

**Financial Accounting, 1e**  
**Chapter 1: Business, Accounting, and You**  
**Test Item File**

- 1.0-1 By taking accounting classes, the student is learning the “language of business.”

Answer: True

LO: 1-0

Difficulty: 1

EOC Ref: Vocabulary

AACSB: Communication

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.0-2 Ethics refers to the principles of right behavior in making decisions.

Answer: True

LO: 1-0

Difficulty: 1

EOC Ref: Vocabulary

AACSB: Ethical Understanding

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.0-3 To manage a business effectively, an owner or manager would benefit greatly from having some knowledge of accounting.

Answer: True

LO: 1-0

Difficulty: 1

EOC Ref: Vocabulary

AACSB: Communication

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.0-4 Being unethical is the same thing as being unlawful.

Answer: False

LO: 1-0

Difficulty: 1

EOC Ref: Vocabulary

AACSB: Ethical Understanding

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.0-5 Words such as sales, expenses, financial statements, etc. are all part of the:
- A. rule of ethics.
  - B. rules of accounting.
  - C. language of business
  - D. language of profitability

Answer: C

LO: 1-0

Difficulty: 1

EOC Ref: Vocabulary

AACSB: Communication

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.0-6 Which of the following is NOT a reason to study accounting?
- A. A student will become aware of ethics in business.
  - B. A student will learn the language of business.
  - C. A student will better their math skills.
  - D. A student will learn to analyze financial information.

Answer: C

LO: 1-0

Difficulty: 1

EOC Ref: Vocabulary

AACSB: Ethical Understanding

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.0-7 Which statement is FALSE about ethics?
- A. Ethics are rules.
  - B. Ethics are guidelines of how we perceive right and wrong.
  - C. Ethics are a vital part of the accounting profession.
  - D. Things may be unethical but still be legal.

Answer: A

LO: 1-0

Difficulty: 1

EOC Ref: Vocabulary

AACSB: Ethical Understanding

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.1-1 The knowledge gained from studying accounting will aid you in making decisions about a business to enhance its profitability.

Answer: True

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Communication

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.1-2 To ensure that the guidelines for right behavior are followed, a corporation should follow:
- A. ethical principles.
  - B. accounting law.
  - C. the corporate culture.
  - D. the leaders in their category of business.

Answer: A

LO: 1-1

Difficulty: 1

EOC Ref: S1-1

AACSB: Ethical Understanding

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.1-3 The main goal of understanding the process of accounting is to help ensure that the business is:
- A. profitable.
  - B. ethical.
  - C. competitive.
  - D. admired by the customer.

Answer: A

LO: 1-1

Difficulty: 1

EOC Ref: S1-1

AACSB: Communication

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.1-4 Ethical dilemmas may be created by all of the following EXCEPT:
- A. individual actions contradicting the goals of the business.
  - B. the culture of the organization clashing with ethical principles.
  - C. personal beliefs being different than organizational beliefs.
  - D. all of the employees having the same belief systems.

Answer: D

LO: 1-1

Difficulty: 1

EOC Ref: S1-1

AACSB: Ethical Understanding

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.1-5 Which of the following may create an ethical dilemma?
- A. A company takes an order in November for delivery in December.
  - B. A person sees another employee stealing and reports it.
  - C. A company underestimates its expenses.
  - D. All employee evaluations follow identical procedures.

Answer: C

LO: 1-1

Difficulty: 2

EOC Ref: S1-1

AACSB: Ethical Understanding

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.1-6 Ethical behavior is encouraged because:
- A. our society expects ethical behavior.
  - B. ethics and legality are the same things.
  - C. laws are the same as ethics.
  - D. it makes the world a better place.

Answer: A

LO: 1-1

Difficulty: 1

EOC Ref: S1-1

AACSB: Ethical Understanding

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Research

- 1.1-7 A business with one owner is called a sole proprietorship and it must be a service business.

Answer: False

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.1-8 Wal-Mart and Target would be examples of corporate merchandising businesses.

Answer: True

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.1-9 Many law and accounting firms are set up as partnerships.

Answer: True

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Legal/Regulatory

AICPA Functional Competencies: Reporting

1.1-10 In a corporation, taxes are paid on the dividends earned by the shareholders.

Answer: True

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Legal/Regulatory

AICPA Functional Competencies: Measurement and Reporting

1.1-11 A limited liability company (LLC) is a legal entity like a corporation, but the income is taxed like a sole proprietorship or partnership.

