

Test Bank for Financial Accounting IFRS Edition 2nd Edition by Weygandt ISBN 1118285905 9781118285909

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CHAPTER 1 ACCOUNTING IN ACTION

CHAPTER LEARNING OBJECTIVES

1. ***Explain what accounting is.*** Accounting is an information system that identifies, records, and communicates the economic events of an organization to interested users.
2. ***Identify the users and uses of accounting.*** The major users and uses of accounting are as follows: (a) Management uses accounting information to plan, organize, and run the business. (b) Investors (owners) decide whether to buy, hold, or sell their financial interests on the basis of accounting data. (c) Creditors (suppliers and bankers) evaluate the risks of granting credit or lending money on the basis of accounting information. Other groups that use accounting information are taxing authorities, regulatory agencies, customers, labor unions, and economic planners.
3. ***Understand why ethics is a fundamental business concept.*** Ethics are the standards of conduct by which actions are judged as right or wrong. Effective financial reporting depends on sound ethical behavior.
4. ***Explain accounting standards and the measurement principles.*** Accounting is based on standards, such as International Financial Reporting Standards (IFRS). IFRS generally uses one of two measurement principles, the historical cost principle or the fair value principle. Selection of which principle to follow generally relates to trade-offs between relevance and faithful representation.
5. ***Explain the monetary unit assumption and the economic entity assumption.*** The monetary unit assumption requires that companies include in the accounting records only transaction data that can be expressed in terms of money. The economic entity assumption requires that the activities of each economic entity be kept separate from the activities of its owners and other economic entities.
6. ***State the accounting equation, and define its components.*** The basic accounting equation is:
$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Assets are resources a business owns. Liabilities are creditors' claims on total assets. Equity is the ownership claim on total assets.

$$\begin{aligned} &\text{The expanded accounting equation is:} \\ \text{Assets} &= \text{Liabilities} + \text{Share Capital—Ordinary} \\ &+ \text{Revenues} - \text{Expenses} - \text{Dividends} \end{aligned}$$

Share capital—ordinary is affected when the company issues new ordinary shares in exchange for cash. Revenues are increases in assets resulting from income-earning activities. Expenses are the costs of assets consumed or services used in the process of earning revenue. Dividends are payments the company makes to its shareholders.

7. **Analyze the effects of business transactions on the accounting equation.** Each business transaction must have a dual effect on the accounting equation. For example, if an individual asset increases, there must be a corresponding (1) decrease in another asset, or (2) increase in a specific liability, or (3) increase in equity.
8. **Understand the four financial statements and how they are prepared.** An income statement presents the revenues and expenses, and resulting net income or loss, for a specific period of time. A retained earnings statement summarizes the changes in retained earnings for a specific period of time. A statement of financial position reports the assets, liabilities, and equity at a specific date. A statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.
9. **Explain the career opportunities in accounting.** Accounting offers many different jobs in fields such as public and private accounting, government, and forensic accounting. Accounting is a popular major because there are many different types of jobs, with unlimited potential for career advancement.

TRUE-FALSE STATEMENTS

1. Owners of business firms are the only people who need accounting information.
 Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting
2. Transactions that can be measured in dollars and cents are recorded in the financial information system.
 Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting
3. The hiring of a new company president is an economic event recorded by the financial information system.

Ans: F LO1 BT: C Difficulty: Easy TOT: .5 min AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

4. Management of a business enterprise is the major external user of information.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

5. Accounting communicates financial information about a business enterprise to both internal and external users.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

6. Accounting information is used only by external users with a financial interest in a business enterprise.

Ans: F LO2 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

7. Financial statements are the major means of communicating accounting information to interested parties.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

8. Bookkeeping and accounting are one and the same because the bookkeeping function includes the accounting process.

Ans: F LO2 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

9. The origins of accounting are attributed to Luca Pacioli, a famous mathematician.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

10. The State Administration of Taxation in the People's Republic of China is an example of an internal user of accounting information.

Ans: F LO2 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

11. The German Confederation of Trade Unions is an example of an external user of accounting information.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

12. Accountants rely on a fundamental business concept—ethical behavior—in reporting financial information.

Ans: T LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

13. The primary accounting standard-setting body in the United States is the International Accounting Standards Board.

Ans: F LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

14. The Financial Accounting Standards Board is a part of the International Accounting Standards Board.

Ans: F LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

15. The two primary accounting standard-setting bodies are the International Accounting Standards Board and the Financial Accounting Standards Board.

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

16. Most companies in the United States follow standards issued by the IASB.

Ans: F LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

17. International Financial Reporting Standards are determined by the IASB.

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

18. The process of reducing the differences between Generally Accepted Accounting Principles and International Financial Reporting Standards is known as convergence.

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

19. IFRS follows one measurement principle known as the historical cost principle.

Ans: F LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

20. Even though a partnership is not a separate legal entity, for accounting purposes the partnership affairs should be kept separate from the personal activities of the owners.

Ans: T LO5 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

21. The economic entity assumption requires that the activities of an entity be kept separate and distinct from the activities of its owner and all other economic entities.

Ans: T LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

22. The monetary unit assumption states that transactions that can be measured in terms of money should be recorded in the accounting records.

Ans: T LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

23. In order to possess future service potential, an asset must have physical substance.

Ans: F LO6 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

24. Owners' claims to total business assets take precedence over the claims of creditors because owners invest assets in the business and are liable for losses.

Ans: F LO6 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

25. The basic accounting equation states that Assets = Liabilities.

Ans: F LO6 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

26. Share capital is the total amount paid in by shareholders for shares purchased.

Ans: T LO6 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

27. The principal source of equity is amounts paid in by shareholders.

Ans: F LO6 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

28. Expenses are increases in equity that result from operating the business.

Ans: F LO6 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

29. The two components of equity are retained earnings and share capital.

Ans: T LO6 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

30. The purchase of an asset on account increases assets and decreases equity.

Ans: F LO7 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

31. Providing services for cash increases assets and equity.

Ans: T LO7 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

32. Accountants record both internal and external transactions.

Ans: T LO7 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

33. Internal transactions do not affect the basic accounting equation because they are economic events that occur entirely within one company.

Ans: F LO7 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

34. The purchase of store equipment for cash reduces the equity by an equal amount.

Ans: F LO7 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

35. The purchase of office equipment on credit increases total assets and total liabilities.

Ans: T LO7 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

36. The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments of a company during a period.

Ans: T LO8 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

37. Net income for the period is determined by subtracting total expenses and dividends from total revenues.

Ans: F LO8 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

38. The ending retained earnings balance is reported on the statement of financial position.

Ans: T LO8 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

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

Ans: T LO8 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

40. Compared to IFRS, GAAP tend to be simpler and less detailed.

Ans: F LO8 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

41. Foreign companies whose shares are traded on U.S. stock markets must use GAAP.

Ans: F LO8 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

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^a42. The study of accounting is not useful for a business career unless your career objective is to become an accountant.

Ans: F LO9 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

^a43. Expressing an opinion as to the fairness of the information presented in financial statements is a service performed by CAs and CPAs.

Ans: T LO9 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Additional True-False Questions

44. Identifying is the process of keeping a chronological diary of events measured in dollars and cents.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

45. Management consulting includes examining the financial statements of companies and expressing an opinion as to the fairness of their presentation.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

46. Accountants do not have to worry about issues of ethics.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Ethics AICPA BB: Critical Thinking AICPA FN: Reporting

47. The monetary unit assumption requires that all dollar amounts be rounded to the nearest dollar.

Ans: F LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

48. The basic accounting equation is in balance when the creditor and ownership claims against the business equal the assets.

Ans: T LO6 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

49. External transactions involve economic events between the company and some other enterprise or party.

Ans: T LO7 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

50. In the retained earnings statement, revenues are listed first, followed by expenses, and net income (or net loss).

Ans: F LO8 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Answers to True-False Statements

Item	Ans	Item	Ans	Item	Ans	Item	Ans	Item	Ans	Item	Ans	Item	Ans

1.	F	9.	T	17.	T	25.	F	33.	F	41.	F	49.	T
2.	T	10.	F	18.	T	26.	T	34.	F	42.	F	50.	F
3.	F	11.	T	19.	F	27.	F	35.	T	43.	T		
4.	F	12.	T	20.	T	28.	F	36.	T	44.	F		
5.	T	13.	F	21.	T	29.	T	37.	F	45.	F		
6.	F	14.	F	22.	T	30.	F	38.	T	46.	F		
7.	T	15.	T	23.	F	31.	T	39.	T	47.	F		
8.	F	16.	F	24.	F	32.	T	40.	F	48.	T		

MULTIPLE CHOICE QUESTIONS

51. Accountants refer to an economic event as a
- purchase.
 - sale.
 - transaction.
 - change in ownership.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

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52. The accounting process includes each of the following except
- communication.
 - convergence.
 - identification.
 - recording.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

53. Communication of economic events is the part of the accounting process that involves
- identifying economic events.
 - quantifying transactions into dollars and cents.
 - preparing accounting reports.
 - recording and classifying information.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

54. Which of the following events cannot be quantified into dollars and cents and recorded as an accounting transaction?
- The appointment of a new accounting firm to perform an audit.
 - The purchase of a new computer.
 - The sale of store equipment.
 - Payment of income taxes.

Ans: a LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

55. Recording of economic events involves
- keeping a systematic, chronological diary of events.
 - analyzing reported information.
 - explaining the meaning of reported data.
 - preparing accounting reports.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

56. The accounting process involves all of the following except
- identifying economic events that are relevant to the business.
 - communicating financial information to users by preparing financial reports.
 - recording nonquantifiable economic events.
 - analyzing and interpreting financial reports.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

57. The accounting process is correctly sequenced as
- identification, communication, recording.
 - recording, communication, identification.
 - identification, recording, communication.
 - communication, recording, identification.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

58. Which of the following techniques is **not** used by accountants to interpret and report financial information?
- Graphs.
 - Special memos for each class of external users.
 - Charts.
 - Ratios.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

59. Bookkeeping primarily involves which of the following parts of the accounting process?
- Identification.
 - Communication.
 - Recording.
 - Analysis.

Ans: c LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

60. Which of the following would **not** be considered an external user of accounting data for the GHI Company?
- Taxing authority representative.
 - Management.
 - Creditors.
 - Customers.

Ans: b LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

61. Which of the following would **not** be considered internal users of accounting data for a company?
- The president of a company.
 - The controller of a company.
 - Creditors of a company.
 - Salesmen of a company.

Ans: c LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

62. Which of the following is an external user of accounting information?
- Labor unions.
 - Finance directors.
 - Company officers.
 - Managers.

Ans: a LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

63. Which one of the following is **not** an external user of accounting information?
- Regulatory agencies.
 - Customers.
 - Investors.
 - All of these answer choices are correct.

Ans: d LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

64. Which of the following would **not** be considered an internal user of accounting data for GHI Company?
- President of the company.
 - Production manager.
 - Merchandise inventory clerk.
 - President of the employees' labor union.

Ans: d LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

65. Internal users of accounting information include all of following except the
- CEO of Sony.
 - Human Resources department at Hyundai.
 - Marketing department at Braun.
 - Shareholders of Airbus.

Ans: d LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

66. Internal users of accounting information include
- the shareholders of Royal Dutch Shell.
 - the State Administration of Taxation of China.
 - the Chief Financial officer of Credit Suisse.
 - the International Accounting Standards Board.

Ans: c LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

67. External users of accounting information include all of following except
- the shareholders of Air Italy.
 - the management of Pirelli.
 - a potential customers of Olivetti.
 - All of these answer choices are correct.

Ans: b LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

68. External users of accounting information include the
- International Accounting Standards Board.
 - shareholders of Ferragamo.
 - Marketing department at Olivetti.
 - CEO of Air Italy.

Ans: b LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

69. The origins of accounting are generally attributed to the work of
- Christopher Columbus.
 - Abner Doubleday.
 - Luca Pacioli.
 - Leonardo da Vinci.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

70. Financial accounting provides economic and financial information for each of the following **except**
- creditors.
 - investors.

- c. managers.
- d. other external users.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

71. The final step in solving an ethical dilemma is to
- a. identify and analyze the principal elements in the situation.
 - b. recognize an ethical situation.
 - c. identify the alternatives and weigh the impact of each alternative on stakeholders.
 - d. recognize the ethical issues involved.

Ans: c LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

72. The first step in solving an ethical dilemma is to
- a. identify and analyze the principal elements in the situation.
 - b. identify the alternatives.
 - c. recognize an ethical situation and the ethical issues involved.
 - d. weigh the impact of each alternative on various stakeholders.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Ethics AICPA BB:
Critical Thinking AICPA FN: Reporting

73. Ethics are the standards of conduct by which one's actions are judged as
- a. right or wrong.
 - b. honest or dishonest.
 - c. fair or unfair.
 - d. All of these answer choices are correct.

Ans: d LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Ethics AICPA BB:
Critical Thinking AICPA FN: Reporting

74. The historical cost principle requires that companies record assets at their
- a. appraisal value.
 - b. cost.
 - c. market price.
 - d. list price.

Ans: b LO4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

75. IFRS are determined by the
- a. Internal Accounting Standards Body.

- b. International Accounting Studies Board.
- c. International Accounting Standards Board.
- d. International Auditors' Standards Body.

Ans: c LO4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

76. GAAP stands for
- a. Generally Accepted Auditing Procedures.
 - b. Generally Accepted Accounting Principles.
 - c. Generally Accepted Auditing Principles.
 - d. Generally Accepted Accounting Procedures.

Ans: b LO4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

77. The Duce Company has five plants nationwide that cost \$200 million. The current fair value of the plants is \$500 million. The plants will be recorded and reported as assets at a.
- a. \$200 million.
 - b. \$700 million.
 - c. \$300 million.
 - d. \$500 million.

