6,000; Accounts

payable $30,000; Accrued

liabilities payable $4,000; Short-

term notes payable $14,000;

Long-term notes payable

$92,000; Common stock $180,000;

Retained earnings $60,000.

What is Pioneer's current ratio?

A. 2.00.

B. 2.17.

C. 2.71.

D. 1.00.

103. At the beginning of April, Warren Corporation's assets totaled $240,000 and liabilities totaled $60,000. During April the following summarized transactions occurred:

Additional shares of stock were sold for $20,000 cash.

A building costing $95,000 was purchased using $10,000 cash and by signing an $85,000 long-term note payable.

Short-term investments costing $9,000 were purchased using cash.

$10,000 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.

How much are Warren's total assets at the end of April?

A. $335,000.

B. $249,000.

C. $345,000.

D. $250,000.

104. At the beginning of April, Warren Corporation's assets totaled $240,000 andliabilities totaled $60,000. During April the following summarized transactions occurred:

Additional shares of stock were sold for $20,000 cash.

A building costing $95,000 was purchased using $10,000 cash and by signing an $85,000 long-term note payable.

Short-term investments costing $9,000 were purchased using cash.

$10,000 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.

How much are Warren's total liabilities at the end of April?

A. $145,000.

B. $155,000.

C. $165,000.

D. $135,000.

105. Tiger Company's total stockholders' equity at the beginning of the year was $175,000. During the year Tiger reported the following:

Net income of $79,000.

Dividend declarations totaling $17,000.

Issued stock to stockholders in exchange for

$42,000 cash. Borrowed $20,000 from a stockholder.

What is Tiger's total stockholders' equity at the end of the year?

A. $296,000.

B. $279,000.

C. $290,000.

D. $273,000.

106. ABC Company's total stockholders' equity at the beginning of the year was $200,000. During the year ABC reported the following:

Net loss of $30,000.

Stock issued in exchange for land totaling $80,000.

Collections of accounts receivable $40,000. Dividends declared and paid totaling $2000.

What is ABC's total stockholders' equity at the end of the year?

A. $348,000.

B. $288,000.

C. $248,000.

D. $168,000.

107. Which of the following transactions would create an increase in cash from a financingactivity?

A. Issuing shares of common stock to stockholders in exchange for cash.

B. Selling a short-term stock investment in exchange for cash.

C. Selling used equipment, which was a part of property, and equipment for cash.

D. The payment of an account payable.

108. Which of the following best describe financing activities?

A. They primarily deal with securing money by bank loans or selling stock to investors.

B. They primarily are connected to the income-producing activities of the company as reported on the income statement.

C. They primarily deal with buying buildings to be used over many years by the business.

D. They primarily deal with selling facilities once used by the business.

109. Which of the following would cause a decrease in cash from investing activities?

A. Purchasing shares of stock of another company.

B. Paying a cash dividend to stockholders.

C. Issuing additional shares of the company's common stock.

D. Using cash to purchase supplies.

110. Which of the following would result when a company borrows cash and signs a note payable that is due in two years?

A. A noncurrent liability and an investing cash flow are created.

B. A noncurrent liability and a financing cash flow are created.

C. A current liability and an investing cash flow are created.

D. A current liability and a financing cash flow are created.

11. Which of the following would result when a company sells additional shares of common stock for cash?

A. A noncurrent liability and a financing cash flow are created.

B. Common stock increases and a financing cash flow results.

C. A noncurrent liability and an investing cash flow are created.

D. Common stock increases and an investing cash flow results.

12. Which of the following would result when a company purchases a factory building usingcash?

A. A noncurrent asset and an investing cash flow are created.

B. A noncurrent asset and a financing cash flow are created.

C. A current asset and an investing cash flow are created.

D. A current asset and a financing cash flow are created.

13. Which of the following would result when a company lends cash to a franchisee in exchange for a ten-month note receivable?

A. A noncurrent asset and an investing cash flow are created.

B. A noncurrent asset and a financing cash flow are created.

C. A current asset and a financing cash flow are created.

D. A current asset and an investing cash flow are created.

114. Which of the following would result when a company pays a previously declared cash dividend?

A. Current liabilities are reduced and a financing cash flow is created.

B. Stockholders' equity is reduced and a financing cash flow is created.

C. Current assets are reduced and an investing cash flow is created.

D. Stockholders' equity is reduced and an investing cash flow is created.

115. Which of the following would be classified as financing cash flows on a cash flow statement?

1. Paying cash dividends.

2. Lending cash to others.

3. Issuing stock for cash.

4. Purchasing long-term assets for cash.

5. Repurchasing stock with cash.

A. 1, 2, 5.

B. 2, 3, 4.

C. 1, 3, 5.

D. 2, 4, 5.

16. Which of the following would be classified as investing cash flows on a cash flow statement?

1. Acquiring a building by signing a long-term mortgage payable.

2. Lending cash to others.

3. Issuing stock for cash.

4. Purchasing long-term assets for cash.

5. Selling stock investments for cash.

A. 1, 4, 5.

B. 1, 2, 4.

C. 1, 3, 5.

D. 2, 4, 5.

17. Which of the following statements is false?

A. Investing cash flows include the cash flows associated with lending money to others.

B. Financing cash flows include the cash flows associated with issuing and repurchasing stock.

C. Financing cash flows include the cash flows associated with borrowing and repaying debt excluding short-term bank loans.

D. Investing cash flows include the cash flows associated with buying and selling noncurrent assets.

Essay Questions

118. Why is the continuity assumption so important for balance sheet reporting?

119. Why is the separate-entity assumption so important for balance sheet reporting?

120. Why is the historical cost principle so important for balance sheet reporting?

121. Complete the following schedule for Red Eye Company.

Transaction	Assets	Liabilities	Stockholders' Equity
Beginning balances	$200,000	$80,000	$120,000
Borrowed $20,000 cash by signing a note payable with a bank.			
Collected accounts receivable for cash, $7,000.			
Paid accounts payable, $8,000 cash.			
Purchased office supplies on credit, $2,000.			
Sold common stock, at par value, to new investors in exchange for $20,000 cash.			
Paid income taxes payable of $12,000.			
Ending balances			

122. Complete the following schedule for Blue Eye Company.

Transaction	Assets	Liabilities	Stockholders' Equity
Beginning balances	$300,000	$180,000	$120,000
Borrowed $18,000 cash by signing a note payable with a bank.			
Purchased office equipment for $6,000.			
Declared a dividend of $30,000 that will be paid in cash next month.			
Purchased office supplies on credit, $8,000.			
Sold 1,000 shares of $5 par value common stock to new investors in exchange for $20,000 cash.			
Ending balances			

123. For each of the following accounts, indicate whether the account is an asset (A), liability (L), or stockholders' equity (SE) and whether the account has a normal debit (Dr) or normal credit (Cr) balance.