Answer: True

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Legal/Regulatory

AICPA Functional Competencies: Reporting

1.1-12 A tax service is primarily a:

A. merchandising operation.

B. service operation.

C. not-for-profit operation.

D. manufacturing operation.

Answer: B

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.1-13 Which of the following types of organization would probably sell goods?
- A. Merchandising operation
  - B. Service operation
  - C. Not-for-profit operation
  - D. Manufacturing operation

Answer: A

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.1-14 Which of the following types of organizations would produce goods?
- A. Merchandising operation
  - B. Service operation
  - C. Not-for-profit operation
  - D. Manufacturing operation

Answer: D

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.1-15 Which of the following is a disadvantage of the corporate form of business?
- A. Ease of raising capital
  - B. Double taxation
  - C. Limited resources
  - D. Limited liability

Answer: B

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Legal/Regulatory

AICPA Functional Competencies: Reporting

1.1-16 By definition, which type of organization has stockholders?

- A. Partnerships
- B. Sole proprietorships
- C. Corporations
- D. Limited liability companies

Answer: C

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Legal/Regulatory

AICPA Functional Competencies: Reporting

1.1-17 Which of the following business forms is similar to a corporation in regard to owner liability?

- A. Limited liability corporation
- B. Limited liability company
- C. Sole proprietorship
- D. Partnership

Answer: B

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.1-18 Which of the following do NOT pay taxes through their individual owners?

- A. S-corporation
- B. Sole proprietorship
- C. Partnership
- D. Corporation

Answer: D

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.1-19 One of the newer forms of business discussed in the text is a:

- A. corporation.
- B. sole proprietorship.
- C. partnership.
- D. limited liability company.

Answer: D

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.1-20 Home Depot would primarily be considered a:

- A. manufacturing business.
- B. merchandising business.
- C. service business.
- D. not-for-profit business.

Answer: B

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.1-21 Which type of business organization is owned by its stockholders?

- A. Corporation
- B. Partnership
- C. Limited liability company
- D. Sole proprietorship

Answer: A

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting



1.1-22 Given the information below, place an (SP) if the statement describes a sole proprietorship, a (P) if the statement describes a partnership, a (C) if the statement describes a corporation and an (LLC) if the statement describes a limited liability company.

- A. \_\_\_\_ Has unlimited life
- B. \_\_\_\_ Is similar to a corporation in terms of owner(s) liability
- C. \_\_\_\_ Medical, accounting, and law firms are primarily this type of business
- D. \_\_\_\_ Generally has one owner
- e. \_\_\_\_ Subject to double taxation

Answer: A. C                      B. LLC                      C. P                      D. SP                      e. C

LO: 1-1

Difficulty: 2

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.1-23 Given the companies below, determine if they would be primarily a service business (S), merchandising business (Mdse) or a manufacturing business (Mfg).

- A. A law firm
- B. A corner grocery store
- C. A bicycle parts maker
- D. An accounting firm
- E. A bookstore

Answer: A. (S)                      B. (Mdse)                      C. (Mfg)                      D. (S)                      e. (Mdse)

LO: 1-1

Difficulty: 2

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.1-24 Given the information below, identify each as a characteristic of a partnership, corporation, sole proprietorship or limited liability company.

1. Has multiple owners, examples are law and accounting firms
2. Acts like a corporation, but owners can only lose what they invest, and the corporation is not subject to double taxation
3. Has only one owner

Answer: 1) Partnership  
2) Limited liability company  
3) Sole proprietorship

LO: 1-1

Difficulty: 2

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.1-25 Given the following information, identify each company as a probable partnership, corporation or a proprietorship.

- 1) Honda
- 2) Joe and Bob's Barbecue Shack
- 3) Millie's Fashion

Answer: 1) Corporation  
2) Partnership  
3) Proprietorship

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.1-26 Which type of company is best described as having ownership by stock and double taxation of earnings?

- A. Limited liability company
- B. Proprietorship
- C. Corporation
- D. Partnership

Answer: C

LO: 1-1

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-1 Accounting is important because the process “keeps score” of the financial aspects of a business.

Answer: True

LO: 1-2

Difficulty: 1

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-2 Financial statements are historical reports of what has taken place financially in a business.

Answer: True

LO: 1-2

Difficulty: 1

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-3 The main role of accounting is to compile reports to determine the profit made by a company over a period of time.

Answer: False

LO: 1-2

Difficulty: 2

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-4 Financial statements can help the managers of a business in making decisions regarding the business.

Answer: True

LO: 1-2

Difficulty: 1

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-5 Generally Accepted Accounting Principles (GAAP) are the rules and guidelines governing accounting.

Answer: True

LO: 1-2

Difficulty: 1

EOC Ref: Vocabulary

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-6 The Financial Accounting Standards Board (FASB) established the standards for managerial accounting.