Ans: a LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

78. Convergence refers to
- a. using the same accounting principles from one period to the next.
 - b. use of the same accounting principles by all companies.
 - c. the elimination of all accounting standard-setting bodies except the International Accounting Standards Board.
 - d. the process of reducing the differences between IFRS and GAAP.

Ans: d LO4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

79. The body that has the power to prescribe the accounting practices and standards used by most US companies is the
- a. FASB.
 - b. IASB.
 - c. GAAP.
 - d. IFRS.

Ans: a LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

80. The fair value principle

- a. is one of the two costing principles followed by the IASB.
- b. is more useful than the historical cost principle for valuing some assets.
- c. dictates that an asset should be valued at the price at which it could be sold.
- d. All of these answer choices are correct.

Ans: d LO4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

81. Most assets should be valued at cost because fair values

- a. are not useful for decision-making.
- b. may not be representationally faithful.
- c. are not relevant.
- d. may be higher or lower than historical cost.

Ans: b LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

82. Harrod's Inc. purchased land for £55,000 in 2004. At December 31, 2014, an appraisal determined the fair value of the land is £65,000. If Harrod's follows the historical cost principle, in the 2014 financial statements, the land will be reported at a. £55,000 on the statement of financial position.

- b. £65,000 on the statement of financial position.
- c. £55,000 on the income statement.
- d. £65,000 on the income statement.

Ans: a LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

83. Hyundai Inc. purchased land for ₩118,000,000 in 2005. At December 31, 2014, an appraisal determined the fair value of the land is ₩136,000,000. If Hyundai follows the cost principle, the land will be reported on the statement of financial position at a. ₩100,000,000.

- b. ₩118,000,000.
- c. ₩136,000,000.
- d. ₩154,000,000.

Ans: b LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

84. Bumi Corporation purchased an investment in the ordinary shares of another corporation for Rp250,000,000 in 2012. The shares are actively traded on the Indonesian Stock Exchange. The fair value of the investment at December 31, 2014 is Rp268,000,000. If the company follows the fair value principle, the investment will be reported in the 2014 financial statement at
- Rp250,000,000 on the statement of financial position.
 - Rp268,000,000 on the statement of financial position.
 - Rp250,000,000 on the retained earnings statement.
 - Rp268,000,000 on the retained earnings statement.

Ans: b LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

85. Asian Company purchased land for ₩92,000,000 in 2000. At December 31, 2014, an appraisal determined the fair value of the land is ₩106,000,000. The company has an investment in the ordinary shares of another company for which it paid ₩49,000,000 in 2012. The shares are actively traded on the South Korea Stock Exchange. The fair value of the investment at December 31, 2014 is ₩63,000,000. The land and investment will be reported on the December 31, 2014 statement of financial position at a. ₩92,000,000 and ₩49,000,000, respectively.
- ₩92,000,000 and ₩63,000,000, respectively.
 - ₩106,000,000 and ₩49,000,000, respectively.
 - ₩106,000,000 and ₩63,000,000, respectively.

Ans: b LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

86. The proprietorship form of business organization
- must have at least three owners in most states.
 - requires that the owner be personally liable for all debts of the business.
 - combines the records of the business with the personal records of the owner.
 - is characterized by a legal distinction between the business as an economic unit and the owner.

Ans: b LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

87. The economic entity assumption requires that the activities
- of different entities can be combined if all the entities are corporations.
 - must be reported to the Securities and Exchange Commission.
 - of a sole proprietorship cannot be distinguished from the personal economic events of its owners.
 - of an entity be kept separate from the activities of its owner.

Ans: d LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

88. A business organized as a corporation
- is not a separate legal entity in most countries.
 - requires that shareholders be personally liable for the debts of the business.
 - is owned by its shareholders.
 - terminates when one of its original shareholders dies.

Ans: c LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

89. The partnership form of business organization
- is a separate legal entity.
 - is a common form of organization for service-type businesses.
 - enjoys an unlimited life.
 - has limited liability.

Ans: b LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

90. Which of the following is **not** an advantage of the corporate form of business organization?
- Limited liability of shareholders
 - Transferability of ownership
 - Unlimited personal liability for shareholders
 - Unlimited life

Ans: c LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

91. A small neighborhood barber shop that is operated by its owner would likely be organized as a
- joint venture.
 - partnership.
 - corporation.
 - proprietorship.

Ans: d LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

92. John and Sam met at law school and decide to start a small law practice after graduation. They agree to split revenues and expenses evenly. The most common form of business organization for a business such as this would be a
- joint venture.
 - partnership.
 - corporation.
 - proprietorship.

Ans: b LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

93. Which of the following is true regarding the corporate form of business organization?
- Corporations are the most prevalent form of business organization.
 - Corporate businesses are generally smaller in size than partnerships and proprietorships.
 - The revenues of corporations are greater than the combined revenues of partnerships and proprietorships.
 - Corporations are separate legal entities organized exclusively under federal law.

Ans: c LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

94. A basic assumption of accounting that requires activities of an entity be kept separate from the activities of its owner is referred to as the
- stand alone concept.
 - monetary unit assumption.
 - corporate form of ownership.
 - economic entity assumption.

Ans: d LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

95. The assumption that enables accounting to quantify (measure) economic events is the
- economic entity assumption.
 - cost principle.
 - historical cost principle.
 - monetary unit assumption.

Ans: d LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

96. A business whose owners enjoy limited liability is a
- proprietorship.
 - partnership.
 - corporation.

d. sole proprietorship.

Ans: c LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

97. The common characteristic possessed by all assets is
- long life.
 - great monetary value.
 - tangible nature.
 - future economic benefit.

Ans: d LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

98. Equity is best depicted by the following:
- Assets = Liabilities.
 - Liabilities + Assets.
 - Residual equity + Assets.
 - Assets – Liabilities.

Ans: d LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

99. The basic accounting equation may be expressed as
- Assets \square Equity = Liabilities.
 - Assets – Liabilities = Equity.
 - Assets = Liabilities + Equity.
 - All of these answer choices are correct.

Ans: d LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

100. Liabilities
- are future economic benefits.
 - are existing debts and obligations.
 - possess service potential.
 - are things of value used by the business in its operation.

Ans: b LO6 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

101. Liabilities of a company would **not** include
- notes payable.
 - accounts payable.

- c. wages payable.
- d. cash.

Ans: d LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

102. Liabilities of a company are owed to
- a. debtors.
 - b. benefactors.
 - c. creditors.
 - d. underwriters.

Ans: c LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

103. Equity can be described as
- a. creditorship claim on total assets.
 - b. ownership claim on total assets.
 - c. benefactor's claim on total assets.
 - d. debtor claim on total assets.

Ans: b LO6 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

104. Equity is often referred to as
- a. residual equity.
 - b. leftovers.
 - c. spoils.
 - d. second equity.

Ans: a LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

105. When assets are distributed to the shareholders of a corporation, these distributions are termed
- a. depletions.
 - b. consumptions.
 - c. dividends.
 - d. a credit line.

Ans: c LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

106. A dividend is
- a distribution of the company's earnings to its shareholders.
 - equal to liabilities minus equity.
 - equal to assets minus equity.
 - equal to revenues less expenses.

Ans: a LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

107. Revenues would **not** result from
- sale of merchandise.
 - issuance of ordinary shares.
 - performance of services.
 - rental of property.

Ans: b LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

108. Sources of increases to equity are
- issuance of shares.
 - purchases of merchandise.
 - dividends.
 - expenses.

Ans: a LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

109. The basic accounting equation **cannot** be restated as
- Assets – Liabilities = Equity.
 - Assets – Equity = Liabilities.
 - Equity + Liabilities = Assets.
 - Assets + Liabilities = Equity.

Ans: d LO6 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

110. Equity is decreased by all of the following except
- issuance of shares.
 - dividends.
 - expenses.
 - net losses.

Ans: a LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

111. If total liabilities increased by ¥35,000 and equity increased by ¥10,000 during a period of time, then total assets must change by what amount and direction during that same period?
- a. ¥45,000 decrease
 - b. ¥45,000 increase
 - c. ¥60,000 increase
 - d. ¥70,000 increase

Ans: b LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

112. If total liabilities decreased by ¥35,000 and equity increased by ¥10,000 during a period of time, then total assets must change by what amount and direction during that same period?
- a. ¥45,000 increase
 - b. ¥25,000 decrease
 - c. ¥25,000 increase
 - d. ¥35,000 decrease

Ans: b LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

113. If total liabilities decreased by ¥30,000 and equity increased by ¥5,000 during a period of time, then total assets must change by what amount and direction during that same period?
- a. ¥25,000 decrease
 - b. ¥25,000 increase
 - c. ¥30,000 increase
 - d. ¥35,000 increase

Ans: a LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

114. If total liabilities decreased by ¥35,000 and equity decreased by ¥10,000 during a period of time, then total assets must change by what amount and direction during that same period?
- a. ¥45,000 increase
 - b. ¥25,000 increase
 - c. ¥45,000 decrease
 - d. ¥25,000 decrease

Ans: c LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

115. If total liabilities increased by ¥26,000 during a period of time and equity decreased by ¥9,000 during the same period, then the amount and direction of the period's change in total assets is a(n)
- ¥26,000 increase.
 - ¥35,000 increase.
 - ¥17,000 decrease.
 - ¥17,000 increase.

Ans: d LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

116. The equity section of a statement of financial position has two components:
- share capital and liabilities.
 - assets and liabilities.
 - share capital and retained earnings.
 - share capital and assets.

Ans: c LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

117. A company increases its share capital by
- selling ordinary shares to its investors.
 - performing services for cash.
 - selling goods on account.
 - paying dividends to its shareholders.

Ans: a LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

118. The retained earnings section of the statement of financial position is determined by
- assets, liabilities and share capital.
 - revenues, expenses and share capital.
 - share capital, dividends and residual equity.
 - revenues, expenses and dividends.

Ans: d LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

119. All of the following transactions increase revenue except the
- sale of additional ordinary shares by British Airways.
 - sale of clothing by the French Connection.
 - performance of accounting services by PricewaterhouseCoopers.
 - sale of petroleum by Royal Dutch Shell.

Ans: a LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

120. As of December 31, 2014, Dolce & Gabbana Inc. had assets of €7,600,000, share capital of €2,800,000 and retained earnings of €3,200,000. Total liabilities as of that date are a. €0.
b. €1,600,000.
c. €4,800,000.
d. €13,600,000.

Ans: b LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

121. On its December 31, 2014 statement of financial position, Adaro Corporation reported liabilities of Rp5,132,000,000, share capital of Rp2,662,000,000 and retained earnings of Rp4,202,000,000. Total assets as of December 31, 2014 are a. Rp1,732,000,000.
b. Rp4,202,000,000.
c. Rp6,864,000,000.
d. Rp11,996,000,000.

Ans: d LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

122. As of December 31, 2014, Oxford-welsh Inc. had assets of £6,520,000, liabilities of £1,980,000, and share capital of £2,820,000. Retained earnings as of that date are a. £1,720,000.
b. £3,700,000.
c. £4,540,000.
d. £6,520,000.

Ans: a LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

123. As of December 31, 2014, Thames Company reported assets of £6,480,000, liabilities of £1,920,000 and retained earnings of £3,315,000. Share capital reported on the December 31, 2014 statement of financial position is a. £1,245,000.
b. £1,395,000.
c. £5,235,000.
d. £9,795,000.

Ans: a LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

124. As of December 31, 2014, Deitrich Inc. had assets of €13,050,000, liabilities of €4,650,000, share capital of €3,300,000 and retained earnings of €5,100,000. Total equity as of that date is
- €3,300,000.
 - €3,750,000.
 - €8,400,000.
 - €13,050,000.

Ans: c LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

125. As of December 31, 2014, Lojas Company reported assets of R\$7,400,000, liabilities of R\$2,200,000, share capital of R\$1,980,000 and retained earnings of R\$3,220,000. Total equity reported on the statement of financial position as of that date is
- R\$1,240,000.
 - R\$5,200 000.
 - R\$5,400 000.
 - R\$7,400.000.

Ans: b LO6 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

126. On January 11, 2014, Britannica Corporation sold ordinary shares to investors for £6,550,000. This transaction will increase assets and
- decrease liabilities by £6,550,000.
 - decrease equity by £6,550,000.
 - increase revenues by £6,550,000.
 - increase equity by £6,550,000.

Ans: d LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

127. Burgundy Inc. purchased supplies on account for €26,000. This transaction will
- increase liabilities and decrease equity by €26,000.
 - increase assets and decrease equity by €26,000.
 - increase assets and increase liabilities by €26,000.
 - have no effect on the accounting equation.

Ans: c LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

128. Sao Paulo Company performed services on account for R\$160,000. This transaction will
- increase assets and liabilities by R\$160,000.
 - increase assets and equity by R\$160,000.
 - increase liabilities and equity by R\$160,000.
 - have no effect on the accounting equation.

Ans: b LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

129. Bennoit Corporation paid dividends totaling €295,000 to its shareholders. This transaction will decrease assets and
- decrease equity by €295,000.
 - decrease liabilities by €295,000.
 - increase expenses by €295,000.
 - have no effect on the accounting equation.

Ans: a LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

130. Gafisa Inc. performed services for R\$195,000. The company collected R\$65,000 in cash. The balance will be collected in 30 days. Performing services for R\$195,000 will increase
- assets by R\$65,000 and equity by R\$130,000.
 - assets by R\$65,000, liabilities by R\$130,000 and equity by R\$195,000.
 - liabilities and equity by R\$195,000.
 - assets and equity by R\$195,000.

Ans: d LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

131. On June 6, Wing Wah Inc. purchased supplies on account for HK\$60,000. On June 30, the company paid half of the balance due. The June 30 payment will
- decrease Cash and increase Supplies Expense by HK\$ 60,000.
 - increase Cash and decrease Accounts Receivable by HK\$30,000.
 - decrease Cash and decrease Accounts Payable by HK\$30,000.
 - decrease Supplies and increase Supplies Expense by HK\$30,000.