1. Retained Earnings
2. Supplies
3. Additional paid-in capital
4. Accounts payable
5. Accounts receivable

6. Property and equipment

7. Wages payable

8. Prepaid expenses

124. For each of the accounts listed below, indicate whether the typical or normal balance is a debit or credit.

A. Supplies

B. Notes payable

C. Retained earnings

D. Equipment

E. Prepaid insurance expense

F. Accounts receivable

G. Land

H. Additional paid-in capital

I. Accounts payable

J. Unearned revenue

125. The ABC Corporation was formed on January 1, 2014. The three initial owners each invested $100,000 cash and each received 10,000 shares of $1 par value common stock. Below are selected transactions that were completed during January, 2014.

1. Issue shares of common stock to the owners.
2. Borrowed $80,000 on a one-year note payable.
3. Purchased land by signing a $70,000 note payable.
4. Paid $10,000 of accounts payable.
5. Purchased two service vehicles for cash at a cost of $24,000 each.
6. Purchased $2,000 of supplies on credit.

Prepare the journal entry on ABC's books for each transaction. Include a brief explanation for each entry.

126. The accounts with identification letters for Ward Company are listed below.

Letter	Account Title
A	Cash
B	Accounts receivable
C	Office supplies inventory
D	Equipment
E	Land
F	Accounts payable
G	Notes payable
H	Common stock
I	Additional paid-in capital
J	Retained earnings

During 2014, the company completed the transactions given below. You are to indicate the appropriate journal entry for each transaction by giving the account letter and amount. Some entries may need three letters. The first transaction is given as an example.

Transaction		Debit		Credit	
		Letter	Amount	Letter	Amount
1.	Borrowed $50,000 and signed a note.	A	$50,000	G	$50,000
2.	Purchased equipment for $50,000. Paid $10,000 cash, signed $40,000 note payable.				

127. Describe the general journal and the general ledger.

128. On January 1, 2014, Dr. Beth Hill started a new professional corporation, Beth Hill, P.C., to practice medicine with an initial investment of $100,000 in exchange for 20,000 shares of $2 par value common stock. On June 30, 2014, the accounting records showed the following amounts:

Accounts Payable	$2,000
Accounts Receivable	$6,200
Cash	$48,100
Common stock	$?
Additional paid-in capital	$?
Office Equipment	$60,000
Office Supplies	$3,500
Retained Earnings	$5,800
Notes Payable	$10,000

Requirement:

1. Calculate the amounts for common stock and additional paid-in capital.

2. Prepare a balance sheet as of June 30, 2014.

129. For each of the transactions listed below, indicate whether it is an investing (I) or financing (F) activity on the statement of cash flows. Also, indicate if the transaction increases (+) or decreases (-) cash.

Transaction		Type of Activity	Effect on Cash
Ex.	Paid dividends to the owners	F	-
A.	Purchased equipment to use in the business.		
B.	Issued stock for cash.		
C.	Borrowed money at the bank.		
D.	Sold a piece of land adjacent to the plant.		
E.	Paid the principal balance of a note payable.		

130. The Alex Company, a consulting firm, recorded the following selected business transactions during May, 2014. Indicate whether each transaction would increase, decrease, or have no effect on the total assets of the company.

1. Issued capital stock in exchange for cash contributed by owners.
2. Purchased office supplies for cash.
3. Purchased office supplies on credit.
4. Paid cash on accounts payable to a supplier.
5. Collected cash on accounts receivable.
6. Borrowed money from the bank on a promissory note payable.
7. Loaned money to an employee in exchange for a note.
8. Purchased a building by using cash and signing a mortgage loan payable for thebalance.

131. Classify the following balance sheet accounts as current assets, noncurrent assets, current liabilities, noncurrent liabilities, or stockholders' equity.

1. Building
2. Retained earnings
3. Notes payable due in 3 months
4. Land
5. Prepaid expenses
6. Supplies inventory
7. Common stock

8. Notes payable due in 5 years

9. Income taxes payable

10. Accounts receivable

132. The following journal entries with the amounts omitted were taken from the records of Lena Company:

1. Cash
    Common stock
Additional paid in capital

2. Supplies
    Accounts Payable

3. Accounts payable
    Cash

4. Buildings
    Cash
    Mortgage Payable

5. Retained Earnings
    Dividends Payable

6. Cash
    Notes Payable

Requirement:

Write a brief explanation for each of the above transactions.

133. What is the primary objective of financial reporting?

134. How is the current ratio calculated and what does it measure?

135. The Lake Company has provided the following account balances:

Cash $76,000;

Short-term investments $8,000;

Accounts receivable $96,000;

Supplies $12,000;

Long-term notes receivable $4,000;

Equipment $192,000;

Factory Building $360,000; Intangible

assets $12,000; Accounts payable

$90,000; Accrued liabilities payable

$12,000; Short-term notes payable

$42,000; Long-term notes payable

$184,000.

Requirement:

What is Lake's current ratio?

136. The Superior Company has provided the following account balances:

Cash $152,000;

Short-term investments $18,000;

Accounts receivable $36,000;

Inventory $116,000; Long-term

notes receivable $44,000;

Equipment $174,000; Factory

Building $270,000; Intangible

assets $33,000; Accounts

payable $130,000;

Accrued liabilities payable $19,000;

Short-term notes payable $84,000;

Long-term notes payable $169,000.

Requirement:

What is Superior's stockholders' equity?

137. The Smith Corporation has provided the following information:

Cash dividend payments were $25,000. Long-term

investments were sold for $79,000 cash.

A building costing $198,000 was purchased using $19,800 cash, and the balance was financed

with a mortgage note payable.

Stock was issued to stockholders in exchange for $110,000 cash.

A $44,000 loan was made to a local inventory supplier; the loan will be repaid in twelve

months. Equipment used in operations was sold for $37,000.

Shares of Smith Corporation stock were acquired (repurchased) from stockholders for

$92,000 cash.

Cash received from bank loans totaled $71,000.

Land costing $57,000 was purchased in exchange for a long-term note payable.

Requirement:

Determine Smith's cash flows to be reported on the statement of cash flows for 1. investing activities, and 2. financing activities

138. Describe both the investing activities and financing activities section of the statement of cash flows. Provide some examples of each activity.

Chapter 02 Investing and Financing Decisions and the Accounting System

Answer Key

True / False Questions

1. The primary objective of financial reporting is to provide useful information to external decision makers.

TRUE

The primary objective of external financial reporting is to provide useful financial information about a business to help external decision makers.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

2. In order for information to be relevant, the information needs to be complete, neutral, and free from error.

FALSE

Relevant information is timely and has predictive and/or feedback value. Faithful representation requires that information be complete, neutral, and free from error.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

3. In order for information to be relevant, the information should have both predictive and/or feedback value.

TRUE

Relevant information provides feedback and predictive value on a timely basis.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

4. The continuity assumption states that a business will continue to operate into the foreseeable future.

TRUE

The continuity assumption assumes that a business will continue operating long enough to meet its contractual commitments and plans. This is also called the going-concern assumption.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

5. The current assets section of a balance sheet includes both inventory and prepaid expenses.

TRUE

Current assets are resources that a business will use or turn into cash within one year.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions andprinciples.