Answer: False

LO: 1-2

Difficulty: 1

EOC Ref: Self-Check Questions

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-7 The definition of the business entity concept includes the requirement that personal assets must be separated from business assets.

Answer: True

LO: 1-2

Difficulty: 1

EOC Ref: S1-1

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-8 Financial information that is verifiable violates the principle of objectivity.

Answer: False

LO: 1-2

Difficulty: 1

EOC Ref: S1-2

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-9 Market value and historical cost (value) are the same concept.

Answer: False

LO: 1-2

Difficulty: 1

EOC Ref: S1-2

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.2-10 Which of the following concepts would NOT be considered if you were to compare the price of a Camaro in 1979 to the price of a Camaro in 2009?
- A. Reliability of the price in 1979
  - B. Objectivity of the price in 1979
  - C. Market price in 1979
  - D. Current cost in 2009

Answer: C

LO: 1-2

Difficulty: 2

EOC Ref: S1-2

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.2-11 Rick owns a sporting goods store. In his initial accounting records, he included his personal computer and all of his personal sporting gear. Rick is violating what principle of accounting?
- A. Going concern
  - B. Cost
  - C. Reliability
  - D. Entity

Answer: D

LO: 1-2

Difficulty: 2

EOC Ref: S1-2

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.2-12 Rick lists his building at current replacement value, rather than the price he paid for the building. What principle is Rick violating?
- A. Going concern
  - B. Cost
  - C. Reliability
  - D. Entity

Answer: B

LO: 1-2

Difficulty: 2

EOC Ref: S1-1

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-13 Rick is negotiating with friends who may buy some camping equipment in the near future. He records this information as possible sales. What principle is Rick violating?

- A. Going concern
- B. Cost
- C. Reliability
- D. Entity

Answer: C

LO: 1-2

Difficulty: 2

EOC Ref: S1-2

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-14 FASB is made up of \_\_\_\_\_ members.

- A. 3
- B. 5
- C. 7
- D. 9

Answer: C

LO: 1-2

Difficulty: 1

EOC Ref: Vocabulary

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-15 GAAP is the acronym for generally accepted \_\_\_\_\_ principles.

- A. auditing
- B. accounting
- C. averaging
- D. associated

Answer: B

LO: 1-2

Difficulty: 1

EOC Ref: Vocabulary

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.2-16 Accountants who ignore the effect of inflation on prices may be violating which accounting principle?
- A. Going concern
  - B. Entity
  - C. Reliability
  - D. Something other than what is listed

Answer: D

LO: 1-2

Difficulty: 2

EOC Ref: S1-1

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.2-17 Most assets should be listed at:
- A. current replacement cost.
  - B. current market value.
  - C. historical cost.
  - D. inflation-adjusted cost.

Answer: C

LO: 1-2

Difficulty: 1

EOC Ref: S1-2

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.2-18 The accounting principle that best defines a business is:
- A. entity.
  - B. cost.
  - C. reliability.
  - D. going concern.

Answer: A

LO: 1-2

Difficulty: 1

EOC Ref: S1-1

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.2-19 For each of the following situations, indicate what accounting principle or concept is being violated.
- A. Rick's Roofing performs roof repairs for its customers. He also runs a separate construction business. He keeps both businesses in one set of books.
  - B. Rick purchased land and a building at a new location. He updates the market value of the building every year.
  - C. Rick records sales based on customer appointments and estimates.

Answer: A. Entity concept  
B. Cost concept  
C. Reliability concept

LO: 1-2

Difficulty: 2

EOC Ref: S1-2

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.2-20 For each of the following situations, indicate what accounting principle or concept is being followed.
- A. Tammy's Bakery supplies baked goods for its customers. Tammy also has a tax preparation service. She keeps the books for both businesses separately.
  - B. Tammy's Bakery lists all of its assets at historical cost.
  - C. Isaiah's Bookstore records sales when merchandise is sold for cash or is purchased by a customer on credit.

Answer: A. Entity concept  
B. Cost concept  
C. Reliability concept

LO: 1-2

Difficulty: 2

EOC Ref: S1-2

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.2-21 The \_\_\_\_\_ issues pronouncements that are guidelines for accounting practice.
- A. GAAP
  - B. SEC
  - C. FASB
  - D. IRS

Answer: C

LO: 1-2

Difficulty: 1

EOC Ref: Vocabulary

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting



1.2-22 The guidelines that describe the rules of accounting are called:

- A. GAAS.
- B. GAAP.
- C. FASB.
- D. SEC.

Answer: B

LO: 1-2

Difficulty: 1

EOC Ref: Self-Check Questions

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-23 When a person combines separate business accounts, what concept or principle of accounting is being violated?