Ans: c LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

132. On November 4, Vivo Company performed services on account for R\$295,000. On November 26, the company collected the balance due. The November 26 transaction will increase
- Cash and Accounts Payable by R\$295,000.
 - Accounts Receivable and Service Revenue by R\$295,000
 - Cash and decrease Accounts Receivable by R\$295,000
 - Service Revenue and decrease Accounts Receivable by R\$295,000.

Ans: c LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

133. Freirs Company paid the monthly rent of €6,000. This transaction will
- increase Cash and decrease Rent Expense by €6,000.
 - decrease Cash and decrease Rent Expense by €6,000.
 - decrease Cash and increase Rent Expense by €6,000.
 - have no effect on the accounting equation.

Ans: c LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

134. Vita Corporation performed services on account for €22,000. This transaction will
- increase Cash and increase Service Revenue by €22,000.
 - increase Accounts Receivable and increase Service Revenue by €22,000.
 - decrease Accounts Payable and increase Cash by €22,000.
 - increase Cash and decrease Accounts Receivable by €22,000.

Ans: b LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

135. On February 1, Potter Company paid £900 for advertisements to run during the month of February. This transaction will
- decrease Cash and increase Advertising Expense by £900.
 - increase Advertising Expense and increase Accounts Payable by £900.
 - decrease Accounts Payable and decrease Cash by £900.
 - decrease Cash and decrease Advertising Expense by £900.

Ans: a LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

136. McDonagal Inc. sold ordinary shares for £2,200,000. This transaction will increase
- Cash and increase Retained Earnings by £2,200,000.
 - Cash and increase Share Capital by £2,200,000.
 - Service Revenue and increase Share Capital by £2,200,000.
 - Service Revenue and increase Cash by £2,200,000.

Ans: b LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

137. An investment of cash by an owner of a business increases assets and
- increases liabilities.
 - increases equity.
 - decreases equity.
 - decreases liabilities.

Ans: b LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

138. The purchase of supplies on account increases assets and
- also decreases assets so there is no net change.
 - increases liabilities.
 - decreases equity.
 - increases equity.

Ans: b LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

139. A payment on account decreases
- assets and equity.
 - liabilities and equity.
 - assets and liabilities.
 - assets, liabilities and equity.

Ans: c LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA
BB: Critical Thinking AICPA FN: Reporting

140. The accounting equation for Gudgeyes Enterprises is as follows:

$$\begin{array}{r} \text{Assets} \\ \$140,000 \end{array} = \begin{array}{r} \text{Liabilities} \\ \$60,000 \end{array} + \begin{array}{r} \text{Equity} \\ \$80,000 \end{array}$$

If Gudgeyes purchases office equipment on account for \$12,000, the accounting equation will change to

$$\begin{array}{r} \text{Assets} \\ \text{a. } \$140,000 \\ \text{b. } \$152,000 \\ \text{c. } \$152,000 \\ \text{d. } \$152,000 \end{array} = \begin{array}{r} \text{Liabilities} \\ \$60,000 \\ \$60,000 \\ \$76,000 \\ \$72,000 \end{array} + \begin{array}{r} \text{Equity} \\ \$80,000 \\ \$92,000 \\ \$76,000 \\ \$80,000 \end{array}$$

Ans: d LO7 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

141. As of June 30, 2014, Dallas Company has assets of \$140,000 and equity of \$10,000. What are the liabilities for Dallas Company as of June 30, 2014?
- \$150,000
 - \$120,000
 - \$130,000
 - \$140,000

Ans: c LO7 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

142. Equity is increased by
- dividends.
 - revenues.
 - expenses.
 - liabilities.

Ans: b LO7 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

143. Equity is decreased by
- assets.
 - revenues.
 - expenses.
 - liabilities.

Ans: c LO7 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

144. If total liabilities increased by \$6,000, then
- assets must have decreased by \$6,000.
 - equity must have increased by \$6,000.
 - assets must have increased by \$6,000, or equity must have decreased by \$6,000.
 - assets and equity each increased by \$3,000.

Ans: c LO7 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

145. Collection of a \$500 accounts receivable
- increases an asset \$500; decreases an asset \$500.
 - increases an asset \$500; decreases a liability \$500.
 - decreases a liability \$500; increases equity \$500.
 - decreases an asset \$500; decreases a liability \$500.

Ans: a LO7 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

146. Revenues are
- the cost of assets consumed during the period.
 - gross increases in equity resulting from business activities.
 - the cost of services used during the period.
 - actual or expected cash outflows.

Ans: b LO7 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

147. If an individual asset is increased, then
- there must be an equal decrease in a specific liability.
 - there must be an equal decrease in equity.
 - there must be an equal decrease in another asset.
 - None of these answer choices are correct.

Ans: c LO7 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

148. If services are rendered for credit, then
- assets will decrease.
 - liabilities will increase.
 - equity will increase.
 - liabilities will decrease.

Ans: c LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

149. If expenses are paid in cash, then
- assets will increase.
 - liabilities will decrease.
 - equity will increase.
 - assets will decrease.

Ans: d LO7 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

150. If a corporation distributes cash to its shareholders, then
- there has been a violation of accounting principles.
 - equity will increase.
 - equity will decrease.
 - there will be a new liability showing the shareholders owe money to the business.

Ans: c LO7 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

151. As of December 31, 2014, Sievers Company has assets of £90,000 and equity of £40,000.

What are the liabilities for Sievers Company as of December 31, 2014?

- a. £50,000.
- b. £20,000.
- c. £30,000.
- d. £40,000.

Ans: a LO7 BT: AN Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

152. Which of the following events is **not** a business transaction?

- a. Issuance of shares in exchange for cash
- b. Hired employees
- c. Incurred utility expenses for the month
- d. Earned revenue for services provided

Ans: b LO7 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

153. Net income results when

- a. Assets > Liabilities.
- b. Revenues = Expenses.
- c. Revenues > Expenses.
- d. Revenues < Expenses.

Ans: c LO8 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

154. Retained earnings at the end of the period is equal to

- a. retained earnings at the beginning of the period plus net income minus liabilities.
- b. retained earnings at the beginning of the period plus net income minus dividends. c. net income.
- d. assets plus liabilities.

Ans: b LO8 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

155. A statement of financial position shows

- a. revenues, liabilities, and equity.
- b. expenses, dividends and equity.
- c. revenues, expenses, and dividends.
- d. assets, liabilities, and equity.

Ans: d LO8 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

156. An income statement
- summarizes the changes in equity for a specific period of time.
 - reports the changes in assets, liabilities, and equity over a period of time.
 - reports the assets, liabilities, and equity at a specific date.
 - presents the revenues and expenses for a specific period of time.

Ans: d LO8 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

157. If the retained earnings account increases from the beginning of the year to the end of the year, then
- net income is less than dividends.
 - net loss is less than dividends.
 - the company must have sold shares.
 - net income is greater than dividends.

Ans: d LO8 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting Use the following information for questions 158–160.

Carla's Computer Repair Shop started the year with total assets of \$540,000 and total liabilities of \$360,000. During the year, the business recorded \$900,000 in computer repair revenues, \$510,000 in expenses, and the company paid dividends of \$90,000.

158. Equity at the end of the year was
- \$480,000.
 - \$450,000.
 - \$570,000.
 - \$390,000.

Ans: a LO8 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

159. The net income reported by Carla's Computer Repair Shop for the year was
- \$300,000.
 - \$390,000.
 - \$180,000.
 - \$810,000.

Ans: b LO8 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

160. Total equity changed by what amount from the beginning of the year to the end of the year?
- \$90,000.
 - \$390,000.
 - \$180,000.
 - \$300,000.

Ans: d LO8 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

161. The statement of financial position is frequently referred to as
- an operating statement.
 - the balance sheet.
 - the statement of cash flows.
 - the statement of changes in equity.

Ans: b LO8 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

162. The primary purpose of the statement of cash flows is to report
- a company's investing transactions.
 - a company's financing transactions.
 - information about cash receipts and cash payments of a company.
 - the net increase or decrease in cash.

Ans: c LO8 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

163. All of the financial statements are for a period of time **except** the
- income statement.
 - retained earnings statement.
 - statement of financial position.
 - statement of cash flows.

Ans: c LO8 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

164. The ending retained earnings amount is shown on
- the statement of financial position only.
 - the retained earnings statement only.
 - both the income statement and the retained earnings statement.
 - both the statement of financial position and the retained earnings statement.

Ans: d LO8 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

165. Benito Company began the year with equity of \$525,000. During the year, the company recorded revenues of \$750,000, expenses of \$570,000, and paid dividends of \$60,000. What was Benito's equity at the end of the year? a. \$765,000.
b. \$645,000.
c. \$1,215,000.
d. \$705,000.

Ans: b LO8 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

166. Carter Company issued ordinary shares to Sam Carter in exchange for his investment of \$40,000 cash in the business. The company recorded revenues of \$370,000, expenses of \$320,000, and paid dividends of \$20,000. What was Carter's net income for the year? a. \$30,000.
b. \$70,000.
c. \$50,000.
d. \$90,000.

Ans: c LO8 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

167. Marilu Company began the year with equity of \$75,000. During the year, Marilu issued additional ordinary shares in exchange for cash of \$105,000, recorded expenses of \$300,000, and paid dividends of \$20,000. If Marilu's ending equity was \$230,000, what was the company's revenue for the year? a. \$350,000.
b. \$370,000.
c. \$455,000.
d. \$475,000.

Ans: b LO8 BT: AP Difficulty: Medium TOT: 2.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

168. Nguyen Company began the year with equity of \$434,000. During the year, Nguyen issued ordinary shares for \$588,000, recorded expenses of \$1,680,000, and paid dividends of \$112,000. If Nguyen's ending equity was \$1,062,000, what was the company's revenue for the year?
a. \$1,720,000.
b. \$1,832,000.
c. \$2,308,000.
d. \$2,420,000.

Ans: b LO8 BT: AP Difficulty: Medium TOT: 2.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Use the following information for questions 169–170.

Saira’s Service Shop started the year with total assets of \$250,000 and total liabilities of \$200,000. During the year, the business recorded \$525,000 in revenues, \$275,000 in expenses, and paid dividends of \$50,000.

169. Equity at the end of the year was
- \$300,000.
 - \$250,000.
 - \$200,000.
 - \$225,000.

Ans: b LO8 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

170. The net income reported by Saira’s Service Shop for the year was
- \$200,000.
 - \$250,000.
 - \$150,000.
 - \$475,000.

Ans: b LO8 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Use the following information for questions 171–172.

Metzger Company compiled the following financial information as of December 31, 2014:

Revenues	€140,000
Retained earnings (1/1/14)	70,000
Equipment	80,000
Expenses	125,000
Cash	35,000
Dividends	10,000
Supplies	5,000
Accounts payable	20,000
Accounts receivable	15,000
Share capital-ordinary	65,000

171. Metzger’s assets on December 31, 2014 are

- a. €275,000.
- b. €210,000.
- c. €120,000. d €135,000.

Ans: d LO8 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

172. Metzger's equity on December 31, 2014 is
- a. €110,000.
 - b. €100,000.
 - c. €140,000.
 - d. €125,000.

Ans: c LO8 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

173. Copper Company's equity at the beginning of August 2014 was \$750,000. During the month, the company earned net income of \$150,000 and paid dividends of \$50,000. At the end of August 2014, what is the amount of equity?
- a. \$650,000
 - b. \$750,000
 - c. \$850,000
 - d. \$950,000

Ans: c LO8 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

174. On January 1, 2014, Affleck Company reported equity of \$470,000. During the year, the company paid dividends of \$20,000. At December 31, 2014, the amount of equity was \$520,000. What amount of net income or net loss would the company report for 2014?
- a. Net income of \$50,000
 - b. Net loss of \$70,000
 - c. Net income of \$30,000
 - d. Net income of \$70,000

Ans: d LO8 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Use the following information for questions 175–177.

Stahl Consulting started the year with total assets of €80,000 and total liabilities of €20,000. During the year, the business recorded €64,000 in catering revenues and €32,000 in expenses. Stahl issued ordinary shares of €12,000 and paid dividends of €20,000 during the year.

175. The equity at the end of the year was
- a. €84,000.
 - b. €72,000.
 - c. €32,000.
 - d. €8,000.

Ans: a LO8 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

176. The net income reported by Stahl Consulting for the year was
- a. €64,000.
 - b. €44,000.
 - c. €32,000.
 - d. €12,000.

Ans: c LO8 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

177. Equity changed by what amount from the beginning of the year to the end of the year? a. €60,000
- b. €56,000
 - c. €24,000
 - d. €12,000

Ans: c LO8 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

178. During the year 2014, Diego Company earned revenues of \$90,000, had expenses of \$50,000, purchased assets with a cost of \$10,000 and paid dividends of \$6,000. Net income for the year is a. \$90,000.
- b. \$40,000.
 - c. \$34,000.
 - d. \$30,000.

Ans: b LO8 BT: AN Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

179. At October 1, Smithson Enterprises reported equity of \$210,000. During October, no capital shares were issued and the company earned net income of \$24,000. If equity at October 31 totals \$192,000, what amount of dividends were paid during the month? a. \$0
- b. \$6,000
 - c. \$18,000
 - d. \$42,000

Ans: d LO8 BT: AN Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

180. At October 1, Smithson Enterprises reported equity of \$210,000. During October, no capital shares were issued and the company posted a net loss of \$18,000. If equity at October 31 totals \$192,000, what amount of dividends were paid during the month? a. \$0
b. \$6,000
c. \$18,000
d. \$63,000

Ans: a LO8 BT: AN Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

181. At October 1, Smithson Enterprises reported equity of \$210,000. During October, capital shares of \$12,000 were issued and the company earned net income of \$36,000. If equity at October 31 totals \$240,000, what amount of dividends were paid during the month? a. \$0
b. \$18,000
c. \$24,000
d. \$30,000

Ans: b LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

182. At October 1, Smithson Enterprises reported equity of \$210,000. During October, capital shares of \$30,000 were issued and the company posted a net loss of \$18,000. If equity at October 31 totals \$210,000, what amount of dividends were paid during the month? a. \$0
b. \$12,000
c. \$18,000
d. \$30,000

Ans: b LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

183. During October, Mica Inc. sold ordinary shares for €600,000, earned revenue of €66,000, incurred expenses of €36,000, and paid dividends of €3,000. Net income for the month is
a. €27,000.
b. €30,000.
c. €627,000.
d. €630,000.