Topic Area: Overview of Accounting Concepts

6. The stockholders' equity section of a balance sheet includes capital contributed by owners and also retained earnings.

TRUE

The stockholders' equity section reports the financing provided by the owners and by its business operations.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

7. Under the stable monetary unit assumption, accounting information should be measured and reported in terms of the national monetary unit, with an adjustment for changes in purchasing power.

FALSE

The stable monetary unit assumption guides financial reporting so that the national monetary unit is the reporting unit for financial statements and will not be adjusted for changes in purchasing power.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Definetheobjective of financial reporting; theelements of thebalance sheet; and the related key accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

8. Assets are reported on the balance sheet in the order of liquidity.

TRUE

Assets are reported in order of liquidity. The asset section of the balance sheet begins with cash.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

9. Many valuable assets such as trademarks and copyrights are not reported on a company's balance sheet.

TRUE

Intangible assets that are not purchased but that are developed inside a company are not reported on the balance sheet.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions andprinciples.

Topic Area: Overview of Accounting Concepts

10. Stockholders' equity reflects the financing provided by owners.

<u>TRUE</u>

The stockholders' equity section of the balance sheet includes financing provided by owners and net income retained from business operations.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; and the relatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

11. Common stock and additional-paid in capital represent the financing sources from shareholders.

<u>TRUE</u>

Common stock and additional paid-in capital are contributed capital components representing the financing sources from owners.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

12. Financial reporting focuses on reporting the impact of transactions on an entity's financial position.

TRUE

Accounting focuses on certain events that have an economic impact on the entity. Those events that are recorded as part of the accounting process are called transactions.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titlesusedinbusiness.

Topic Area: What Business Activities Cause Changes in Financial Statement Amounts

13. Unearned revenue is reported on the balance sheet as a liability and represents amounts paid to an entity in exchange for future services and/or goods.

TRUE

Accounts with "unearned" in the title are always liabilities representing amounts paid to the company in the past, by others, with the promise of goods and/or services in the future.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titlesusedinbusiness.

Topic Area: What Business Activities Cause Changes in Financial Statement Amounts

14. A transaction may be an exchange of assets or services by one business for assets, services, or promises to pay from a different business.

TRUE

A transaction is an exchange of assets or services for assets, services, or promises to pay between a business and one or more external parties to that business.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titlesusedinbusiness.

Topic Area: What Business Activities Cause Changes in Financial Statement Amounts

15. The dual effects concept implies that every transaction has at least two effects on the accounting equation.

TRUE

Every accounting transaction has at least two effects on the accounting equation; this concept is known as dual effects.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

16. The accounting equation does not have to be in balance after the recording of each transaction.

FALSE

One of the underlying principles of an accounting transaction is that the accounting equation must be in balance after recording the transaction.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

17. Additional-paid in capital is reported on the balance sheet as a component of shareholders' equity.

TRUE

Shareholders' equity includes common stock, additional paid-in capital, and retained earnings.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

18. Common stock and additional-paid in capital are both reported on the balance sheet as a component of shareholders' equity.

TRUE

Shareholders' equity includes common stock, additional paid-in capital, and retained earnings.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

19. A company's assets and stockholders' equity both increase when the company sells additional shares of stock in exchange for cash.

TRUE

Receiving cash increases assets; selling stock increases stockholders' equity. Both sides of the balance sheet equation are increased with this transaction.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

20. Purchasing supplies for cash results in an increase in total assets for the purchasing company.

FALSE

This transaction has zero effect on the total asset amount. The asset Supplies is increased and the asset Cash is decreased by the same amount.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

21. The normal balance for an asset account is a debit and the normal balance for a liability account is a credit.

TRUE

The normal balance refers to what is usual or what increases an account. Assets have debit balances and liabilities have credit balances.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

22. The recording of a journal entry precedes the posting to the general ledger.

TRUE

The accounting cycle during the period starts with analyzing a transaction, recording journal entries in the general journal, and finally posting the amounts to the general ledger.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do CompaniesKeepTrack ofAccountBalances

23. An asset account normally has a debit balance and is increased by debiting the account.

TRUE

The normal account balance for an asset is a debit balance; accounts are increased on the same side as their position in the accounting equation. Assets are on the left side of the accounting equation and therefore assets are increased on the left. A left-side entry is a debit.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do CompaniesKeepTrack ofAccountBalances

24. Liability and stockholders' equity accounts normally have credit balances and are decreased by debiting the accounts.

TRUE

The normal balance for liabilities and stockholders' equity is a credit balance; accounts are increased on the same side as their position in the accounting equation. Liability and stockholders' equity accounts are on the right side of the accounting equation and therefore they are increased on the right. A right-side entry is a credit. Therefore they are decreased with a left-side entry, which is a debit.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

25. A journal entry is a written expression of the effects of a transaction on accounts and has equal debits and credits.

TRUE

A journal entry is an accounting method for expressing the effects of a transaction on separate accounts. The journal entry must have equal debit and credit amounts.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

26. The T-account is an actual account in the general ledger of the accounting records.

FALSE

The T-account is used to summarize transaction effects for each account, determining balances, and drawing inferences about a company's activities. The T-account is not part of the formal accounting records although it is a visual depiction of a single account that is in the general ledger of the accounting records.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

27. The T-account is very useful for accumulating the effects of transactions on account balances and for determining individual account balances.

TRUE

The T-account is a very useful tool for summarizing the transaction effects, determining the balances for individual accounts, and drawing inferences about a company's activities.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

28. The trial balance is similar to the balance sheet in that it is a listing of assets, liabilities, and stockholders' equity and is provided to external decision makers.

FALSE

A trial balance is a list of all accounts with their balances to provide a check on the equality of the debits and credits and is not provided to external users.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

29. The trial balance is a listing of account balances that are found in the general ledger.

TRUE

A trial balance is a list of all accounts with their balances to provide a check on the equality of the debits and credits.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

30. An objective of preparing the trial balance is to test the equality of debits and credits.

TRUE

A trial balance is a list of all accounts with their balances to provide a check on the equality of the debits and credits.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

31. Current assets include accounts receivable and prepaid expenses.

TRUE

Current assets are those to be used or turned into cash within the upcoming year.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

32. The current ratio is current assets divided by current liabilities.

TRUE

The current ratio shows an entity's ability to cover its short-term liabilities. It is equal to current assets divided by current liabilities.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

33. Current liabilities are defined as obligations to be paid within six months.

FALSE

Current liabilities are those obligations to be paid within the next twelve months.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

34. The current ratio measures the ability of a company to pay its short-term obligations with short-term assets.

TRUE

The current ratio is current assets divided by current liabilities. This measures a company's ability to pay its current liabilities with current assets.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

35. A company with a high current ratio should never have liquidity problems.

FALSE

A company with its current assets tied up in slow-moving inventory may have a high current ratio but still have liquidity problems.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

36. When a company borrows money from a bank, the statement of cash flows will report a cash increase from an investing activity.