- A. Going concern
- B. Objectivity
- C. Entity
- D. Cost

Answer: C

LO: 1-2

Difficulty: 1

EOC Ref: S1-2

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.2-24 To take an inventory of goods to be sold would be representative of what accounting concept or principle?

- A. Going concern
- B. Objectivity
- C. Entity
- D. Cost

Answer: B

LO: 1-2

Difficulty: 1

EOC Ref: S1-2

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.2-25 Which accounting concept or principle specifically states that we should record transactions that can be verified?
- A. Going-concern concept
  - B. Cost principle
  - C. Reliability principle
  - D. Entity concept

Answer: C

LO: 1-2

Difficulty: 1

EOC Ref: S1-1

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-1 The fundamental accounting equation is Assets plus Liabilities equals Stockholders' Equity.

Answer: False

LO: 1-3

Difficulty: 1

EOC Ref: S1-4

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-2 Liabilities are those obligations that are owed to third parties.

Answer: True

LO: 1-3

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-3 Stockholders' equity consists of Retained earnings and Common stock.

Answer: True

LO: 1-3

Difficulty: 1

EOC Ref: S1-3

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-4 Financial statements are prepared based on which of the following?

- A. Generally accepted accounting principles
- B. State and local laws
- C. Internal revenue service rules
- D. Generally accepted auditing standards

Answer: A

LO: 1-3

Difficulty: 1

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-5 What is the purpose of financial accounting information?

- A. To provide biased information to the markets for trading
- B. To help investors, creditors, and others to make decisions
- C. To help managers plan and to control business operations
- D. To comply with SEC and IRS rules

Answer: B

LO: 1-3

Difficulty: 2

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-6 Assets consist of revenues, expenses, and dividends.

Answer: False

LO: 1-3

Difficulty: 1

EOC Ref: S1-9

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-7 A transaction is a business event that does NOT have an impact on the finances of a company.

Answer: False

LO: 1-3

Difficulty: 1

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-8 Which of the following is considered an asset?

- A. Accounts payable
- B. Sales
- C. Accounts receivable
- D. Common stock

Answer: C

LO: 1-3

Difficulty: 2

EOC Ref: S1-9

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-9 Liabilities represent:

- A. items owned by the company.
- B. future economic benefits of the company.
- C. earnings kept in the business
- D. monies owed to third parties.

Answer: D

LO: 1-3

Difficulty: 2

EOC Ref: S1-9

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-10 A business pays off a note payable. What effect does this have on the accounting equation?

- A. Assets go up, liabilities go down, and stockholders' equity remains the same.
- B. Assets go down, liabilities remain the same, and stockholders' equity goes up.
- C. Assets go down, liabilities go down, and stockholders' equity remains the same.
- D. Assets go up, liabilities remain the same, and stockholders' equity goes up.

Answer: C

LO: 1-3

Difficulty: 3

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-11 A business purchases a computer for cash. What effect does this have on the accounting equation?
- A. Stockholders' equity and assets go up.
  - B. There is no change in total assets.
  - C. Assets go up and liabilities go down.
  - D. Stockholders' equity and liabilities go up.

Answer: B

LO: 1-3

Difficulty: 3

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-12 Revenues, expenses and dividends are all a part of:
- A. assets.
  - B. retained earnings.
  - C. liabilities.
  - D. common stock.

Answer: B

LO: 1-3

Difficulty: 1

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-13 Cash and Accounts receivable are both a part of:
- A. assets.
  - B. retained earnings.
  - C. liabilities.
  - D. common stock.

Answer: A

LO: 1-3

Difficulty: 2

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-14 Miranda opens her business by investing \$12,000. How does this affect the accounting equation?
- A. Increase in assets; increase in stockholders' equity.
  - B. Increase in liabilities; increase in stockholders' equity.
  - C. Decrease in assets; increase in stockholders' equity.
  - D. Increase in assets; decrease in stockholders' equity.

Answer: A

LO: 1-3

Difficulty: 3

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-15 Brandon borrowed money for his business from a local bank. What accounts will be affected?
- A. Cash and accounts payable
  - B. Cash and notes payable
  - C. Accounts payable and revenue
  - D. Accounts receivable and revenue

Answer: B

LO: 1-3

Difficulty: 2

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-16 Revenues would have which of the following effects on the accounting equation?
- A. Decrease stockholders' equity
  - B. Increase common stock
  - C. Increase liabilities
  - D. Increase stockholders' equity

Answer: D

LO: 1-3

Difficulty: 2

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-17 Which of the following is a written promise to pay?