Ans: b LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

184. During January, Bruni Corporation earned revenue of €90,000, incurred expenses of €44,000, and paid dividends of €6,000. The income statement will report net income for the month of a. €40,000.
b. €46,000.
c. €52,000.
d. €90,000.

Ans: b LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

185. During June, Sing Tao Inc. sold ordinary shares for HK\$17,175,000, earned revenue of HK\$3,030,000, incurred expenses of HK\$1,545,000, and paid dividends of HK\$45,000. Net income for June is a. HK\$1,485,000.
b. HK\$1,490,000.
c. HK\$18,615,000.
d. HK\$20,205,000.

Ans: a LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

186. During May, Brunhilde Company earned revenue of €212,000, incurred expenses of €136,000, of which €96,000 were on account, and paid dividends of €32,000. Net income (loss) for the month is a. (€40,000).
b. €44,000.
c. €76,000.
d. €116,000.

Ans: c LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

187. During 2014, Li & Fung Corporation earned revenue of HK\$9,225,000, incurred expenses of expenses of HK\$6,945,000, and paid dividends of HK\$630,000. Net income for 2014 is a. HK\$1,650,000.
b. HK\$2,280,000.
c. HK\$8,595,000.
d. HK\$9,225,000.

Ans: b LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

188. During March, Bindi Company earned revenue of €270,000 on account of which €178,000 had been collected by the end of the month. The company incurred expenses of €156,000. The company paid all of its expenses in cash as well as paying dividends of €46,000. Net income (loss) for the month is a. (€24,000).
b. €22,000.

- c. €68,000.
- d. €114,000.

Ans: d LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

189. Mica Inc. began operations in October, 2014. During October, Mica sold ordinary shares for €600,000, earned revenue of €66,000, incurred expenses of €36,000, and paid dividends of €3,000. Retained earnings at the end the month is
- a. €27,000.
 - b. €30,000.
 - c. €627,000.
 - d. €630,000.

Ans: a LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

190. Mica Inc. began operations in October, 2014. During October, Mica sold ordinary shares for €600,000, earned revenue of €66,000, incurred expenses of €36,000, and paid dividends of €3,000. Equity at the end of the month is
- a. €27,000.
 - b. €30,000.
 - c. €627,000.
 - d. €630,000.

Ans: c LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

191. Bruni Corporation began operations on January 1, 2014. During January, Bruni earned revenue of €90,000, incurred expenses of €44,000, and paid dividends of €6,000. Retained earnings at the end the month is
- a. €40,000.
 - b. €46,000.
 - c. €52,000.
 - d. €90,000.

Ans: a LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

192. Sing Tao Inc. began operations on June 2, 2014. During June, Sing Tao sold ordinary shares for HK\$17,175,000, earned revenue of HK\$3,030,000, incurred expenses of HK\$1,545,000, and paid dividends of HK\$45,000. Retained earnings at June 30, 2014 is
- a. HK\$1,440,000.
 - b. HK\$1,485,000.
 - c. HK\$18,615,000.

d. HK\$20,206,000.

Ans: a LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

193. Sing Tao inc. began operations on June 2, 2014. During June, Sing Tao sold ordinary shares for HK\$17,175,000, earned revenue of HK\$3,030,000, incurred expenses of HK\$1,545,000, and paid dividends of HK\$45,000. Equity at the end of June is a. HK\$1,440,000.

b. HK\$1,485,000.

c. HK\$18,615,000.

d. HK\$20,205,000.

Ans: c LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

194. Nigiri Inc. began operations on October 1, 2014. During October, Nigiri sold ordinary shares for ¥440,000,000, earned net income of ¥64,000,000, and paid dividends of ¥1,978,000. Retained earnings at the end of October is a. ¥504,000,000.

b. ¥502,022,000.

c. ¥64,000,000.

d. ¥62,022,000.

Ans: d LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

195. Nigiri Inc. began operations on October 1, 2014. During October, Nigiri sold ordinary shares for ¥440,000,000, earned net income of ¥64,000,000, and paid dividends of ¥1,978,000. Equity at the end of October is

a. ¥504,000,000.

b. ¥502,022,000.

c. ¥64,000,000.

d. ¥62,022,000.

Ans: b LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

196. Le Bateau Company began operations on March 1, 2014. During March, Le Bateau sold ordinary shares for €6,750,000 and incurred a net loss of €915,000. Equity at the end of March is

a. (€915,000).

b. €5,835,000.

c. €7,665,000.

d. cannot be determined from the information given.

Ans: b LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

197. During July, its first period of operations, Aju Inc. sold ordinary shares for ~~₩~~960,000,000, earned net income of ~~₩~~130,000,000, and paid dividends of ~~₩~~27,000,000. Retained earnings at the end of July is a. ~~₩~~1,090,000,000.
 b. ~~₩~~1,063,000,000.
 c. ~~₩~~933,000,000.
 d. ~~₩~~103,000,000.

Ans: d LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

198. During July, its first period of operations, Aju Inc. sold ordinary shares for W960,000,000, earned net income of W130,000,000, and paid dividends of W27,000,000. Equity at the end of July is
 a. W1,090,000,000.
 b. W1,063,000,000.
 c. W933,000,000.
 d. W103,000,000.

Ans: b LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Use the following information for questions 199–203

O' Hara Company began operations on December 1, 2014. Presented below is selected information related to O' Hara Company at December 31, 2014.

Equipment	£ 80,000	Utilities Expense	£ 12,000
Cash	28,000	Accounts Receivable	54,000
Service Revenue	216,000	Salaries and Wages Expense	94,000
Rent Expense	26,000	Notes Payable	20,000
Accounts Payable	32,000	Dividends	30,000
Share Capital-ordinary	56,000		

199. At December 31, 2014, assets total
 a. £108,000.
 b. £140,000.
 c. £162,000.

d. £194,000.

Ans: c LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

200. At December 31, 2014, liabilities total

- a. £32,000.
- b. £52,000.
- c. £74,000.
- d. £82,000.

Ans: b LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

201. Net income for the month of December is

- a. £54,000.
- b. £84,000.
- c. £112,000.
- d. £132,000.

Ans: b LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

202. Retained earnings at December 31, 2014 is

- a. £30,000.
- b. £44,000.
- c. £54,000.
- d. £110,000.

Ans: c LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

203. Equity at December 31, 2014, is

- a. £296,000.
- b. £242,000.
- c. £186,000.
- d. £110,000.

Ans: d LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Use the following information for questions 204–208

EI Greco Corporation began operations on January 1, 2014. Presented below is selected information related to EI Greco at December 31, 2014.

Equipment	€290,000	Utilities Expense	€ 36,000
Cash	84,000	Accounts Receivable	82,000
Service Revenue	648,000	Salaries and Wages Expense	242,000
Rent Expense	78,000	Notes Payable	96,000
Accounts Payable	44,000	Dividends	90,000
Share Capital-Ordinary	168,000	Salaries and Wages Payable	16,000
Supplies	30,000	Advertising Expense	40,000

204. The statement of financial position at December 31, 2014 reports total assets of a. €320,000.
 b. €404,000.
 c. €456,000.
 d. €486,000.

Ans: d LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

205. The statement of financial position at December 31, 2014 reports total liabilities of a. €60,000.
 b. €120,000.
 c. €156,000.
 d. €238,000.

Ans: c LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

206. Net income (loss) reported on the income statement for the month of December is a. €252,000.
 b. €180,000.
 c. €162,000.
 d. €96,000.

Ans: a LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

207. Retained earnings reported on the statement of financial position at December 31, 2014 is a. €330,000.

- b. €252,000.
- c. €168,000.
- d. €162,000.

Ans: d LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

208. The statement of financial position at December 31, 2014 reports equity of a.
€420,000.
- b. €330,000.
 - c. €180,000.
 - d. €162,000.

Ans: b LO8 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective
Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

- ^a209. All of the following are services offered by public accountants except a.
budgeting.
- b. auditing.
 - c. tax planning.
 - d. consulting.

Ans: a LO9 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

- ^a210. Which list below best describes the major services performed by public accountants? a.
Bookkeeping, mergers, budgets.
- b. Employee training, auditing, bookkeeping.
 - c. Auditing, taxation, management consulting.
 - d. Cost accounting, production scheduling, recruiting.

Ans: c LO9 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

- ^a211. Preparing tax returns and engaging in tax planning is performed by a.
public accountants only.
- b. private accountants only.
 - c. both public and private accountants.
 - d. IRS accountants only.

Ans: c LO9 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

- ^a212. A private accountant can perform many activities in a business organization but would **not** work in
- budgeting.
 - accounting information systems.
 - external auditing.
 - tax accounting.

Ans: c LO9 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

Additional Multiple Choice Questions

213. Which of the following is **not** part of the accounting process?
- Recording
 - Identifying
 - Financial decision making
 - Communicating

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

214. The first part of the accounting process is
- communicating.
 - identifying.
 - processing.
 - recording.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

215. Keeping a systematic, chronological diary of events that are measured in dollars and cents is called
- communicating.
 - identifying.
 - processing.
 - recording.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

216. Internal users of accounting information include all of the following **except**
- company officers.
 - investors.
 - marketing managers.
 - production supervisors.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

217. Most companies in the United States follow standards issued by the
- Financial Accounting Standards Board.
 - International Accounting Standards Board.
 - Internal Revenue Service.
 - Securities and Exchange Commission.

Ans: a LO4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

218. A proprietorship is a business
- owned by one person.
 - owned by two or more persons.
 - organized as a separate legal entity under state corporation law.
 - owned by a governmental agency.

Ans: a LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

219. The Roy's Downtown Diner received a bill of \$400 from the Emeril Advertising Agency. The owner, Roy James, is postponing payment of the bill until a later date. The effect on specific items in the basic accounting equation is
- a decrease in Cash and an increase in Accounts Payable.
 - a decrease in Cash and an increase in Retained Earnings.
 - an increase in Accounts Payable and a decrease in Retained Earnings.
 - a decrease in Accounts Payable and an increase in Retained Earnings.

Ans: c LO7 BT: C Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

220. Ryder Company purchases \$600 of equipment from Montez Inc. for cash. The effect of this transaction on the components of the basic accounting equation of Ryder Company is
- an increase in assets and liabilities.
 - a decrease in assets and liabilities.
 - no change in total assets.
 - an increase in assets and a decrease in liabilities.

Ans: c LO7 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

221. Fontaine Fox Company buys a \$12,000 van on credit. This transaction will affect the a. income statement only.
 b. statement of financial position only.
 c. income statement and retained earnings statement only.
 d. income statement, retained earnings statement, and statement of financial position.

Ans: b LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
 AICPA BB: Critical Thinking AICPA FN: Reporting

222. A net loss will result during a time period when
 a. assets exceed liabilities.
 b. assets exceed equity.
 c. expenses exceed revenues.
 d. revenues exceed expenses.

Ans: c LO8 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
 AICPA BB: Critical Thinking AICPA FN: Reporting

- ^a223. Auditing is
 a. the examination of financial statements by a CA or CPA in order to provide an opinion on their accuracy.
 b. a part of accounting that involves only recording of economic events.
 c. an area of accounting that involves such activities as cost accounting, budgeting, and accounting information systems.
 d. conducted by the Securities and Exchange Commission to ensure that registered financial statements are presented fairly.

Ans: a LO9 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking
 AICPA BB: Critical Thinking AICPA FN: Reporting

Answers to Multiple Choice Questions

Item	Ans	Item	Ans	Item	Ans	Item	Ans	Item	Ans	Item	Ans	Item	Ans

51.	c	76.	b	101.	d	126.	d	151.	a	176.	c	201.	b
52.	b	77.	a	102.	c	127.	c	152.	b	177.	c	202.	c
53.	c	78.	d	103.	b	128.	b	153.	c	178.	b	203.	d
54.	a	79.	a	104.	a	129.	a	154.	b	179.	d	204.	d
55.	a	80.	d	105.	c	130.	d	155.	d	180.	a	205.	c
56.	c	81.	b	106.	a	131.	c	156.	d	181.	b	206.	a
57.	c	82.	a	107.	b	132.	c	157.	d	182.	b	207.	d
58.	b	83.	b	108.	a	133.	c	158.	a	183.	b	208.	b

59.	c	84.	b	109.	d	134.	b	159.	b	184.	b	^a 209.	a
60.	b	85.	b	110.	a	135.	a	160.	d	185.	a	^a 210.	c
61.	c	86.	b	111.	b	136.	b	161.	b	186.	c	^a 211.	c
62.	a	87.	d	112.	b	137.	b	162.	c	187.	b	^a 212.	c
63.	d	88.	c	113.	a	138.	b	163.	c	188.	d	213.	c
64.	d	89.	b	114.	c	139.	c	164.	d	189.	a	214.	b
65.	d	90.	c	115.	d	140.	d	165.	b	190.	c	215.	d
66.	c	91.	d	116.	c	141.	c	166.	c	191.	a	216.	b
67.	b	92.	b	117.	a	142.	b	167.	b	192.	a	217.	a
68.	b	93.	c	118.	d	143.	c	168.	b	193.	c	218.	a
69.	c	94.	d	119.	a	144.	c	169.	b	194.	d	219.	c
70.	c	95.	d	120.	b	145.	a	170.	b	195.	b	220.	c
71.	c	96.	c	121.	d	146.	b	171.	d	196.	b	221.	b
72.	c	97.	d	122.	a	147.	c	172.	c	197.	d	222.	c
73.	d	98.	d	123.	a	148.	c	173.	c	198.	b	^a 223.	a
74.	b	99.	d	124.	c	149.	d	174.	d	199.	c		
75.	c	100.	b	125.	b	150.	c	175.	a	200.	b		

BRIEF EXERCISES**BE 224**

Match the following external users of financial accounting information with the type of decision that user will make with the information.