FALSE

Borrowing cash from a bank leads to a cash inflow from a financing activity.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

37. Issuing stock in exchange for cash creates an increase in cash from a financing activity.

TRUE

Stock issuance for cash is a financing activity.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

Multiple Choice Questions

38. Which of the following statements about stockholders' equity is false?

A. Stockholders' equity is the shareholders' residual interest in the company resulting from the difference in assets and liabilities.

B. Stockholders' equity accounts are increased with credits.

C. Stockholders' equity results only from contributions of the owners.

D. The purchase of land for cash has no effect on stockholders' equity.

Retained earnings from business operations are also a component of stockholders' equity.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

39. Assets, liabilities, and stockholders' equity are all found within which of the following financial statements?

A. Balance sheet.

B. Income statement.

C. Statement of retained earnings.

D. Statement of stockholders' equity.

The balance sheet contains three parts: 1) Assets, 2) Liabilities, and 3) Stockholders' Equity.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; and the related key accounting assumptions and principles.
Topic Area: Overview of Accounting Concepts

40. An account payable would be reported within which of the following financial statements?

A. Statement of cash flows.

B. Income statement.

C. Balance sheet.

D. Statement of retained earnings.

An account payable is a liability reported on the balance sheet.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

41. Which of the following assumptions implies that a business can continue to remain in operation into the foreseeable future?

A. Historical cost principle.

B. Stable monetary unit assumption.

C. Continuity assumption.

D. Separate-entity assumption.

The continuity assumption, also known as the going-concern assumption, states that a business will continue operating long enough to meet its contractual commitments and plans.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions andprinciples.

Topic Area: Overview of Accounting Concepts

42. Which of the following best describes assets?

A. Resources with possible future economic benefits owed by an entity as a result of past transactions.

B. Resources with probable future economic benefits owned by an entity as a result of past transactions.

C. Resources with probable future economic benefits owned by an entity as a result of future transactions.

D. Resources with possible future economic benefits owed by an entity as a result of future transactions.

Assets are economic resources with probably future benefits owned or controlled by an entity as a result of past transactions.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; and the relatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

43. Which of the following assumptions implies that the assets and liabilities of the business are accounted for separately from the assets and liabilities of the owners?

A. Stable monetary unit assumption.

B. Continuity assumption.

C. Historical cost principle.

D. Separate entity assumption.

The separate entity assumption states that each business's activities must be accounted for separately from the activities of its owners, all other persons, and other entities.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

44. Which of the following best describes liabilities?

A. Possible debts or obligations of an entity as a result of future transactions, which will be paid with assets or services.

B. Possible debts or obligations of an entity as a result of past transactions, which will be paid with assets or services.

C. Probable debts or obligations of an entity as a result of future transactions, which will be paid with assets or services.

D. Probable debts or obligations of an entity as a result of past transactions, which will be paid with assets or services.

Liabilities are probable debts or obligations that result from a company's past transactions and will be paid with assets or services.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions andprinciples.

Topic Area: Overview of Accounting Concepts

45. Which of the following is included within current assets on a balance sheet?

A. Land.

B. A truck.

C. Inventory.

D. Intangible assets.

Inventory is always considered a current asset, regardless of how long it takes to produce and sell.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

46. Chad Jones is the sole owner and manager of Jones Glass Repair Shop. Jones purchased a truck, to be used in the business, for its market value of $35,000. Which of the following fundamentals requires Jones to record the truck at the price paid to buy it?

A. Separate-entity assumption.

B. Revenue principle.

C. Stable monetary unit assumption.

D. Historical cost principle.

The historical cost principle requires assets to be recorded at cost equal to cash paid plus the dollar value of all noncash considerations received in the exchange.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

47. In what order are current assets listed on a balance sheet?

A. By dollar amount (largest first).

B. By date of acquisition (earliest first).

C. By liquidity.

D. By relevance to the operation of the business.

Assets are listed on the balance sheet in order of liquidity with the most liquid assets listed first.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions andprinciples.

Topic Area: Overview of Accounting Concepts

48. In what order would the following assets be listed on a balance sheet?

A. Cash, Short-term Investments, Accounts Receivable, Inventory.

B. Cash, Intangible Assets, Accounts Receivable, Property and Equipment.

C. Cash, Accounts Receivable, Property and Equipment, Inventory.

D. Cash, Inventory, Intangible Assets, Accounts Receivable.

Assets are listed in order of liquidity. Cash is always first, and Property and Equipment is listed as a non-current asset. Accounts Receivable is more liquid than Inventory.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; and the relatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

49. Where would changes in stockholders' equity resulting from financing provided by operations be reported?

A. Within a long-term asset account.

B. Within the additional paid-in capital account.

C. Within a liability account.

D. Within the retained earnings account.

Stockholders' equity has two parts; financing from contributed capital and business operations. Retained earnings are the result of business operations, and therefore changes in stockholders' equity from operations are reported in retained earnings.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

50. Which of the following events will cause retained earnings to increase?

A. Dividends declared by the Board of Directors.

B. Net income reported for the period.

C. Net loss reported for the period.

D. Issuance of stock in exchange for cash.

Beginning Retained Earnings + Net Income - Dividends = Ending Retained Earnings.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

51. Which of the following correctly describes retained earnings?

A. It is the cumulative earnings of a company.

B. It represents the investments by stockholders in a company.

C. It equals total assets minus total liabilities.

D. It is the cumulative earnings of a company less dividends declared.

Retained earnings are the cumulative earnings not distributed to the owners. That is the cumulative net income less dividends declared.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

52. Which of the following statements is false?

A. The benefits of providing financial reporting information should outweigh the costs.

B. An item is considered relevant if it has the ability to influence a decision.

C. Information is considered to be faithfully represented when it is complete, neutral, and free from error.

D. Accounting information should be reported in the national monetary unit with adjustment for inflation.

Accounting information should be reported in the national monetary unit without adjustment for inflation.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions andprinciples.

Topic Area: Overview of Accounting Concepts

53. Which of the following describes the primary objective of financial accounting?

A. To provide useful financial information only to stockholders.

B. To provide information about a business' future business strategies.

C. To provide useful financial information about a business to help external parties make informed decisions.

D. To provide useful financial information about a business to help internal parties make informed decisions.

The primary objective of external financial reporting is to provide useful financial information about a business to help external parties, primarily investors and creditors, make sound investing and financing decisions.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01Definetheobjective of financial reporting; theelementsofthebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

54. For accounting information to be useful, it must be which of the following?

A. It must be consistent and comparable.

B. It must be a faithful representation and relevant.

C. It must be comparable and reliable.

D. It must be relevant and consistent.

Faithful representation and relevance are the fundamental qualitative characteristics that allow accounting information to be useful.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

55. Which of the following would not be considered a current asset?

A. Inventory.

B. Prepaid expenses.

C. Land used in daily operations.

D. Accounts receivable.

Land is part of property and equipment and is listed as a part of long-term assets.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; and the relatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

56. Which of the following statements is true?

A. Contributed capital is a noncurrent asset.

B. Current liabilities are debts expected to be paid within the next year.

C. Current assets are resources of a company that might include cash and copyrights.

D. Patents, copyrights, and research and development expense are classified as intangible assets on the balance sheet.

Current liabilities are debts expected to be paid within the next year and expected to consume current assets.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01Definetheobjective of financial reporting; theelements of thebalance sheet; andtherelatedkey accounting assumptions and principles.