- A. Accounts receivable
- B. Accounts payable
- C. Notes payable
- D. Dividends payable

Answer: C

LO: 1-3

Difficulty: 1

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-18 A company has liabilities of \$23,500 and stockholders' equity of \$56,500. How much does the company have in assets?

- A. \$56,500
- B. \$33,000
- C. \$80,000
- D. \$23,500

Answer: C

Calculations:  $A = L + SE$

$$80,000 = 23,500 + 56,500$$

LO: 1-3

Difficulty: 1

EOC Ref: S1-4

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-19 A company has \$123,000 in assets and \$65,000 in liabilities. How much does the company have in stockholders' equity?

- A. \$188,000
- B. \$123,000
- C. \$ 65,000
- D. \$ 58,000

Answer: D

Calculations:  $\$123,000 - \$65,000 = \$58,000$

LO: 1-3

Difficulty: 1

EOC Ref: S1-4

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-20 If total assets remain the same and total stockholders' equity increases, liabilities will:
- A. increase by the same amount.
  - B. decrease by the same amount.
  - C. remain the same.
  - D. increase by a different amount.

Answer: B

LO: 1-3

Difficulty: 2

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-21 A company purchases merchandise (inventory) for cash. What is the net result on the accounting equation?
- A. Total assets will go up and total liabilities will go down.
  - B. Total assets will go up and stockholders' equity will go up.
  - C. Total assets will not change.
  - D. Total liabilities will go up.

Answer: C

LO: 1-3

Difficulty: 2

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-22 ABC Company sold \$34,000 worth of merchandise for cash. Which of the following best describes the effect on the expanded accounting equation?
- A. Total assets and total liabilities will increase.
  - B. Total assets and total revenue will increase.
  - C. Total liabilities will increase and total revenue will decrease.
  - D. Total assets will decrease and total liabilities will increase.

Answer: B

LO: 1-3

Difficulty: 2

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting



- 1.3-23 In the expanded accounting equation, revenues minus expenses are part of:
- A. assets.
  - B. retained earnings.
  - C. liabilities.
  - D. dividends.

Answer: B

LO: 1-3

Difficulty: 1

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-24 Having a net loss will:
- A. decrease retained earnings.
  - B. increase retained earnings.
  - C. force the company into bankruptcy.
  - D. force the company to pay dividends.

Answer: A

LO: 1-3

Difficulty: 1

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-25 Casey invested \$5,000 into his business. He would:
- A. increase cash and increase stockholders' equity.
  - B. decrease cash and increase stockholders' equity.
  - C. increase liabilities and increase stockholders' equity.
  - D. increase cash only.

Answer: A

LO: 1-3

Difficulty: 2

EOC Ref: S1-12

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-26 Liabilities are defined as:

- A. earnings retained in the business.
- B. amounts owed to third parties.
- C. stockholders' claims to assets.
- D. future economic benefits of a company.

Answer: B

LO: 1-3

Difficulty: 1

EOC Ref: S1-9

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-27 Assets are defined as:

- A. earnings retained in the business.
- B. amounts owed to others.
- C. stockholders' claims to assets.
- D. future economic benefits of a company.

Answer: D

LO: 1-3

Difficulty: 1

EOC Ref: S1-9

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-28 Payables are classified as:

- A. stockholders' equity.
- B. retained earnings.
- C. liabilities.
- D. assets.

Answer: C

LO: 1-3

Difficulty: 1

EOC Ref: S1-9

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-29 Items such as revenue, expenses and dividends are classified as:

- A. stockholders' equity.
- B. retained earnings.
- C. liabilities.
- D. assets.

Answer: B

LO: 1-3

Difficulty: 1

EOC Ref: S1-9

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-30 The payment of cash dividends would have which of the following effects on the accounting equation?

- A. Increase liabilities
- B. Decrease stockholders' equity
- C. Increase assets
- D. Increase stockholders' equity

Answer: B

LO: 1-3

Difficulty: 2

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-31 Payment of expenses would have which of the following effects on the accounting equation?

- A. Increase liabilities
- B. Decrease stockholders' equity
- C. Increase assets
- D. Increase stockholders' equity

Answer: B

LO: 1-3

Difficulty: 2

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-32 Monies owed to a company by customers are classified as:

- A. payables.
- B. dividends.
- C. cash.
- D. receivables.

Answer: D

LO: 1-3

Difficulty: 1

EOC Ref: S1-9

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-33 Casey's is famous for their submarine sandwiches. At the end of 2009, Casey's total assets were \$345,000, and total liabilities were \$129,500. How much was Casey's stockholders' equity?