- a. Creditor
- b. Investor
- c. Regulatory Agency
- d. Taxing Authority

_____ (1) Is the company operating within prescribed guidelines?

_____ (2) Is the company complying with tax laws?

_____ (3) Is the company able to pay its debts?

_____ (4) Is the company a good investment?

Solution 224

- 1. c
- 2. d
- 3. a

4. b

LO2 BT: C Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

BE 225

Match the following terms and definitions.

- a. Accounts receivable c. Accounts payable
- b. Creditor d. Note payable

- _____ (1) Amounts due from customers
- _____ (2) Amounts owed to suppliers for goods and services purchased
- _____ (3) Amounts owed to bank
- _____ (4) Party to whom money is owed

Solution 225

- 1. a
- 2. c
- 3. d
- 4. b

LO6 BT: K Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

BE 226

Indicate which of these items is an asset (A), liability (L) or equity (E) account.

- _____ (1) Supplies
- _____ (2) Dividends
- _____ (3) Buildings
- _____ (4) Note Payable
- _____ (5) Taxes Payable

Solution 226

- 1. Assets (A)

2. Equity (E)
3. Asset (A)
4. Liability (L)
5. Liability (L)

LO6 BT: K Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

BE 227

Use the accounting equation to answer the following questions.

1. Force 10 Sails Co. has total assets of \$120,000 and total liabilities of \$65,000. What is equity?
2. Marcy Fun Center has total assets of \$225,000 and equity of \$105,000. What are total liabilities?
3. Franco's Restaurant has total liabilities of \$50,000 and equity of \$75,000. What are total assets?

Solution 227

1. $\$120,000 - \$65,000 = \$55,000$ equity
2. $\$225,000 - \$105,000 = \$120,000$ total liabilities
3. $\$50,000 + \$75,000 = \$125,000$ total assets

LO6 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

BE 228

Determine the missing items.

Assets	=	Liabilities	+	Equity
¥85,000		¥52,000		(a)
(b)		¥28,000		¥34,000
¥89,000		(c)		¥55,000

Solution 228 a.

¥33,000

- b. ¥62,000
- c. ¥34,000

LO6 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

BE 229

Classify each of these items as an asset (A), liability (L), or equity (E).

- _____ 1. Accounts receivable
- _____ 2. Accounts payable
- _____ 3. Share capital-ordinary
- _____ 4. Supplies
- _____ 5. Utilities expense
- _____ 6. Cash
- _____ 7. Note payable
- _____ 8. Equipment

Solution 229 (5 min.)

- 1. A 5. E
- 2. L 6. A
- 3. E 7. L
- 4. A 8. A

LO6 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

BE 230

Identify the impact on the accounting equation of each of the following transactions.

- 1. Purchase office supplies on account.
- 2. Paid secretary weekly salary.
- 3. Purchased office furniture for cash.
- 4. Received monthly utility bill to be paid at later time.

Solution 230 (5 min.)

- 1. Increase assets and increase liabilities.

2. Decrease assets and decrease equity.
3. Increase assets and decrease assets.
4. Increase liabilities and decrease equity.

LO7 BT: C Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

BE 231

Statement of financial position amounts as of December 31, 2014 for Lori's Tutoring Service are listed below. Prepare a statement of financial position in good form.

Accounts Payable	\$ 1,600
Accounts Receivable	1,300
Cash	800
Share Capital-Ordinary	?

Solution 231 (5 min.)

LORI'S TUTORING SERVICE
Statement of Financial Position
December 31, 2014

<u>Assets</u>		<u>Equity and Liabilities</u>	
Accounts Receivable	\$ 1,300	Share Capital-Ordinary	\$ 500
Cash	<u>800</u>	Accounts Payable	<u>1,600</u>
Total assets	<u>\$ 2,100</u>	Total equity and liabilities	<u>\$2,100</u>

LO8 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

BE 232

Identify whether the following items would be reported on the income statement (IS) or statement of financial position (FP).

1. Cash
2. Service Revenue
3. Notes Payable
4. Interest Expense
5. Accounts Receivable

Solution 232

1. Statement of Financial Position (FP)
2. Income Statement (IS)
3. Statement of Financial Position (FP)
4. Income Statement (IS)
5. Statement of Financial Position (FP)

LO8 BT: C Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

BE 233

Use the following information to calculate for the year ended December 31, 2014 (a) net income (net loss), (b) ending retained earnings, and (c) total assets.

Supplies	¥ 1,000	Revenues	¥21,000
Operating expenses	12,000	Cash	13,000
Accounts payable	9,000	Dividends	1,000
Accounts receivable	3,000	Notes payable	1,000
Beginning retained earnings	5,000	Equipment	6,000

Solution 233

(a) ¥9,000 (b) ¥13,000 (c) ¥23,000

LO8 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

BE 234

Listed below in alphabetical order are the statement of financial position items of Rowan Company at December 31, 2014. Prepare a statement of financial position and include a complete heading.

Accounts payable	\$ 19,000
Accounts receivable	25,000
Buildings	96,000
Cash	14,000
Equipment	5,000

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Share capital - ordinary	121,000
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Solution 234

ROWAN COMPANY
Statement of Financial Position December
31, 2014

ASSETS		
Buildings		\$ 96,000
Equipment		5,000
Accounts receivable		25,000
Cash		<u>\$ 14,000</u>
Total assets		<u>\$140,000</u>
EQUITY AND LIABILITIES		
Equity		
Share capital-ordinary		121,000
Liabilities		
Accounts payable		<u>19,000</u>
Total equity and liabilities		<u>\$140,000</u>

LO8 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

EXERCISES Ex. 235

Determine the missing amount for each of the following.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
1.	(a) €30,000		€75,000		
2.	€125,000		(b) €85,000		
3.	€140,000		€65,000		(c)

Solution 235

1. (a) = €105,000 (€30,000 + €75,000)
2. (b) = €40,000 (€125,000 - €85,000)
3. (c) = €75,000 (€140,000 - €65,000)

LO6 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 236

For the items listed below, fill in the appropriate code letter to indicate whether the item is an asset, liability, or equity item.

	<u>Code</u>
Asset	A
Liability	L
Equity	E
_____ 1. Rent Expense	_____ 6. Cash
_____ 2. Equipment	_____ 7. Accounts Receivable
_____ 3. Accounts Payable	_____ 8. Dividends
_____ 4. Share Capital-Ordinary	_____ 9. Service Revenue
_____ 5. Insurance Expense	_____ 10. Notes Payable

Solution 236

- | | |
|------|-------|
| 1. E | 6. A |
| 2. A | 7. A |
| 3. L | 8. E |
| 4. E | 9. E |
| 5. E | 10. L |

LO6 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 237

At the beginning of the year, Keats Company had total assets of \$750,000 and total liabilities of \$250,000. Answer the following questions viewing each situation as being independent of the others.

- (1) If total assets increased \$200,000 during the year, and total liabilities decreased \$75,000, what is the amount of equity at the end of the year?
- (2) During the year, total liabilities increased \$230,000 and equity decreased \$90,000. What is the amount of total assets at the end of the year?
- (3) If total assets decreased \$40,000 and equity increased \$130,000 during the year, what is the amount of total liabilities at the end of the year?

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Solution 237

	<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Equity</u>
Beginning	\$750,000		\$250,000		
Change	<u>200,000</u>		<u>(75,000)</u>		
Ending	\$950,000	–	\$175,000	=	<u>\$775,000</u> (1)

	<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Equity</u>
Beginning	\$750,000		\$250,000		\$500,000
Change			<u>230,000</u>		<u>(90,000)</u>
Ending	<u>\$890,000</u> (2)	=	\$480,000	+	\$410,000

	<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Equity</u>
Beginning	\$750,000		\$250,000		\$500,000
Change	<u>(40,000)</u>				<u>130,000</u>
Ending	\$710,000	=	<u>\$ 80,000</u> (3)	+	\$630,000

LO6 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 238

Jill's Car Cleaning has the following statement of financial position items:

Equipment	Notes Payable
Accounts Payable	Share Capital-Ordinary
Cash	Retained Earnings
Supplies	
Accounts Receivable	

- Identify which items are (1) Assets
 (2) Liabilities
 (3) Equity

Solution 238

- Assets—Equipment, Cash, Supplies, Accounts Receivable
- Liabilities—Accounts Payable, Notes Payable
- Equity—Share Capital-Ordinary, Retained Earnings

LO6 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 239

On June 1, 2014, Bush Company prepared a statement of financial position that shows the following:

Assets (no cash)	£100,000
Liabilities	75,000
Equity	25,000

Ex. 239 (cont.)

Shortly thereafter, all of the assets were sold for cash. How would the statement of financial position appear immediately after the sale of the assets for cash for each of the following cases?

	Cash Received for	Balances Immediately After Sale		
	<u>the Assets</u>	<u>Assets</u>	– <u>Liabilities</u>	= <u>Equity</u>
Cash A	£110,000	£_____	£_____	£_____
Cash B	100,000	_____	_____	_____
Cash C	90,000	_____	_____	_____

Solution 239

	Cash Received for	Balances Immediately After Sale		
	<u>the Assets</u>	<u>Assets</u>	– <u>Liabilities</u>	= <u>Equity</u>
Cash A	£110,000	£110,000	£75,000	£35,000
Cash B	100,000	100,000	75,000	25,000
Cash C	90,000	90,000	75,000	15,000

LO6 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 240

At the beginning of 2014, Bonds Company had total assets of \$650,000 and total liabilities of \$370,000. Answer each of the following questions.

1. If total assets increased \$60,000 and equity decreased \$90,000 during the year, determine the amount of total liabilities at the end of the year.
2. During the year, total liabilities decreased \$75,000 and equity increased \$50,000. Compute the amount of total assets at the end of the year.

3. If total assets decreased \$100,000 and total liabilities increased \$55,000 during the year, determine the amount of equity at the end of the year.

Solution 240

1. Ending Total Liabilities = $(\$650,000 + \$60,000) - (\$650,000 - \$370,000 - \$90,000)$
 $= \$710,000 - \$190,000 = \$520,000$
2. Ending Total Assets = $(\$370,000 - \$75,000) + (\$650,000 - \$370,000 + \$50,000)$
 $= \$295,000 + \$330,000 = \$625,000$
3. Ending Equity = $(\$650,000 - \$100,000) - (\$370,000 + \$55,000)$
 $= \$550,000 - \$425,000 = \$125,000$

LO6 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Analysis AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 241

Compute the missing amount in each category of the accounting equation.

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
(a)	\$279,000	\$?	\$143,000
(b)	\$223,000	\$ 79,000	\$?
(c)	\$?	\$173,000	\$325,000

Solution 241

- (a) \$136,000 ($\$279,000 - \$143,000 = \$136,000$). (b) \$144,000 ($\$223,000 - \$79,000 = \$144,000$).
 (c) \$498,000 ($\$173,000 + \$325,000 = \$498,000$).

LO6 BT: AN Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 242

From the following list of selected accounts taken from the records of McDreamy Homeopathic Center, identify those that would appear on the statement of financial position.

- a. Share Capital-Ordinary f. Accounts Payable
 b. Service Revenue g. Cash
 c. Land h. Rent Expense
 d. Salaries and Wages Expense i. Supplies
 e. Notes Payable j. Utilities Expense

Solution 242

a, c, e, f, g, i

LO6 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 243

Selected transactions for Tall Timber Tree Service are listed below.

1. Made cash investment to start the business.
2. Paid for monthly advertising.
3. Purchased supplies on account.
4. Billed customers for services performed.
5. Paid cash dividends.
6. Received cash from customers billed in (4).
7. Incurred utilities expense on account.
8. Purchased additional supplies for cash.
9. Received cash from customers when service was performed.

Instructions

List the numbers of the above transactions and describe the effect of each transaction on assets, liabilities, and owner's equity. For example, the first answer is: (1) Increase in assets and increase in equity.

Solution 243

1. Increase in assets and increase in equity.
2. Decrease in assets and decrease in equity.
3. Increase in assets and increase in liabilities.
4. Increase in assets and increase in equity.
5. Decrease in assets and decrease in equity.
6. Increase in assets and decrease in assets.
7. Increase in liabilities and decrease in equity.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in equity.

LO6, 7 BT: C Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 244

Lawrence Legal Eagles Company entered into the following transactions during March 2013.

1. Purchased office equipment for \$21,500 from Business Equipment, Inc. on account.
2. Paid \$4,000 cash for March rent on office furniture.
3. Received \$15,000 cash from customers for legal work billed in February.
4. Provided legal services to Amy Construction Company for \$3,000 cash.
5. Paid Northern States Power Co. \$11,000 cash for electric usage in March.
6. Lawrence invested an additional \$32,000 in the business.
7. Paid Business Equipment, Inc. for the office equipment purchased in (1) above.
8. Incurred advertising expense for March of \$1,200 on account.

Instructions

Indicate with the appropriate letter whether each of the transactions above results in:

- (a) an increase in assets and a decrease in assets.
- (b) an increase in assets and an increase in equity.
- (c) an increase in assets and an increase in liabilities.
- (d) a decrease in assets and a decrease in equity.
- (e) a decrease in assets and a decrease in liabilities.
- (f) an increase in liabilities and a decrease in equity.
- (g) an increase in equity and a decrease in liabilities.