Topic Area: Overview of Accounting Concepts

57. Which of the following does not correctly describe business transactions or events?

A. They include exchanges of assets or services by one business for assets, services, or promises to pay from another business.

B. They include the using up of insurance paid for in advance.

C. They have an economic impact on a business entity.

D. They do not include measurable internal events such as the use of assets in operations.

A business transaction includes measurable internal events such as the use of assets in operations.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titlesusedinbusiness.

Topic Area: What Business Activities Cause Changes in Financial Statement Amounts

58. Which of the following would not be included under the account categoryof expenses within the chart of accounts?

A. Cost of goods sold.

B. Interest expense.

C. Prepaid insurance expense.

D. Income tax expense.

Expenses listed as "prepaid" are included in the chart of accounts as assets.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.

Topic Area: What Business Activities Cause Changes in Financial Statement Amounts

59. Which of the following liability accounts does not usually require a future cash payment?

A. Accounts payable.

B. Unearned revenues.

C. Taxes payable.

D. Notes payable.

Unearned revenue relates to payments that have been received in the past for future goods or services.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titlesusedinbusiness.

Topic Area: What Business Activities Cause Changes in Financial Statement Amounts

60. Which of the following transactions would not be considered an external exchange?

A. The purchase of supplies on credit.

B. Cash received from the issuance of common stock.

C. Cash paid to a bank for interest on a loan.

D. Using up insurance, which had been paid for in advance.

Using up prepaid expenses is an internal event.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.

Topic Area: What Business Activities Cause Changes in Financial Statement Amounts

61. Which of the following reflects the impact of a transaction where $200,000 cash was invested by stockholders in exchange for stock?

A. Assets and retained earnings each increased $200,000.

B. Assets and revenues each increased $200,000.

C. Stockholders' equity and revenues each increased $200,000.

D. Stockholders' equity and assets each increased $200,000.

Receiving $200,000 cash in exchange for stock increases assets (cash) and stockholders' equity (issuing stock).

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

62. A corporation purchased factory equipment using cash. Which of the following statements regarding this purchase is correct?

A. The cost of the factory equipment is an expense at the time of purchase.

B. The total assets will not change.

C. The total liabilities will increase.

D. The current stockholders' equity will decrease.

The purchase of equipment is not expensed and, therefore, has no effect on the income statement. Instead, one asset (cash) is exchanged for another asset (equipment), which means that total assets will not change.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

63. Which of the following direct effects on the accounting equation is not possible as a result of a single business transaction which impacts only two accounts?

A. An increase in a liability and a decrease in an asset.

B. An increase in stockholders' equity and an increase in an asset.

C. An increase in an asset and a decrease in an asset.

D. A decrease in stockholders' equity and a decrease in an asset.

With one transaction impacting only two accounts, the accounting equation would not be in balance if there was an increase in a liability and a decrease in an asset because both items are recorded as credits.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

64. Which of the following direct effects on the accounting equation is not possible as a result of a single business transaction?

A. An increase in an asset and a decrease in another asset.

B. An increase in an asset and an increase in stockholders' equity.

C. A decrease in stockholders' equity and an increase in an asset.

D. An increase in a liability and an increase in an asset.

A single transaction that results in a decrease in stockholders' equity and an increase in an asset is not possible because both items are recorded as debits and thus the accounting equation would not be in balance.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

65. A company's January 1, 2014 balance sheet reported total assets of $150,000 and total liabilities of $60,000. During January 2014, the company completed the following transactions:

(A) paid a note payable using $10,000 cash (no interest was paid); (B) collected a $9,000 accounts receivable; (C) paid a $5,000 accounts payable; and (D) purchased a truck for $5,000 cash and by signing a $20,000 note payable from a bank. The company's January 31, 2014 balance sheet would report which of the following?

	Assets	Liabilities	Stockholders' Equity
A.	$150,000	$60,000	$90,000
B.	$155,000	$65,000	$90,000
C.	$160,000	$75,000	$85,000
D.	$170,000	$100,000	$70,000

A. Option A

B. Option B

C. Option C

D. Option D

Assets = $155,000 = $150,000 - $10,000 - $5,000 - $5,000 + $25,000

Liabilities = $65,000 = $60,000 - $10,000 - $5,000 + $20,000

Stockholders' equity = $90,000 = Assets ($155,000) - Liabilities ($65,000)

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

66. Which of the following is a result of equipment purchased with cash?

A. Total assets decrease.

B. Current assets do not change.

C. Current assets increase.

D. Stockholders' equity does not change.

A purchase of equipment with cash decreases current assets (Cash) and increases the asset Equipment; there is no change in stockholders' equity.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How DoTransactions AffectAccounts

67. A company's January 1, 2014 balance sheet reported total assets of $120,000 and total liabilities of $40,000. During January 2014, the following transactions occurred: (A) the company issued stock and collected cash totaling $30,000; (B) the company paid an account payable of$6,000;

(C) the company purchased supplies for $1,000 with cash; (D) the company purchased land for $60,000 paying $10,000 with cash and signing a note payable for the balance.

What is total stockholders' equity after the transactions above?

A. $30,000.

B. $110,000.

C. $80,000.

D. $194,000.

Beginning equity = $120,000 - $40,000 = $80,000.

Only transaction (A) affects stockholders' equity.

Therefore, stockholders' equity = $80,000 + $30,000 = $110,000.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

68. Which of the following describes the impact on the balance sheet of purchasing supplies for cash?

A. Current assets will decrease.

B. Current assets will increase.

C. Stockholders' equity will decrease.

D. Total assets remain the same.

Total assets are unchanged because cash is decreased by the same amount for which supplies are increased.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

69. Which of the following describes the impact on the balance sheet of paying a current liability using cash?

A. Current assets will decrease.

B. Current liabilities will increase.

C. Stockholders' equity will decrease.

D. Total assets will remain the same.

Paying a current liability with cash decreases the cash account thus decreasing current assets.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

70. Which of the following describes the impact on the balance sheet when cash is received from the collection of an account receivable?

A. Current assets will not change.

B. Current assets will increase.

C. Stockholders' equity will increase.

D. Total assets will increase.

Current assets do not change because cash is increased by the same amount the accounts receivable decreases. Both cash and accounts receivable are current assets.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

71. A corporation has $80,000 in total assets, $36,000 in total liabilities, and a $12,000 credit balance in retained earnings. What is the balance in the contributed capital accounts?

A. $56,000.

B. $44,000.

C. $48,000.

D. $32,000.

Stockholders' equity ($44,000) = Assets ($80,000) - Liabilities ($36,000). Stockholders' equity ($44,000) = Contributed capital of common stock and additional paid-in capital ($32,000) + Retained earnings ($12,000).