- A. \$474,500
- B. \$345,000
- C. \$215,500
- D. Some other number

Answer: C

Calculations:  $\$345,000 - \$129,500 = \$215,500$

LO: 1-3

Difficulty: 2

EOC Ref: S1-4

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-34 ABC purchased office supplies on account for \$50,000. How would this transaction affect ABC's accounting equation?

- A. Increase assets and stockholders' equity by \$50,000.
- B. Increase liabilities and stockholders' equity by \$50,000.
- C. Increase assets by \$50,000 and decrease liabilities by \$50,000.
- D. Increase assets by \$50,000 and increase liabilities by \$50,000.

Answer: D

LO: 1-3

Difficulty: 2

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-35 Lauren purchased a computer on account for her business. How will this transaction affect the accounting equation?
- A. Assets increase; liabilities decrease.
  - B. Assets increase; stockholder equity increases.
  - C. Assets increase; liabilities increase.
  - D. Assets decrease; liabilities increase.

Answer: C

LO: 1-3

Difficulty: 2

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-36 Beginning retained earnings are \$65,000; sales are \$29,500; expenses were \$33,000 and dividends paid are \$3,500. How much is the net income or loss for the company?
- A. \$26,000
  - B. (\$3,500)
  - C. (\$7,000)
  - D. \$0

Answer: B

Calculation:  $\text{Net Income(Loss)} = \text{sales} - \text{expenses} = 29,500 - 33,000 = (3,500)$

LO: 1-3

Difficulty: 2

EOC Ref: E1-30B

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-37 Beginning retained earnings are \$31,000; sales are \$46,800; expenses are \$43,500 and dividends paid are \$2,800. How much is the net income or loss for the company?
- A. \$3,300
  - B. \$ 500
  - C. \$34,300
  - D. (\$3,300)

Answer: A

Calculation:  $\text{Net Income} = \text{sales} - \text{expenses}$   
 $46,800 - 43,500 = 3,300$

LO: 1-3

Difficulty: 2

EOC Ref: E1-30B

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-38 Beginning retained earnings are \$65,000; sales are \$29,500; expenses are \$33,000 and dividends paid are \$3,500. How much is the amount in ending retained earnings?
- A. \$58,000
  - B. \$61,500
  - C. \$68,500
  - D. \$65,000

Answer: A

Calculation: Ending RE = Beginning RE + Net Income (Loss) – Dividends  
 $65,000 + 29,500 - 33,000 - 3,500 = 58,000$

LO: 1-3

Difficulty: 2

EOC Ref: E1-30B

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-39 Beginning retained earnings are \$31,000; sales are \$46,800; expenses are \$43,500 and dividends paid are \$2,800. How much is the amount in ending retained earnings?
- A. \$34,400
  - B. \$28,200
  - C. \$34,300
  - D. \$31,500

Answer: D

Calculation: Ending RE = Beginning RE + Net Income (Loss) – Dividends  
 $31,000 + 46,800 - 43,500 - 2,800 = 31,500$

LO: 1-3

Difficulty: 2

EOC Ref: E1-30B

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-40 Record the following transactions in the accounting equation.
- A. Amanda invests \$17,000 cash into her merchandising business.
  - B. She buys \$6,500 of office equipment and \$3,000 of office supplies with cash from Office Depot.
  - C. Additional purchases were supplies for \$35,000 on account from various suppliers.

Answer:

Assets	=	Liabilities	+	Stockholders' Equity
A. \$17,000 (cash)				\$17,000 (stock)
B. \$6,500 (office equipment)				
\$3,000 (office supplies)				
(\$9,500) (cash)				
C. \$35,000 (merchandise)		\$35,000		

LO: 1-3

Difficulty: 3

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-41 Which of the following is a FALSE statement?
- A. Revenues provide inward flows of assets.
  - B. Revenue is categorized as an asset.
  - C. Revenue is categorized as part of retained earnings.
  - D. Revenues are generated from the sale of goods and services.

Answer: B

LO: 1-3

Difficulty: 1

EOC Ref: S1-8

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

- 1.3-42 Which of the following is a TRUE statement?
- A. Purchasing office equipment for cash is a shift of assets.
  - B. Buying something on account decreases total liabilities.
  - C. Retained earnings do not include payments of dividends.
  - D. Paying off an account increases the total of assets.

Answer: A

LO: 1-3

Difficulty: 1

EOC Ref: S1-8

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-43 Which of the following are subdivisions of stockholders' equity?

- A. Office building
- B. Dividends paid
- C. Fees earned from service calls
- D. Advertising expenses
- E. Cash
- F. Monies owed to creditors
- G. Sales

Answer: B, C, D and G are subdivisions of stockholders' equity

LO: 1-3

Difficulty: 2

EOC Ref: S1-9

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-44 Given the following information, show the increase or decrease in the accounting equation.