Solution 244

- | | | | |
|----|-----|----|-----|
| 1. | (c) | 5. | (d) |
| 2. | (d) | 6. | (b) |
| 3. | (a) | 7. | (e) |
| 4. | (b) | 8. | (f) |

LO6, 7 BT: C Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 245

Two items are omitted from each of the following summaries of statement of financial position and income statement data for two companys for the year 2014, Holly Enterprises and Craig Stevens.

	<u>Holly Enterprises</u>	<u>Craig Stevens</u>
Beginning of year:		
Total assets	€ 98,000	€129,000
Total liabilities	70,000	(c)

Total equity End	(a)	80,000
of year:		
Total assets	160,000	180,000
Total liabilities	120,000	50,000
Total equity	40,000	130,000
Changes during year in equity:		
Additional investment	(b)	25,000
Dividends	25,000	(d)
Total revenues	215,000	100,000
Total expenses	180,000	65,000

Instructions

Determine the missing amounts.

Solution 245

(a)	Total assets (beginning of year)	€98,000
	Total liabilities (beginning of year)	<u>(70,000)</u>
	Total equity (beginning of year)	<u>€28,000</u>
(b)	Total equity (end of year)	€40,000
	Total equity (beginning of year)	<u>(28,000)</u>
	Increase in equity	<u>€12,000</u>
	Total revenues	€215,000
	Total expenses	<u>(180,000)</u>
	Net income	<u>€ 35,000</u>
	Increase in equity	€12,000
	Less: Net income	(€35,000)
	Add: Dividends	<u>25,000</u> <u>(10,000)</u>
	Additional investment	<u>€2,000</u>
(c)	Total assets (beginning of year)	€129,000
	Total equity (beginning of year)	<u>(80,000)</u>
	Total liabilities (beginning of year)	<u>€ 49,000</u>

Solution 245 (cont.)

(d)	Total equity (end of year)	€130,000
	Total equity (beginning of year)	<u>(80,000)</u>
	Increase in equity	<u>€ 50,000</u>

Total revenues		€100,000
Total expenses		<u>(65,000)</u>
Net income		<u>€ 35,000</u>
Increase in equity		€50,000
Less: Net income	€ 35,000	
Additional investment	<u>25,000</u>	<u>(60,000)</u>
Dividends		<u>€(10,000)</u>

LO6, 7 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 246

An analysis of the transactions made by K. T. Lang & Co., a law firm, for the month of July is shown below. Each increase and decrease in equity is explained.

Assets				=	Liab.	+	Equity				
							<u>Retained Earnings</u>				
Accounts					Accounts		Share				
<u>Cash</u>	+ <u>Receivable</u>	+ <u>Supplies</u>	+ <u>Equipment</u>	=	<u>Payable</u>	+ <u>Cap.</u>	+ <u>Rev.</u>	- <u>Exp.</u>	-		
<u>Div.</u>											
1.	+\$15,000		+\$15,000				Iss.				
Sh.											
2.	- 2,000		+\$5,000				+\$3,000				
3.	- 750		+\$750								
4.	+ 2,500		+\$6,600							+ \$9,100	
Serv. Rev.											
5.	- 1,500		- 1,500								
6.	- 2,500									- \$2,500	
Div.											
7.	- 650	Exp.								- \$650 Rent	
8.	+ 550	- 550									
9.	- 3,500									- 3,500 Sal.	
Exp.											

Instructions

From an analysis of the change in equity during the year, compute the net income (or loss) for:

- (a) 2012, assuming Lim paid dividends of \$25,000 for the year.
- (b) 2013, assuming Lim made an additional investment of \$60,000 and paid no dividends in 2013.
- (c) 2014, assuming Lim made an additional investment of \$10,000 and paid dividends of \$30,000 in 2014.

Solution 247

(a)	Equity—12/31/12 (\$530,000 – \$230,000)	\$300,000
	Equity—1/1/12	<u>(100,000)</u>
	Increase in equity	200,000
	Add: Dividends	<u>25,000</u>
	Net income for 2012	<u>\$225,000</u>
(b)	Equity—12/31/13 (\$480,000 – \$210,000)	\$270,000
	Equity—1/1/13—see (a)	<u>(300,000)</u>
	Decrease in equity	(30,000)
	Less: Additional investment	<u>60,000</u>
	Net loss for 2013	<u>\$ (90,000)</u>
(c)	Equity—12/31/14 (\$590,000 – \$300,000)	\$290,000
	Equity—1/1/14—see (b)	<u>(270,000)</u>
	Increase in equity	20,000
	Less: Additional investment	<u>(10,000)</u>
		10,000
	Add: Dividends	<u>30,000</u>
	Net income for 2014	<u>\$ 40,000</u>

LO7 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 248

For each of the following, indicate whether the transaction affects revenue (R), expense (E), Dividends (D), Share Capital (SC), or no effect on equity (NOE).

1. Made an investment to start the business.
2. Billed customers for services performed.
3. Purchased equipment on account.
4. Paid monthly rent.
5. Paid dividends.

Solution 248

1. Share Capital (SC)
2. Revenue (R)
3. No effect (NOE)
4. Expense (E)
5. Dividends (D)

LO7 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 249

Presented below is a statement of financial position for Jim Henson Yard Service at December 31, 2014.

JIM HENSON YARD SERVICE
Statement of Financial Position
December 31, 2014

Assets		Equity and Liabilities	
Equipment	£11,000	Equity	
Supplies	9,000	Share capital—ordinary	£16,000
Accounts receivable	6,000	Liabilities	
Cash	13,000	Accounts payable	8,000
		Notes payable	<u>15,000</u>
Total assets	<u>£39,000</u>	Total equity & liabilities	<u>£39,000</u>

The following additional data are available for the year which began on January 1: All expenses (excluding supplies expense) total £6,000. Supplies on January 1 were £11,000 and £5,000 of supplies were purchased during the year. Net income for the year was £8,000 and dividends paid were £5,000.

Instructions

Determine the following: (Show all computations.)

1. Supplies used during the year.
2. Total expenses for the year.
3. Service revenues for the year.
4. Equity on January 1.

Solution 249

1. Computation of Supplies Used:	
Beginning Supplies, Jan. 1	£11,000
Add: Purchases	5,000
Less: Ending Supplies, Dec. 31	<u>(9,000)</u>
Equals: Supplies Used	<u>£ 7,000</u>
2. Computation of Total Expenses:	
All Expenses (excluding supplies expense)	£ 6,000
Plus: Supplies Used	<u>7,000</u>
Total Expenses	<u>£13,000</u>
3. Computation of Revenues:	
Net Income	£ 8,000
Plus: Total Expenses	<u>13,000</u>
Total Revenues	<u>£21,000</u>
4. Computation of equity on January 1:	
Equity, December 31	£16,000
Plus: Dividends	5,000
Less: Net Income	<u>(8,000)</u>
Equity, January 1	<u>£13,000</u>

LO7 BT: AN Difficulty: Hard TOT: 10 min. AACSB: Analysis AICPA BB: Critical Thinking AICPA PC: Problem Solving

Ex. 250

Analyze the transactions of a business organized as a proprietorship described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (-) to indicate a decrease.

	<u>Assets</u>	= <u>Liabilities</u> +	<u>Equity</u>
1. Received cash for services rendered.	_____	_____	_____
2. Purchased office equipment on credit.	_____	_____	_____
3. Paid employees' salaries.	_____	_____	_____
4. Received cash from customer in payment on account.	_____	_____	_____
5. Paid telephone bill for the month.	_____	_____	_____
6. Paid for office equipment purchased in transaction 2.	_____	_____	_____

7. Purchased office supplies on credit. _____
8. Paid dividends. _____
9. Obtained a loan from the bank. _____
10. Billed customers for services rendered. _____

Solution 250

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
1. Received cash for services rendered.	+		+		
2. Purchased office equipment on credit.	+		+		
3. Paid employees' salaries.	-		-		
4. Received cash from customer in payment on account.	+,-				
5. Paid telephone bill for the month.	-		-		
6. Paid for office equipment purchased in transaction 2.	-		-		
7. Purchased office supplies on credit.	+		+		
8. Paid dividends	-		-		
9. Obtained a loan from the bank.	+		+		
10. Billed customers for services rendered.	+		+		

LO7 BT: C Difficulty: Medium TOT: 10 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 251

For each of the following, indicate whether the transaction increased (+), decreased (-), or had no effect (NE) on assets, liabilities, and equity using the following format.

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

1. Issued ordinary shares in exchange for cash.
2. Billed customers for services performed.
3. Purchased equipment on account.
4. Paid dividends.
5. Paid for equipment purchased in 3. above.

Solution 251

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
1.	+		NE		+
2.	+		NE		+
3.	+		+		NE
4.	-		NE		-
5.	-		-		NE

LO7 BT: C Difficulty: Easy TOT: 10 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 252

Bill Phinnes decides to open a cleaning and laundry service near the local college campus that will operate as a corporation. Analyze the following transactions for the month of June in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (-) the dollar amount of each item affected. Indicate the new balance of each item after a transaction is recorded. It is not necessary to identify the cause of changes in equity.

Transactions

- (1) Issued ordinary shares in exchange for \$20,000 cash on June 1.
- (2) Purchased laundry equipment for \$5,000 paying \$3,000 in cash and the remainder due in 30 days.
- (3) Purchased laundry supplies for \$1,200 cash.
- (4) Received a bill from College News for \$300 for advertising in the campus newspaper.
- (5) Cash receipts from customers for cleaning and laundry amounted to \$1,500.
- (6) Paid salaries of \$200 to student workers.
- (7) Billed the Lion Soccer Team \$200 for cleaning and laundry services.
- (8) Paid \$300 to College News for advertising that was previously billed in Transaction 4.
- (9) Paid dividends of \$700.
- (10) Incurred utility expenses for month on account, \$150.

Trans- Accounts	Accounts	Share Retained action	Cash +
Receivable + Supplies + Equipment	= Payable	+ Capital + Earnings (1)	

Balance

(2)

Balance
(3)

Balance
(4)

Balance
(5)

Balance
(6)

Balance
(7)

Balance
(8)

Balance
Ex. 252 (cont.)
(9)

Balance
(10)

Totals

Solution 252

Trans- Accounts Accounts Share Retained action Cash + Receivable + Supplies + Equipment =
Payable + Capital + Earnings

(1)	+\$20,000	+\$20,000					
<hr/>							
	Balance	\$20,000				\$20,000	
(2)	- 3,000		+\$5,000	+\$2,000			
<hr/>							
	Balance	\$17,000		\$5,000	\$2,000	\$20,000	
(3)	- 1,200		+\$1,200				
<hr/>							
	Balance	\$15,800	\$1,200	\$5,000	\$2,000	\$20,000	
(4)	+ 300				- 300		
<hr/>							
	Balance	\$15,800	\$1,200	\$5,000	\$2,300	\$20,000	- 300
(5)	+ 1,500						+ 1,500
<hr/>							
	Balance	\$17,300	\$1,200	\$5,000	\$2,300	\$20,000	\$1,200
(6)	- 200						- 200
<hr/>							
	Balance	\$17,100	\$1,200	\$5,000	\$2,300	\$20,000	\$1,000
(7)	+\$200						+ 200
<hr/>							
	Balance	\$17,100	\$200	\$1,200	\$5,000	\$2,300	\$20,000
(8)	- 300						300
<hr/>							
	Balance	\$16,800	\$200	\$1,200	\$5,000	\$2,000	\$20,000
(9)	- 700						\$1,200
<hr/>							
	Balance	\$16,100	\$200	\$1,200	\$5,000	\$2,000	\$20,000
(10)	+ 150					150	\$500
<hr/>							
Totals	\$16,100	\$200	\$1,200	\$5,000	\$2,150	\$20,000	\$350

LO7 BT: AP Difficulty: Medium TOT: 20 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 253

For each of the following, describe a transaction that will have the stated effect on the elements of the accounting equation.

- (a) Increase one asset and decrease another asset.
- (b) Increase an asset and increase a liability.
- (c) Decrease an asset and decrease a liability.
- (d) Increase an asset and increase equity.
- (e) Increase one asset, decrease one asset, and increase a liability.

Solution 253

- (a) Receive cash from customers on account.
Purchase supplies for cash.
- (b) Purchase supplies on account.
Purchase equipment and signed a note payable.
- (c) Pay cash to reduce accounts payable. Pay cash to reduce a note payable.
- (d) Issued ordinary shares in exchange for cash.
Render services on account or for cash.
- (e) Buy equipment with a cash down payment with the remainder financed by a note payable.

LO7 BT: C Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 254

The following transactions represent part of the activities of Tigger Company for the first month of its existence. Indicate the effect of each transaction upon the total assets of the business by one of the following phrases: increased total assets, decreased total assets, or no change in total assets.

- (a) Issued ordinary shares in exchange for cash.
- (b) Purchased a computer for cash.
- (c) Purchased office equipment with money borrowed from the bank.
- (d) Paid the first month's utility bill.
- (e) Collected an accounts receivable.

- (f) Paid dividends.

Solution 254

- (a) Increased total assets.
- (b) No change in total assets.
- (c) Increased total assets.
- (d) Decreased total assets.
- (e) No change in total assets.

Solution 254 (cont.)

- (f) Decreased total assets.

LO7 BT: C Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 255

Selected transactions for Parton Company are listed below. List the number of the transaction and then describe the effect of each transaction on assets, liabilities, and equity.

Sample: Issued ordinary shares in exchange for cash investment.

The answer would be—Increase in assets and increase in equity.

1. Paid monthly utility bill.
2. Purchased new display case for cash.
3. Paid cash for repair work on security system.
4. Billed customers for services performed.
5. Received cash from customers billed in 4.
6. Paid dividends.
7. Incurred advertising expenses on account.
8. Paid monthly rent.
9. Received cash from customers when service was rendered.