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

72. The dual effects concept states that:

A. Both the income statement and balance sheet are impacted by every transaction.

B. Every transaction has an impact on assets and stockholders' equity.

C. There are only two accounts involved in every transaction.

D. Every transaction has at least two effects on the accounting equation.

Every accounting transaction has at least two effects on the accounting equation.

This concept is known as dual effects.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

73. Which of the following is not considered to be a recordable transaction?

A. Signing a contract to have an outside cleaning service clean offices nightly.

B. Paying employees their wages.

C. Selling stock to investors.

D. Buying equipment and agreeing to pay a note payable and interest at the end of a year.

Signing a contract is an internal transaction. The recordable event is when assets and/or liabilities are exchanged.

AACSB: Analytic
AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

74. Which of the following transactions will cause both the left and right side of the accounting equation to decrease?

A. Collecting cash from a customer who owed us money.

B. Paying a supplier for inventory we previously purchased on account.

C. Borrowing money from a bank.

D. Purchasing equipment using cash.

Paying a supplier for inventory purchased on account reduces assets and reduces accounts payable.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

75. When a company buys equipment for $150,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?

A. Total assets increase $150,000.

B. Total liabilities increase $150,000.

C. Total liabilities decrease $50,000.

D. Total assets increase $100,000.

Equipment increases $150,000 and cash decreases $50,000 for a net asset increase of $100,000.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

76. Which of the following describes the impact on the balance sheet when a company uses cash to purchase the stock of another company?

A. Total assets increase.

B. Stockholders' equity increases.

C. Stockholders' equity decreases.

D. Total assets remain the same.

Cash decreases by the same amount the investment in the other company increases.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How DoTransactions AffectAccounts

77. Which of the following transactions will not change a company's total stockholders' equity?

A. Reporting of net income.

B. Issuing stock to stockholders in exchange for cash.

C. The declaration of a cash dividend.

D. The purchase of a factory building.

The purchase of a factory building, an item of property, whether paid for in cash or financed with a liability, does not affect the income statement and therefore will not affect retained earnings.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

78. Alpha Company issued 1,000 shares of $10 par value common stock to stockholders, in exchange for $15,000 cash. Which of the following correctly describes the impact of this transaction on Alpha's financial statements?

A. A $15,000 investment is reported as a long-term investment.

B. Stockholders have invested $25,000 as stockholders' equity.

C. Common stock is reported at $15,000 as a liability.

D. Additional paid-in capital of $5,000 is reported in stockholders' equity.

Additional paid-in capital ($5,000) represents the excess of the selling price ($15,000) above the stock's par value ($10,000). Additional paid-in capital is a component of stockholders' equity.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders'Equity.

Topic Area: How Do Transactions Affect Accounts

79. Which of the following statements is incorrect?

A. Stockholders' equity accounts normally have credit balances.

B. Liability accounts are decreased by credits.

C. Stockholders' equity accounts are increased by credits.

D. Asset accounts are increased by debits.

Liability accounts are increased by credits.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

80. Selling stock to investors for cash would result in which of the following?

A. A debit to additional paid-in capital and a credit to cash.

B. A credit to both cash and additional paid-in capital.

C. A debit to cash and a credit to common stock.

D. A debit to cash and a credit to the investment account.

This transaction results in an increase in cash with a debit; common stock is a stockholders' equity account and is increased with a credit.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

81. Borrowing cash from a bank would result in which of the following?

A. A debit to cash and a credit to notes payable.

B. A debit to notes payable and a credit to cash.

C. A debit to both cash and notes payable.

D. A debit to cash and a credit to additional paid-in capital.

Cash is received and increased with a debit; the loan from the bank is recognized with a credit to notes payable.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

82. Which of the following journal entries is correct when common stock is sold for cash at a price greater than par value?

A. Cash
    Retained earnings
B. Cash
    Additional paid-in capital
    Common Stock
C. Cash
    Common Stock
D. Cash
    Common stock
    Additional paid-in capital

A. Option A

B. Option B

C. Option C

D. Option D

Common stock and additional paid-in capital are both credited when common stock is sold for more than par value.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools:

Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

83. Which of the following statements is false?

A. The common stock account has a credit balance.

B. The additional paid-in capital account has a credit balance.

C. Common stock may be issued for more than par value.

D. The par value of common stock represents the stock's market value.

The par value represents the minimum amount a stockholder must contribute.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Define the objective of financial reporting; the elements of the balance sheet; and the related key accounting assumptions and principles.

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

Topic Area: Overview of Accounting Concepts

84. A company purchases a delivery van by paying $5,000 cash and by signing a $25,000 note payable.

Which of the following correctly describes the recording of the delivery van purchase?

A. The delivery van account is debited for $25,000.

B. Notes payable is debited for $25,000.

C. The delivery van account is debited for $30,000.

D. Cash is debited for $5,000.

The cost of the asset is recorded at cash paid plus all noncash considerations. The delivery van account is debited for $30,000. ($5,000 + $25,000 = $30,000).

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do CompaniesKeepTrack ofAccountBalances

85. Cadet Company paid an account payable of $1,000. This transaction should be recorded on the payment date as follows:

A.

Accounts payable	1,000	
Cash		1,000

B.

Cash	1,000	
Accounts payable		1,000

C.

Notes Payable	1,000	
Cash		1,000

D.

Cash	1,000	
Cost of Goods Sold		1,000

A. Option A

B. Option B

C. Option C

D. Option D

Accounts Payable is reduced with a debit, and cash is reduced with a credit.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

86. Centex, Inc. issued 50,000 shares of its $1 par value common stock for $20 per share.

The journal entry to record the stock issue would include which of thefollowing?

A. A credit to cash for $1,000,000.

B. A credit to additional paid-in capital for $1,000,000.

C. A credit to additional paid-in capital for $50,000.

D. A credit to common stock for $50,000.

The credit to common stock is for the par value of the shares issued.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

87. Which of the following correctly describes the recording of a dividend declaration by a company's board of directors?

A. A debit to retained earnings and a credit to cash.

B. A debit to additional paid-in capital and a credit to dividends payable.

C. A debit to cash and a credit to retained earnings.

D. A debit to retained earnings and a credit to dividends payable.

Dividends are a reduction to retained earnings. A debit to retained earnings decreases this account, and declaring dividends is recorded with a credit to dividends payable.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

88. Superior has provided the following information for its recent year of operation:

The common stock account balance at the beginning of the year was $20,000 and the year-end balance was $25,000.

The additional paid-in capital account balance increased $2,500 during the year. The retained earnings balance at the beginning of the year was $75,000 and the year-end balance was $91,000.

Net income was $26,000.

How much were Superior's dividend declarations during its recent year of operation?

A. $10,000.

B. $42,000.

C. $26,000.

D. The dividend declarations can not be determined given the above information.

Ending retained earnings ($91,000) = Beginning retained earnings ($75,000) + Net income ($26,000) - Dividends declared ($10,000).