- A. Deanne invests \$45,000 and \$10,000 of office equipment into the business.
- B. Furniture is purchased for \$8,000 cash.
- C. Supplies are purchased on credit for \$2,300.
- D. The month's electric bill \$775 was paid.
- E. The month's cash sales were \$5,000.

Answer:

	Assets	=	Liabilities	+	Stockholders' Equity
A.	\$55,000				\$55,000
B.	Assets remain the same as \$8,000 in cash is given for \$8,000 in furniture +8000, -8000				
C.	\$ 2,300		\$2,300		
D.	(\$ 775)				(\$775)
E.	\$ 5,000				\$5,000

LO: 1-3

Difficulty: 3

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting



1.3-45 Dividends are part of:

- A. sales.
- B. expenses.
- C. retained earnings.
- D. assets.

Answer: C

LO: 1-3

Difficulty: 1

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-46 Payables are categorized as:

- A. liabilities.
- B. assets.
- C. retained earnings.
- D. common stock.

Answer: A

LO: 1-3

Difficulty: 1

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.3-47 Celia buys a new machine for her shop on credit. The effect on the accounting equation is:

- A. increase liabilities, increase assets.
- B. decrease liabilities, increase assets.
- C. increase assets, increase stockholders' equity.
- D. increase liabilities, decrease stockholders' equity.

Answer: A

LO: 1-3

Difficulty: 2

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-1 The income statement details how cash changed over an accounting period or cycle.

Answer: False

LO: 1-4

Difficulty: 1

EOC Ref: E1-21A

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-2 The balance sheet is dated as of a period of time.

Answer: False

LO: 1-4

Difficulty: 1

EOC Ref: E1-20A

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-3 The Statement of Retained Earnings is prepared to determine the final amount of retained earnings to show on the balance sheet.

Answer: True

LO: 1-4

Difficulty: 1

EOC Ref: E1-18A

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-4 The Income Statement is the first financial statement prepared.

Answer: True

LO: 1-4

Difficulty: 1

EOC Ref: E1-21A

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-5 Financial statements are prepared primarily for internal company use.

Answer: False

LO: 1-4

Difficulty: 1

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-6 The first financial statement that is prepared is the:

- A. Statement of Cash Flows.
- B. Income Statement.
- C. Statement of Retained Earnings.
- D. Balance Sheet.

Answer: B

LO: 1-4

Difficulty: 1

EOC Ref: P1-33A

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-7 The net income figure is needed to prepare:

- A. a balance sheet.
- B. a statement of retained earnings.
- C. a statement of liabilities.
- D. some other report.

Answer: B

LO: 1-4

Difficulty: 1

EOC Ref: P1-33A

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-8 A statement of cash flows is usually prepared:

- A. first.
- B. second.
- C. third.
- D. last.

Answer: D

LO: 1-4

Difficulty: 1

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-9 A net income or loss is originally shown on the:

- A. statement of cash flows.
- B. balance sheet.
- C. statement of retained earnings.
- D. income statement.

Answer: D

LO: 1-4

Difficulty: 1

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-10 Which of the following financial statements illustrates the accounting equation?

- A. Statement of retained earnings
- B. Income statement
- C. Balance sheet
- D. Statement of cash flows

Answer: C

LO: 1-4

Difficulty: 2

EOC Ref: S1-10

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-11 Beginning retained earnings for the period would be shown on the:

- A. Statement of retained earnings.
- B. Income statement.
- C. Balance sheets.
- D. Statement of cash flows.

Answer: A

LO: 1-4

Difficulty: 1

EOC Ref: E1-30B

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-12 Of the financial statements, which is dated as of a specific date?

- A. Statement of cash flows
- B. Income statement
- C. Balance sheet
- D. Statement of retained earnings

Answer: C

LO: 1-4

Difficulty: 1

EOC Ref: E1-28B

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-13 Which of the financial statements includes a listing of assets owned by the company?

- A. Statement of cash flows
- B. Income statement
- C. Balance sheet
- D. Statement of retained earnings

Answer: C

LO: 1-4

Difficulty: 1

EOC Ref: E1-28B

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-14 The correct order for the preparation of financial statements is:

- |                            |                                   |
|----------------------------|-----------------------------------|
| 1. Statement of cash flows | 2. Income statement               |
| 3. Balance sheet           | 4. Statement of retained earnings |

A. 4, 3, 2, 1

B. 1, 2, 3, 4

C. 2, 3, 4, 1

D. 2, 4, 3, 1

Answer: D

LO: 1-4

Difficulty: 1

EOC Ref: E1-21A

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-15 Dividends are shown on the:

- A. income statement.
- B. statement of retained earnings.
- C. balance sheet.
- D. statement of cash flows.