Solution 255

1. Decrease in assets and decrease in equity.
2. No net change in assets.
3. Decrease in assets and decrease in equity.
4. Increase in assets and increase in equity.
5. No net change in assets.
6. Decrease in assets and decrease in equity.

7. Increase in liabilities and decrease in equity.
8. Decrease in assets and decrease in equity.
9. Increase in assets and increase in equity.

LO7 BT: C Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 256

A service proprietorship shows five transactions summarized below. The effect of each transaction on the accounting equation is shown, and also the new balance of each item in the equation. For each transaction (a) to (e) write an explanation of the nature of the transaction.

	Cash	+ Accounts Rec.	+ Equip- ment	+ Land	+ Building	=	Accounts Payable	+ Equity
	\$5,000	\$6,500	\$10,000	\$7,500	\$50,000	\$3,000	\$76,000	
a)							-2,000	-2,000
b)							+1,000	-1,000
	4,000	5,500	10,000	7,500	50,000	1,000	76,000	Ex. 256 (cont.)
c)	4,000	5,500	+ 5,000 15,000	7,500			+ 5,000 50,000	
d)	+ 2,500 6,500	5,500	15,000	7,500	50,000	6,000	78,500	+ 2,500 78,500
e)	\$6,500	+ 3,000 \$8,500	\$15,000	\$7,500	\$50,000	\$6,000	\$81,500	+ 3,000 \$81,500

Solution 256

- (a) Paid cash to creditors.
- (b) Received cash from customers on account.
- (c) Bought equipment on account.
- (d) Issued ordinary shares in exchange for cash.
- (e) Services rendered on account.

LO7 BT: C Difficulty: Medium TOT: 5 min. AACSB: Analysis AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 257

There are ten transactions listed below. Match the transactions that have the identical effect on the accounting equation. You should end up with 5 matches.

- Receive cash from customers on account.
- Issue ordinary shares in exchange for cash.
- Pay cash to reduce an accounts payable.
- Purchase supplies for cash.
- Pay cash to reduce a notes payable.
- Purchase supplies on account.
- Issue ordinary shares in exchange for noncash assets.
- Purchase equipment with a note payable.
- Pay utilities with cash.
- Pay dividends.

Solution 257

Match #1 = a, d

#2 = c, e

#3 = f, h

#4 = b, g

#5 = i, j

LO7 BT: C Difficulty: Medium TOT: 10 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 258

An analysis of the transactions made by K. T. Lang & Co., a law firm, for the month of July is shown below. Each increase and decrease in equity is explained.

Assets				=	Liab.		+	Equity		
								Retained Earnings		
Accounts					Accounts	Share		Retained Earnings		
<u>Cash</u>	+ <u>Receivable</u>	+ <u>Supplies</u>	+		<u>Equipment</u>	=	<u>Payable</u>	+	<u>Cap</u>	+
<u>Rev.</u>	- <u>Exp.</u>	- <u>Div.</u>								
1.	+€15,000		+€15,000						Iss.	
									Share	
2.	- 2,000		+€5,000		+€3,000				Serv.	
									Rev.	
3.	- 750		+€750							
4.	+ 2,500		+€6,600							+ €9,100
									Serv. Rev.	

5.	-	1,500		- 1,500	
6.	-	2,500			- €2,500
Div.					
7.	-	650	Exp.		- €650 Rent
8.	+	550	- 550		
9.	-	3,500			- 3,500 Sal.
Exp.					
10.	Exp.			+ 500	- 500 Util.

Instructions

- (a) Prepare an income statement for the month ending July 31, 2014.
- (b) Prepare a retained earnings statement for the month ending July 31, 2014.

Solution 258

(a)

K. T. LANG & CO.
Income Statement
For the Month Ended July 31, 2014

Revenues		
Service revenue		€9,100
Expenses		
Salaries and wages expense	€3,500	
Rent expense	650	
Utilities expense	<u>500</u>	
Total expenses	4,650	
Net income		<u>€4,450</u>

(b)

K. T. LANG & CO.
Retained Earnings Statement
For the Month Ended July 31, 2014

Retained earnings, July 1	€ 0
Add: Net income	<u>4,450</u>
	4,450
Less: Dividends	<u>2,500</u>
Retained earnings, July 31	<u>1,950</u>

LO8 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 259

An analysis of the transactions made by K. T. Lang & Co., a law firm, for the month of July is shown below.

	Assets				=	Liab. + Equity			
	Accounts		Accounts Share			<u>Retained Earnings</u>			
	<u>Cash</u>	+ <u>Receivable</u>	+ <u>Supplies</u>	+ <u>Equipment</u>	= <u>Payable</u>	+ <u>Cap.</u>	+ <u>Rev.</u>	- <u>Exp.</u>	- <u>Div.</u>
1.	+€15,000			+€15,000					
2.	- 2,000		+€5,000	+€3,000					
3.	- 750		+€750						
4.	+ 2,500	+€6,600						+ €9,100	
5.	- 1,500				- 1,500				
6.	- 2,500								- €2,500
7.	- 650							- € 650	
8.	+ 550	- 550							
9.	- 3,500							- 3,500	
10.					+ 500			- 500	

Instructions

Prepare a statement of financial position at July 31, 2014.

Solution 259

K. T. LANG & CO.
Statement of Financial Position
July 31, 2014

Assets	
Equipment	€ 5,000
Supplies	750
Accounts receivable	6,050
Cash	<u>7,150</u>

Total assets		<u>€18,950</u>
Equity	Equity and Liabilities	
Share capital-ordinary	€15,000	
Retained earnings	<u>1,950</u>	16,950
Liabilities		
Accounts payable		<u>2,000</u>
Total equity and liabilities		<u>€18,950</u>

LO8 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 260

The following information relates to Ty Ringo Co. for the year 2014.

Retained earnings, January 1, 2014	\$ 47,000	Advertising expense	\$1,500
Dividends	6,000	Rent expense	9,500
Service revenue	65,500	Utilities expense	3,400
Salaries and wages expense	29,000		

Instructions

After analyzing the data, prepare an income statement and a retained earnings statement for the year ending December 31, 2014

Solution 260

TY RINGO CO.
Income Statement
For the Year Ended December 31, 2014

Revenues		
Service revenue		\$65,500
Expenses		
Salaries and wages expense	\$29,000	
Rent expense	9,500	
Utilities expense	3,400	
Advertising expense	<u>1,500</u>	

For Instructor Use Only

Total expenses	<u>43,400</u>
Net income	<u>\$22,100</u>

TY RINGO CO.
Retained Earnings Statement
For the Year Ended December 31, 2014

Retained earnings, January 1	\$47,000
Add: Net income	<u>22,100</u>
	69,100
Less: Dividends	<u>6,000</u>
Retained earnings, December 31	<u>\$63,100</u>

LO8 BT: AP Difficulty: Easy TOT: 7 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 261

Cyn Sclose is the bookkeeper for Ayala Company. Cyn has been trying to get the statement of financial position of Ayala Company to balance. Ayala's statement of financial position is as follows.

AYALA COMPANY
Statement of Financial Position
December 31, 2014

Assets		Liabilities	
Equipment	\$48,000	Accounts payable	\$33,000
Supplies	7,100	Accounts receivable	(12,500)
Cash	17,400	Share capital-ordinary	40,000
Dividends	<u>6,200</u>	Retained earnings	<u>18,200</u>
		Total equity and	
Total assets	<u>\$78,700</u>	liabilities	<u>\$78,700</u>

Instructions

Prepare a correct statement of financial position.

Solution 261 AYALA COMPANY

Statement of Financial Position December 31,
2014

Assets	
Equipment	\$48,000
Supplies	7,100
Accounts receivable	12,500
Cash	<u>17,400</u>
Total assets	<u><u>\$85,000</u></u>
Equity and Liabilities	
Equity	
Share capital-ordinary	\$40,000
Retained earnings (\$18,200 – \$6,200)	<u>12,000</u> \$52,000
Liabilities	
Accounts payable	<u>33,000</u>
Total equity and liabilities	<u><u>\$85,000</u></u>

LO8 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Analytical AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 262

Presented below is information related to Smith and Jones, Attorneys at Law.

Retained earnings, January 1, 2014	\$ 23,000
Service revenue—2014	300,000
Total expenses—2014	231,000
Assets, January 1, 2014	85,000
Liabilities, January 1, 2014	62,000
Assets, December 31, 2014	168,000
Liabilities, December 31, 2014	85,000
Dividends—2014	59,000

Instructions

Prepare the 2014 retained earnings statement for Smith and Jones, Attorneys at Law.

Solution 262 SMITH AND JONES, ATTORNEYS AT LAW

Retained Earnings Statement
For the Year Ended December 31, 2014

Retained earnings, January 1	\$ 23,000
Add: Net income	<u>69,000*</u>
	92,000
Less: Dividends	<u>59,000</u>
Retained earnings, December 31	<u>\$ 33,000</u>
*Legal service revenue	\$300,000
Total expenses	<u>231,000</u>
Net income	<u>\$ 69,000</u>

LO8 BT: AP Difficulty: Medium TOT: 7 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 263

Prepare an income statement, a retained earnings statement, and a statement of financial position for the acupuncture practice of Lei Chen, from the items listed below for the month of September.

Retained earnings, September 1	¥12,000
Share capital-ordinary	30,000
Accounts payable	7,000
Equipment	27,000
Service revenue	24,000
Dividends	6,000
Supplies expense	3,500
Cash	8,000
Utilities expense	700
Supplies	2,800
Salaries and wages expense	9,000
Accounts receivable	14,000
Rent expense	2,000

Ex. 263 (cont.)

LEI CHEN, ACUPUNCTURIST
Income Statement
For the Month Ended September 30, 2014

Revenues		¥
Expenses	¥	¥
Total expenses	_____	¥

Net income ¥ _____

LEI CHEN, ACUPUNCTURIST
Retained Earnings Statement
For the Month Ended September 30, 2014

Retained Earnings, September 1				¥
Add:				¥
Less:				
				¥ _____

LEI CHEN, ACUPUNCTURIST
Statement of Financial Position
September 30, 2014

Assets				¥
Total assets				_____
				¥ _____
Equity and Liabilities				
Equity				¥
Liabilities		¥ _____		
Total equity and liabilities				¥ _____

Solution 263

LEI CHEN, ACUPUNCTURIST
Income Statement
For the Month Ended September 30, 2014

Revenues		
Service revenue		¥24,000
Expenses		
Salaries and wages expense	¥9,000	
Supplies expense	3,500	
Rent expense	2,000	
Utilities expense	<u>700</u>	
Total expenses		<u>15,200</u>
Net income		<u>¥ 8,800</u>

LEI CHEN, ACUPUNCTURIST
Retained Earnings Statement
For the Month Ended September 30, 2014

Retained Earnings, September 1	¥12,000
Add: Net income	<u>8,800</u>
	20,800
Less: Dividends	6,000
Retained Earnings, September 30	<u>¥14,800</u>

LEI CHEN, ACUPUNCTURIST
Statement of Financial Position
September 30, 2014

Assets	
Equipment	¥27,000
Supplies	2,800
Accounts receivable	14,000
Cash	<u>8,000</u>

Total assets		<u>¥51,800</u>
	Equity and Liabilities	
Share capital-ordinary	¥30,000	
Retained earnings	<u>14,800</u>	¥44,800
Liabilities		
Accounts payable		<u>7,000</u>
Total liabilities and equity		<u>¥51,800</u>

LO8 BT: AP Difficulty: Hard TOT: 15 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 264

Indicate whether the following items would appear on the statement of financial position (FP), income statement (IS), or retained earnings statement (RE).

1. Advertising expense
2. Accounts receivable
3. Dividends
4. Rent revenue
5. Salaries and wages payable
6. Supplies

Solution 264 (5 min.)

- | | |
|---|---|
| 1. Income statement (IS) | 4. Income statement (IS) |
| 2. Statement of financial position (FP) | 5. Statement of financial position (FP) |
| 3. Retained earnings statement (RE) | 6. Statement of financial position (FP) |

LO8 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 265

Listed below in alphabetical order are the statement of financial position items of Pieter Company at December 31, 2014. Prepare a statement of financial position and include a complete heading.

Accounts Payable	\$ 31,000
Accounts Receivable	15,000

Buildings	56,000
Cash	24,000
Equipment	4,000
Land	52,000
Share Capital-Ordinary	120,000

LO8 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution 265 (5 min.)

PIETER COMPANY
Statement of Financial Position
December 31, 2014

ASSETS

Land	\$ 52,000
Buildings	56,000
Equipment	4,000
Accounts receivable	15,000
Cash	<u>24,000</u>
Total assets	<u>\$151,000</u>

Solution 265 (cont.)

EQUITY and LIABILITIES

Share capital-ordinary	\$ 120,000
Accounts payable	<u>31,000</u>
Total equity and liabilities	<u>\$151,000</u>

LO8 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 266

One item is omitted in each of the following summaries of statement of financial position and income statement data for three different corporations, X, Y, and Z. Determine the amounts of the missing items, identifying each corporation by letter.

	Corporation		
	<u>X</u>	<u>Y</u>	<u>Z</u>
Beginning of the Year:			
Assets	£380,000	£150,000	£199,000
Liabilities	270,000	105,000	168,000
End of the Year:			

Assets	450,000	185,000	195,000
Liabilities	280,000	95,000	149,000
During the Year:			
Issued additional ordinary shares	<u>?</u>	79,000	80,000
Dividends	90,000	83,000	<u>?</u>
Revenue	195,000	<u>?</u>	187,000
Expenses	170,000	113,000	175,000

Solution 266

Corporation X (£125,000)

Beginning equity (£380,000 – £270,000)	£110,000
Additional investments (£260,000 – £110,000 – £25,000)	125,000
Net income for year (£195,000 – £170,000)	<u>25,000</u>
	260,000
Less dividends <u>90,000</u>	
Ending equity (£450,000 – £280,000)	<u>£170,000</u>

Corporation Y (£162,000)

Beginning equity (£150,000 – £105,000)	£ 45,000
Additional investments	79,000
Net income for year	<u>49,000</u>
[Revenues = £162,000 (£113,000 + £49,000)]	173,000
Less dividends <u>83,000</u>	
Ending equity (£185,000 – £95,000)	<u>£ 90,000</u>

Solution 266 (cont.)