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: ACloserLook AtFinancial StatementFormatAnd Notes

89. Superior has provided the following information for its recent year of operation:

The common stock account balance at the beginning of the year was $20,000 and the year-end balance was $25,000.

The additional paid-in capital account balance increased $2,500 during the year. The retained earnings balance at the beginning of the year was $75,000 and the year-end balance was $91,000.

Net income was $26,000.

How much did Superior sell its common stock for during the year?

A. $5,000.

B. $2,500.

C. $7,500.

D. $27,500.

The increase in the common stock account ($5,000) plus the increase in additional paid-in capital ($2,500) equals the selling price of the common stock ($7,500).

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

90. Which of the following statements is correct?

A. Assets normally have a credit balance and are increased with debits.

B. Assets normally have a debit balance and are increased with credits.

C. Liability accounts normally have debit balances and are increased with debits.

D. Stockholders' equity accounts normally have credit balances and are increased with credits.

An account balance increases on the same side as the normal balance. Stockholders' equity accounts have a normal credit balance and are increased with credits.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

91. Which of the following journal entries is correct when a business entity purchases land costing $30,000 by signing a one-year note payable?

A. Cash	30,000	
Notes Payable		30,000
B. Land	30,000	
Accounts payable		30,000
C. Land	30,000	
Notes Payable		30,000
D. Notes Payable	30,000	
Land		30,000

A. Option A

B. Option B

C. Option C

D. Option D

The transaction results in the company receiving an asset, land, and incurring a liability, notes payable. This results in a debit to land to increase the land account, and a credit to notes payable to recognize and record the liability.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

92. Which of the following journal entries is correct when a business entity issues common stock, above par value, to stockholders in exchange for cash?

A. Cash
    Common stock
    Retained Earnings
B. Cash
    Common stock
    Additional paid-in capital
C. Cash
    Investments
D. Common stock
    Cash

A. Option A

B. Option B

C. Option C

D. Option D

Cash is received in the transaction; the cash account is increased with a debit. Stock is being issued in exchange for the cash so a credit to common stock and additional paid-in capital is required.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Apply

Difficulty:1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

93. Which of the following journal entries is correct when a business entity purchases a building by paying cash and by signing a note payable for the balance?

A. Building
    Cash
    Notes Payable
B. Building
    Cash
C. Cash
    Notes Payable
        Building
D. Building
    Cash
        Notes Payable

A. Option A

B. Option B

C. Option C

D. Option D

The company receives an asset, the building, and to record this asset a debit to the building account is required. To acquire the building the company gives up an asset, cash, and credits this account. To complete the transaction the company also took on a liability and needs to record this with a credit to notes payable.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do CompaniesKeepTrack ofAccountBalances

94. Which of the following journal entries is correct when a business entity pays cash for advertising to be used next year?

A. Cash
    Advertising expense
B. Advertising expense
    Cash
C. Cash
    Prepaid advertising expense
D. Prepaid advertising expense
    Cash

A. Option A

B. Option B

C. Option C

D. Option D

Advertising is purchased in advance of use and therefore is recorded in a balance sheet account. The prepaid advertising expense account needs to be increased with a debit; cash is paid and recorded with a credit to cash.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

95. Which of the following journal entries is correct when a business entity uses cash to pay an account payable?

A. Accounts Payable
    Cash
B. Accounts Receivable
    Cash
C. Cash
    Accounts Payable
D. Cash
    Notes Payable

A. Option A

B. Option B

C. Option C

D. Option D

Both the accounts payable and cash accounts need to be decreased as a result of this transaction. This is recorded with a debit to accounts payable and a credit to cash.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Topic Area: How Do Companies Keep Track of Account Balances

96. Which of the following transactions would result in an increase in the current ratio?

A. Collection of cash from an account receivable.

B. Selling shares of stock to stockholders in exchange for cash.

C. Purchasing a building with cash.

D. Declaration of a cash dividend by the board of directors.

The current ratio is current assets divided by current liabilities. Receiving cash increases current assets. Issuing common stock increases stockholders' equity and does not impact current assets or current liabilities. Therefore, the increase in the numerator of the ratio will increase the ratio.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

97. Which of the following transactions would result in a decrease in the current ratio?

A. Collection of cash from an account receivable.

B. Selling shares of stock to stockholders in exchange for cash.

C. Purchasing a delivery vehicle by signing a long-term note payable.

D. Purchasing land by paying cash.

The current ratio is current assets divided by current liabilities. A cash payment reduces current assets and decreases the current ratio. Land is a long-term asset and does not affect the current ratio.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

98. Which of the following account balances would not be included in the calculation of the current ratio?

A. Accounts receivable.

B. Short-term notes payable.

C. Equipment.

D. Supplies.

The current ratio is current assets divided by current liabilities. Equipment is a long-term asset.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

99. Which of the following statements does not properly describe the current ratio?

A. It measures the ability of a firm to pay its debts in the short-run.

B. It is current assets divided by current liabilities.

C. It is a measure of a firm's short-run liquidity.

D. It measures a firm's ability to pay its long-term debts as they mature.

The current ratio is a measure of short term liquidity. It does not measure a firm's ability to pay its long-term debt.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

100. The Pioneer Company has provided the following account balances:

Cash $38,000; Short-term

investments $4,000; Accounts

receivable $48,000; Supplies

$6,000; Long-term notes

receivable $2,000; Equipment

$96,000; Factory Building

$180,000; Intangible assets $6,000;

Accounts payable $30,000;

Accrued liabilities payable $4,000;

Short-term notes payable $14,000;

Long-term notes payable

$92,000; Common stock $180,000;

Retained earnings $60,000.

What are Pioneer's total current assets?

A. $48,000.

B. $96,000.

C. $90,000.

D. $42,000.

Current assets = $96,000 = $38,000 + $4,000 + $48,000 + $6,000.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

101. The Pioneer Company has provided the following account balances:

Cash $38,000; Short-term investments $4,000; Accounts receivable $48,000; Supplies $6,000; Long-term notes receivable $2,000; Equipment $96,000; Factory Building $180,000; Intangible assets $6,000; Accounts payable $30,000; Accrued liabilities payable $4,000; Short-term notes payable $14,000; Long-term notes payable $92,000; Common stock $180,000; Retained earnings $60,000.

What are Pioneer's total current liabilities?

A. $44,000.

B. $34,000.

C. $48,000.

D. $140,000.

Current liabilities = $48,000 = $30,000 + $4,000 + $14,000.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

102. The Pioneer Company has provided the following account balances:

Cash $38,000; Short-term investments $4,000; Accounts receivable $48,000; Supplies $6,000; Long-term notes receivable $2,000; Equipment $96,000; Factory Building $180,000; Intangible assets $6,000; Accounts payable $30,000;

Accrued liabilities payable $4,000;

Short-term notes payable $14,000;

Long-term notes payable

$92,000; Common stock $180,000;

Retained earnings $60,000.

What is Pioneer's current ratio?