Answer: B

LO: 1-4

Difficulty: 1

EOC Ref: P1-33A

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-16 The balance sheet is used to report:

- A. results of operations for a specific date.
- B. the financial position on a specific date.
- C. results of operations for a specific period.
- D. the financial position for a specific period.

Answer: B

LO: 1-4

Difficulty: 1

EOC Ref: E1-28B

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-17 The income statement is used to report:

- A. results of operations for a specific date.
- B. the financial position on a specific date.
- C. results of operations for a specific period.
- D. the financial position for a specific period.

Answer: C

LO: 1-4

Difficulty: 1

EOC Ref: P1-32A

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-18 Given the following accounts, classify them as part of:

a) Assets                      b) Liabilities                      c) Stockholders' equity

1. Salaries payable
2. Revenues
3. Accounts receivable
4. Common stock
5. Notes payable
6. Cash
7. Equipment
8. Merchandise

Answer: 1-b	2-c	3-a	4-c
5-b	6-a	7-a	8-a

LO: 1-4

Difficulty: 2

EOC Ref: S1-9

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-19 Given the following accounts, classify them as part of:

a) Assets                      b) Liabilities                      c) Stockholders' equity

1. Retained earnings
2. Common stock
3. Advertising expense
4. Office equipment
5. Notes receivable
6. Cash
7. Mortgage payable
8. Sales revenue

Answer: 1-c	2-c	3-c	4-a
5-a	6-a	7-b	8-c

LO: 1-4

Difficulty: 2

EOC Ref: S1-9

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-20 Given the following random accounts and the dollar amounts, compute total assets.

Notes Payable	\$36,800	Common Stock	\$63,400
Equipment	\$11,990	Accounts Receivable	\$20,130
Cash	\$93,400	Accounts Payable	\$33,700
Wages Payable	\$42,300	Building	\$88,400
Retained Earnings	\$40,600	Office Supplies	\$ 2,880

Answer: \$216,800

Calculation:  $11,900 + 93,400 + 20,130 + 88,400 + 2,880 = \$216,800$

LO: 1-4

Difficulty: 2

EOC Ref: P1-38B

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-21 Given the following random accounts and dollar amounts, compute total liabilities.

Notes Payable	\$36,800	Common Stock	\$63,400
Equipment	\$11,990	Accounts Receivable	\$20,130
Cash	\$93,400	Accounts Payable	\$33,700
Wages Payable	\$42,300	Building	\$88,400
Retained Earnings	\$40,600	Office Supplies	\$ 2,880

Answer: \$112,800

Calculation:  $36,800 + 42,300 + 33,700 = \$112,800$

LO: 1-4

Difficulty: 2

EOC Ref: P1-38B

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting



1.4-22 Given the following random accounts and dollar amounts, compute total stockholders' equity.

Notes Payable	\$36,800	Common Stock	\$63,400
Equipment	\$11,990	Accounts Receivable	\$20,130
Cash	\$93,400	Accounts Payable	\$33,700
Wages Payable	\$42,300	Building	\$88,400
Retained Earnings	\$40,600	Office Supplies	\$ 2,880

Answer: \$104,000

Calculation:  $40,600 + 63,400 = \$104,000$

LO: 1-4

Difficulty: 2

EOC Ref: P1-38B

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting

1.4-23 Given the following information, prepare the balance sheet for Meranda's Accounting Service for December 31, 2012

Common Stock	\$35,600	Office Equipment	\$16,300
Cash	\$58,700	Accounts Payable	\$31,500
Ending Retained Earnings	\$52,050	Office Furniture	\$14,650
Accounts Receivable	\$15,950	Mortgage Payable	\$77,700
Building	\$91,250		

Answer:

Meranda's Accounting Service  
Balance Sheet  
December 31, 2012

Assets		Liabilities	
Cash	\$58,700	Accounts Payable	\$31,500
Accounts Receivable	15,950	Mortgage Payable	<u>77,700</u>
Office Equipment	16,300	Total Liabilities	\$109,200
Office Furniture	14,650		
Building	<u>91,250</u>	Stockholders' Equity	
Total Assets	<u>\$196,850</u>	Common Stock	35,600
		Retained Earnings	<u>52,050</u>
		Total Stockholders' Equity	87,650
		Total Liab and Equity	<u>\$196,850</u>

LO: 1-4

Diff: 3

EOC Ref: P1-32A

AACSB: Analytical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Functional Competencies: Measurement and Reporting