Corporation Z (£77,000)

Beginning equity (£199,000 – £168,000)	£ 31,000
Additional investments	80,000
Net income for year (£187,000 – £175,000)	<u>12,000</u>
	123,000
Less dividends (£123,000 – £46,000)	<u>77,000</u>
Ending equity (£195,000 – £149,000)	<u>£ 46,000</u>

LO8 BT: AN Difficulty: Hard TOT: 10 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA PC: Problem Solving

Ex. 267

Indicate in the space provided by each item whether it would appear on the Income Statement (IS), Statement of Financial Position (FP), or Retained Earnings Statement (RE):

- a. _____ Service Revenue g. _____ Accounts Receivable
 b. _____ Utilities Expense h. _____ Retained Earnings (ending)
 c. _____ Cash i. _____ Equipment
 d. _____ Accounts Payable j. _____ Advertising Expense
 e. _____ Supplies k. _____ Dividends
 f. _____ Salaries and Wages Expense l. _____ Notes Payable

Solution 267

- a. IS g. FP
 b. IS h. RE, FP
 c. FP i. FP
 d. FP j. IS
 e. FP k. RE
 f. IS l. FP

LO8 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Ex. 268

At September 1, the statement of financial position accounts for Stanley's Restaurant were as follows:

Accounts Payable	\$ 3,800	Land	\$33,000
Accounts Receivable	11,600	Share Capital-Ordinary	?
Buildings	68,000	Notes Payable	48,000
Cash	10,000	Supplies	6,600
Equipment	18,700		

The following transactions occurred during the next two days:

The company issued additional ordinary shares for \$22,000 cash invested in the business. The accounts payable were paid in full. (No payment was made on the notes payable.)

Instructions

Prepare a statement of financial position at September 3, 2014.

Solution 268

STANLEY'S RESTAURANT
Statement of Financial Position
September 3, 2014

ASSETS		
Land		\$ 33,000
Buildings		68,000
Equipment		18,700
Supplies		6,600
Accounts receivable		11,600
Cash		<u>28,200</u>
Total assets		<u>\$166,100</u>

Solution 268 (cont.)

EQUITY and LIABILITIES		
Share capital-ordinary	\$118,100 Notes payable	48,000
Accounts payable		<u>-0-</u>
Total equity and liabilities		<u>\$166,100</u>

Cash (\$10,000 + \$22,000 – \$3,800) = \$28,200

Accounts payable (\$3,800 – \$3,800) = \$0

Share capital:	Beginning balance (\$147,900 – \$51,800)	\$ 96,100
	Additional investment	<u>22,000</u>
	Ending balance	<u>\$118,100</u>

LO8 BT: AP Difficulty: Hard TOT: 10 min. AACSB: Analysis AICPA BB: Critical Thinking AICPA PC: Problem Solving

Ex. 269

Presented below are items for Wilson Company at December 31, 2014.

Accounts payable	€45,000
Accounts receivable	36,000
Cash	27,000
Equipment	62,000
Share capital-ordinary	30,000
Notes payable	50,000

Compute each of the following:

1. Total assets.
2. Total liabilities.

Solution 269

1. Total assets = €125,000 (€36,000 + €27,000 + €62,000)
2. Total liabilities = €95,000 (€45,000 + €50,000)

LO8 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

COMPLETION STATEMENTS

270. Accounting is an information system that identifies, _____, and _____ the economic events of an organization.
271. The mere recording of economic events is called _____, and is just one part of the _____ process.
272. Accounting standards issued in the United States by the Financial Accounting Standards Board are called _____.
273. The _____ principle states that companies should record assets at their cost.
274. The _____ assumption requires that the activities of an entity be kept separate from the activities of its owner.
275. The residual claim on total assets of a business is known as _____ and is equal to total assets minus total liabilities.
276. Dividends _____ equity but are not expenses.
277. The _____ reports the assets, liabilities, and equity of a business enterprise at a specific date.

^a278. The three major services rendered by a public accountant are _____, _____, and management _____.

^a279. Accountants who are employees of business enterprises are referred to as _____ accountants.

Answers to Completion Statements

270. records, communicates 275. equity
271. bookkeeping, accounting 276. reduce
272. generally accepted accounting principles 277. statement of financial position
273. historical cost 278. auditing, taxation, management consulting
274. economic entity ^a279. private (or managerial)

LO1-8 BT: K Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

MATCHING

280. Match the items below by entering the appropriate code letter in the space provided.

- A. Convergence F. Corporation
B. Bookkeeping G. Assets
C. IASB H. Equities
D. Proprietorship I. Expenses
E. Economic entity assumption J. Transactions

- _____ 1. Activities of an entity must be kept separate from its owner's activities. _____
2. Consumed assets or services.
_____ 3. Ownership is limited to one person.
_____ 4. Process of reducing differences between IFRS and GAAP.
_____ 5. Creditor and ownership claims against the assets of the business.
_____ 6. A separate legal entity under state laws.
_____ 7. Accounting organization that issues standards.
_____ 8. Involves only the recording of economic events.

For Instructor Use Only

- _____ 9. Future economic benefits.
 _____ 10. Economic events recorded by accountants.

Answers to Matching

- | | |
|------|-------|
| 1. E | 6. F |
| 2. I | 7. C |
| 3. D | 8. B |
| 4. A | 9. G |
| 5. H | 10. J |

LO1-8 BT: K Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

SHORT-ANSWER ESSAY QUESTIONS S-A E 281

Your friend, James, made this comment:

My major is biology and I plan to research for cures for major illnesses. Thus, I have no need to study accounting.

What is your response to James?

Solution 281

James, you are entering a dynamic profession and you have the opportunity to make important contributions to society. While science will be your profession and major concern, you will not be able to escape the need to understand accounting. Accounting staff and professionals will always be available to assist you. Here are some areas that will directly affect you:

As a manager, you will need to review accounting information (both internal and external) and make decisions. Budgets will be an important part of your research activities. As an employee, you will be concerned about the financial information of your employer. Thus, you will need to be able to read the company's financial statements. Also, as an investor, you will be interested in the financial statements of other companies.

You will probably not be a preparer of the financial statements, but you do need an understanding of how they are prepared. You also need a good understanding of how to interpret the information on the financial statements.

LO2 BT: S Difficulty: Hard TOT: 5 min. AACSB: Communication AICPA BB: Critical Thinking AICPA FN: Reporting

S-A E 282

The information needs of a specific user of financial accounting information depends upon the kinds of decisions that user makes. Identify the major users of accounting information and discuss what questions financial accounting information answers for each group of users.

Solution 282

The major users of accounting information are internal users and external users. Internal users are those who manage the business. External users are those outside the business who have either a present or potential financial interest.

Financial accounting information may answer the following questions for internal users:

1. Is cash sufficient to pay our debts?
2. Can we afford to give employee pay raises this year?
3. What is the cost of manufacturing each unit of product?
4. Which product line is the most profitable?

Questions answered by financial accounting information for external users include:

1. Is the company earning satisfactory income?
2. How does the company compare in size and profitability with competitors?
3. Will the company be able to pay its debts as they come due?

LO2 BT: C Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting S-A E 284

E 283

The framework used to record and summarize the economic activities of a business enterprise is referred to as the accounting equation. State the basic accounting equation and define its major components. How are business transactions and financial statements related to the accounting equation?

Solution 283

The basic accounting equation is expressed as follows:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Assets are defined as resources owned by the business. Liabilities are creditor claims against the assets of the business; or simply put, liabilities are existing debts and obligations. Equity is the ownership claim on the total assets of the business; it is equal to total assets minus total liabilities.

For Instructor Use Only

Business transactions are economic events and activities that affect the elements of the basic accounting equation; that is, transactions cause increases or decreases in the assets, liabilities, and equity. The financial statements report the results and effects of transactions on the business' assets, liabilities, and equity. The statement of financial position is a summary expression of the basic accounting equation.

LO6 BT: C Difficulty: Medium TOT: 4 min. AACSB: Communication AICPA BB: Critical Thinking AICPA FN: Reporting

^aS-A E 284

The accounting profession provides many career opportunities for individuals. Identify the major fields that exist in accounting and comment on the major functions performed by individuals in each of these areas.

^aSolution 284

The major fields that exist in accounting are in the areas of (1) public accounting, (2) private accounting, and (3) not-for-profit accounting. In public accounting, an accountant may practice as: (1) an auditor who examines the financial statements of companies and expresses an opinion as to the fairness of presentation; (2) a tax specialist who gives tax advice, prepares tax returns, and represents clients before governmental agencies; and (3) a management accountant who engages in the development of accounting and computer systems and the design of organizational systems.

Private (managerial) accountants perform many different activities within a company. Private accountants may be involved in: cost accounting, budgeting, general financial accounting, accounting information systems, and tax accounting.

LO9 BT: K Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA BB: Critical Thinking AICPA FN: Reporting

S-A E 285 (Ethics)

Sam Dryer owns and operates Sam's Burgers, a small fast food store, located at the edge of City College campus in Newton, Ohio. After several very profitable years, Sam's Burgers began to have problems. Most of the problems were related to Sam's expansion of the eating area in the restaurant without corresponding increases in the food preparation area. Sam does not have the cash or financial backing to expand further. He has therefore decided to sell his business.

Jerry Finney is interested in purchasing the business. However, he is located in another city and is unfamiliar with Newton. He has asked Sam why he is selling Sam's Burgers. Sam replies that his elderly mother requires extra care, and that his brother needs help in his manufacturing business.

Both are true, but neither is his primary reason for selling. Sam reasons that Jerry should not have asked him anyway, since profitable businesses don't come up for sale.

Required:

1. Identify the stakeholders in this situation.
2. Did Sam act ethically in not revealing fully his reasons for selling the business? Why or why not?

Solution 285

1. The stakeholders include
Sam Dryer
Jerry Finney
Newton, Ohio students of
City College City College
persons financing the purchase of Sam's Burgers
2. Sam did not act ethically in not revealing fully his reasons for selling the business. Students might be of the opinion that a purchaser should investigate a business before purchasing it, rather than relying entirely on the seller's assertions. However, students should realize that Sam should have said something about his problems. He might ethically be allowed to put these in the best possible light, perhaps, but failure to disclose them at all is certainly unethical. This is especially true, since family concerns might well cause someone to sell a business that is otherwise doing well. Sam has shown an intent to deceive that is unethical, and might be actionable in court as well.

LO3 BT: E Difficulty: Medium TOT: 5 min. AACSB: Ethics AICPA BB: Critical Thinking
AICPA FN: Reporting

E 286 (Communication)

Sue Havens is a friend of yours from high school. She decided to become a beautician after leaving high school, rather than to attend college. She recently opened her own shop, and has contracted her services to a local hospital. She is paid a monthly fee for her services, and receives a small gratuity from each of the patients.

She has just received her first set of financial statements from her accountant. She is quite upset. The statements show a cash balance of \$3,600 at the end of the month, but a net income of only \$500. She has written you a letter, asking you whether such a situation is possible, or whether she should find another accountant.

Required:

Write a short letter to your friend. Use proper form. Answer her question completely, but briefly.

Solution 286

Answers will vary. The instructor's requirements concerning proper form should be followed. The letter may be either business or personal. As a minimum, the letter should be in a recognizable form, and proper grammar and spelling should be used. Neat erasures and corrections might be allowed. A suggested personal letter follows:

1245 Lily Lane
Buena Vista, AR 77661
(Date)

Dear Sue,

Congratulations on opening your business! I am sure you will do well, combining your creative genius with your talent for serving others.

You asked about your financial statements. Of course, you realize that I am just an accounting student, but I do know that it is possible to have a large cash balance and little net income. You may have had expenses that were not paid in cash yet. These expenses reduce your income, but not your cash.

I think that you should discuss the statements with the accountant who prepared them. He or she will be in the best position to explain the results.

Thanks for the question. It really made me think.

Sincerely,
(signature)

LO8 BT: C Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA BB: Critical Thinking AICPA FN: Reporting

GAAP QUESTIONS

1. The Sarbanes-Oxley Act determines
 - a. U.S tax regulations.
 - b. internal control standards of U.S. publicly traded companies.
 - c. internal control standards as enforced by the IASB.
 - d. international tax regulations.

Ans: B LO9 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

2. IFRS is considered to be more
- detailed than GAAP.
 - rules-based and less principles-based than GAAP.
 - principles-based and less rules-based than GAAP.
 - None of these answer choices are correct.

Ans: C LO9 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

3. Which of the following statements is **false**?
- Proprietorships, partnerships, and corporations are also found in countries that use IFRS.
 - Non-U.S. companies that trade shares in U.S. markets must reconcile their accounting with GAAP.
 - FASB and the IASB are working on a joint project related to the conceptual framework.
 - GAAP is based on a conceptual framework that is similar to that used to develop IFRS.

Ans: B LO9 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting

4. Which of the following is **true**?
- Equity is defined under GAAP as the residual interest in the liabilities of the company.
 - IFRS companies have agreed to adopt the Sarbanes-Oxley Act related to internal control in 2015.
 - Transaction analysis is basically the same under GAAP and IFRS.
 - Financial frauds have not occurred in U.S. companies because GAAP has detailed accounting and disclosure requirements.

Ans: C LO9 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: Reflective Thinking
AICPA BB: Critical Thinking AICPA FN: Reporting