A. 2.00.

B. 2.17.

C. 2.71.

D. 1.00.

Current assets = $96,000 = $38,000 + $4,000 + $48,000 + $6,000. Current liabilities = $48,000 = $30,000 + $4,000 + $14,000. Current ratio = 2 = $96,000 ÷ $48,000.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

103. At the beginning of April, Warren Corporation's assets totaled $240,000 andliabilities totaled $60,000. During April the following summarized transactions occurred:

Additional shares of stock were sold for $20,000 cash.

A building costing $95,000 was purchased using $10,000 cash and by signing an $85,000 long-term note payable.

Short-term investments costing $9,000 were purchased using cash.

$10,000 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.

How much are Warren's total assets at the end of April?

A. $335,000.

B. $249,000.

C. $345,000.

D. $250,000.

Total assets = $345,000 = $240,000 + $20,000 + $95,000 - $10,000 (building payment).

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current *ratio.*

Topic Area: How Is the Balance Sheet Prepared and Analyzed

104. At the beginning of April, Warren Corporation's assets totaled $240,000 andliabilities totaled $60,000. During April the following summarized transactions occurred:

Additional shares of stock were sold for $20,000 cash.

A building costing $95,000 was purchased using $10,000 cash and by signing an $85,000 long-term note payable.

Short-term investments costing $9,000 were purchased using cash.

$10,000 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.

How much are Warren's total liabilities at the end of April?

A. $145,000.

B. $155,000.

C. $165,000.

D. $135,000.

Total liabilities = $145,000 = $60,000 + $85,000.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

105. Tiger Company's total stockholders' equity at the beginning of the year was $175,000. During the year Tiger reported the following:

Net income of $79,000.

Dividend declarations totaling $17,000.

Issued stock to stockholders in exchange for $42,000 cash. Borrowed $20,000 from a stockholder.

What is Tiger's total stockholders' equity at the end of the year?

A. $296,000.

B. $279,000.

C. $290,000.

D. $273,000.

Total stockholders' equity = $279,000 = $175,000 + $79,000 - $17,000 + $42,000.

Borrowing money affects cash and liabilities regardless of who is the lender.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

106. ABC Company's total stockholders' equity at the beginning of the year was $200,000. During the year ABC reported the following:

Net loss of $30,000.

Stock issued in exchange for land totaling $80,000.

Collections of accounts receivable $40,000. Dividends declared and paid totaling $2000.

What is ABC's total stockholders' equity at the end of the year?

A. $348,000.

B. $288,000.

C. $248,000.

D. $168,000.

$200,000 - $30,000 + $80,000 - $2,000 = $248,000 total stockholders' equity at the end of the year; collections of accounts receivable only affects cash and accounts receivable, but not equity.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Topic Area: How Is the Balance Sheet Prepared and Analyzed

107. Which of the following transactions would create an increase in cash from a financing activity?

A. Issuing shares of common stock to stockholders in exchange for cash.

B. Selling a short-term stock investment in exchange for cash.

C. Selling used equipment, which was a part of property, and equipment for cash.

D. The payment of an account payable.

Financing cash flow activities include borrowing and repaying debt, issuing and repurchasing stock, and paying dividends.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

108. Which of the following best describe financing activities?

A. They primarily deal with securing money by bank loans or selling stock to investors.

B. They primarily are connected to the income-producing activities ofthe company as reported on the income statement.

C. They primarily deal with buying buildings to be used over many years by thebusiness.

D. They primarily deal with selling facilities once used by the business.

Financing cash flow activities include borrowing and repaying debt, issuing and repurchasing stock, and paying dividends.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

109. Which of the following would cause a decrease in cash from investing activities?

A. Purchasing shares of stock of another company.

B. Paying a cash dividend to stockholders.

C. Issuing additional shares of the company's common stock.

D. Using cash to purchase supplies.

Investing cash flow activities include buying and selling noncurrent assets and investments.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

110. Which of the following would result when a company borrows cash and signs a note payable that is due in two years?

A. A noncurrent liability and an investing cash flow are created.

B. A noncurrent liability and a financing cash flow are created.

C. A current liability and an investing cash flow are created.

D. A current liability and a financing cash flow are created.

The note is noncurrent because it is due in two years. The cash flow is created from borrowing money, and categorized as a financing cash flow.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

111. Which of the following would result when a company sells additional shares of common stock for cash?

A. A noncurrent liability and a financing cash flow are created.

B. Common stock increases and a financing cash flow results.

C. A noncurrent liability and an investing cash flow are created.

D. Common stock increases and an investing cash flow results.

Selling additional shares of stock increases common stock and additional paid-in capital. Financing cash flow activities include issuing common stock.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

112. Which of the following would result when a company purchases a factory building usingcash?

A. A noncurrent asset and an investing cash flow are created.

B. A noncurrent asset and a financing cash flow are created.

C. A current asset and an investing cash flow are created.

D. A current asset and a financing cash flow are created.

Buildings are classified as noncurrent assets. Investing cash flows are created with the purchase or sale of noncurrent assets.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

113. Which of the following would result when a company lends cash to a franchisee in exchange for a ten-month note receivable?

A. A noncurrent asset and an investing cash flow are created.

B. A noncurrent asset and a financing cash flow are created.

C. A current asset and a financing cash flow are created.

D. A current asset and an investing cash flow are created.

A ten-month note receivable is classified as a current asset. Investing cash flows include lending cash to others.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

114. Which of the following would result when a company pays a previously declared cash dividend?

A. Current liabilities are reduced and a financing cash flow is created.

B. Stockholders' equity is reduced and a financing cash flow is created.

C. Current assets are reduced and an investing cash flow is created.

D. Stockholders' equity is reduced and an investing cash flow is created.

Declaring a dividend creates a dividend payable. Paying the dividend reduces this current liability account. Paying dividends are classified as financing cash flows.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

115. Which of the following would be classified as financing cash flows on a cash flowstatement?

1. Paying cash dividends.
2. Lending cash to others.
3. Issuing stock for cash.
4. Purchasing long-term assets for cash.
5. Repurchasing stock with cash.

A. 1, 2,5.

B. 2, 3, 4.

C. 1, 3, 5.

D. 2, 4, 5.

Financing cash flow activities include issuing and repurchasing stock and paying dividends.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN:Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

116. Which of the following would be classified as investing cash flows on a cash flow statement?

1. Acquiring a building by signing a long-term mortgage payable.
2. Lending cash to others.
3. Issuing stock for cash.
4. Purchasing long-term assets for cash.
5. Selling stock investments for cash.

A. 1, 4, 5.

B. 1, 2, 4.

C. 1, 3, 5.

D. 2, 4, 5.

Investing cash flows include lending cash to others, purchasing and selling noncurrent assets and investments.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.

Topic Area: Focus on Cash Flows

117. Which of the following statements is false?

A. Investing cash flows include the cash flows associated with lending money to others.

B. Financing cash flows include the cash flows associated with issuing and repurchasing stock.

C. Financing cash flows include the cash flows associated with borrowing and repaying debt excluding short-term bank loans.

D. Investing cash flows include the cash flows associated with buying and selling noncurrent assets.

Financing cash flow activities include short-term bank loans.