Student name:\_\_\_\_\_\_\_\_\_\_

**TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.**

1. Accounting is a system of maintaining records of a company's operations and communicating that information to decision makers.

* true
* false

1. Accounting information is used by investors to decide whether to invest in a company's stock.

* true
* false

1. Accounting information is used by creditors to decide whether to invest in a company's stock.

* true
* false

1. The primary functions of financial accounting are to measure business activities of a company and to communicate those measurements to internal parties for decision-making purposes.

* true
* false

1. Financing activities include transactions the company has with investors and creditors.

* true
* false

1. Investing activities include transactions involving the purchase and sale of resources that are expected to benefit the company for several years.

* true
* false

1. Operating activities include transactions that relate to the primary operations of the company, such as providing products and services to customers and the associated costs.

* true
* false

1. A corporation is an entity that is legally separate from its owners.

* true
* false

1. Cash, inventory for sale to customers, supplies, and buildings are examples of liabilities.

* true
* false

1. Amounts owed to suppliers, employees, the government in the form of taxes, and utility companies are examples of liabilities.

* true
* false

1. If total assets of a company equal $12,000 and total stockholders' equity equals $4,000, then total liabilities equal $8,000.

* true
* false

1. If total liabilities of a company equal $16,000 and total stockholders' equity equals $9,000, then total assets equal $7,000.

* true
* false

1. The accounting equation shows that a company's total resources equal creditors' and owners' claims to those resources.

* true
* false

1. The costs related to rent, utilities, and salaries in the current reporting period are examples of liabilities.

* true
* false

1. The difference between revenues and expenses is referred to as net income or net loss.

* true
* false

1. If a company reports revenues of $17,000 and expenses of $12,000, then net income equals $5,000.

* true
* false

1. Expenses include a company’s costs of providing products and services to customers, as well as cash payments to its stockholders.

* true
* false

1. Dividends represent a return of the company's profits to its owners, the stockholders.

* true
* false

1. One of the differences between a partnership and a corporation is that owners of a partnership have limited liability.

* true
* false

1. Limited liability means the stockholders are not held personally responsible for the financial obligations of the corporation.

* true
* false

1. A company's total resources include assets and stockholders' equity.

* true
* false

1. Double taxation refers to a corporation's income being taxed twice—first when the company pays corporate income taxes on income it earns, and then again when stockholders pay personal income taxes when the company distributes that income as dividends to them.

* true
* false

1. Financial statements are periodic reports published by the company for the purpose of providing information to managers.

* true
* false

1. The balance sheet is a financial statement that reports the company's revenues and expenses over an interval of time.

* true
* false

1. The statement of stockholders' equity is a financial statement that summarizes the changes in stockholders' equity over an interval of time.

* true
* false

1. Stockholders' equity arises from two primary sources–common stock and revenue.

* true
* false

1. Common stock represents an external source of stockholders' equity, whereas retained earnings represents an internal source.

* true
* false

1. Retained earnings represent all net income minus all dividends over the life of the company.

* true
* false

1. Dividends are considered an expense in running the business and reported on the income statement.

* true
* false

1. All cash transactions reported on the statement of cash flows are classified as (1) operating activities, (2) investing activities, or (3) financing activities.

* true
* false

1. Investing cash flows generally include cash receipts and cash payments for transactions involving revenue and expense activities during the period.

* true
* false

1. Operating cash flows generally include cash transactions for the purchase and sale of resources that are expected to benefit the company for more than one year.

* true
* false

1. Financing activities provide information to investors and creditors about the mix of external financing of the company.

* true
* false

1. Any transaction that affects the income statement ultimately affects the balance sheet through the balance of retained earnings.

* true
* false

1. Financial accounting has an impact on everyday business decisions as well as wide-ranging economic consequences.

* true
* false

1. Investors and creditors rely heavily on financial accounting information in making investment and lending decisions.

* true
* false

1. In general, if a company's net income is increasing, so will its stock price.

* true
* false

1. The rules of financial accounting are called Generally Accepted Accounting Principles (GAAP).

* true
* false

1. Financial accounting and reporting standards in the United States are established primarily by the Financial Accounting Standards Board (FASB).

* true
* false

1. The 1933 Securities Act and the 1934 Securities Exchange Act were designed to restore investor confidence in financial accounting following the stock market crash in 1929.

* true
* false

1. The 1934 Securities Exchange Act gives the Securities and Exchange Commission (SEC) the power to require companies that publicly trade their stock to prepare periodic financial statements for distribution to investors and creditors.

* true
* false

1. The role of independent auditors is to help ensure that management has in fact appropriately applied Generally Accepted Accounting Principles (GAAP) in preparing the company's financial statements.

* true
* false

1. Auditors are trained individuals hired by a company as an independent party to express a professional opinion of the fairness of that company's financial statements.

* true
* false

1. The primary objective of financial accounting is to provide useful information to managers in making decisions.

* true
* false

1. Public accounting firms are professional service firms that traditionally have focused on three areas: auditing, tax preparation/planning, and business consulting.

* true
* false

1. The Financial Accounting Standards Board's conceptual framework does not prescribe Generally Accepted Accounting Principles. It provides an underlying foundation for the development of accounting standards and interpretation of accounting information.

* true
* false

1. The two fundamental decision-specific qualitative characteristics that make accounting information useful are comparability and understandability.

* true
* false

1. Relevance refers to accounting information having confirmatory value and/or predictive value.

* true
* false

1. To be a faithful representation of business activities, accounting information should be complete, neutral, and free from error.

* true
* false

1. The periodicity assumption indicates that the economic life of an enterprise can be divided into artificial time periods for financial reporting purposes.

* true
* false

1. The economic entity assumption states that in the absence of information to the contrary, the business entity will continue to operate indefinitely.

* true
* false

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.**

1. What is the primary purpose of financial accounting?

Determine the amount of tax liability owed to the government

Communicate business activities to internal management

Measure business activities and communicate those measures to external users to make decisions

Measure the profitability of the company in order to assist employees with making decisions

1. The primary purpose(s) of financial accounting is (are) to:

Measure and record business transactions.

Prepare federal and state tax returns.

Communicate financial results to investors and creditors.

Both measure and communicate financial information to external parties.

1. Which definition below best describes financial accounting?

Process of measuring income taxes owed to the government

System of maintaining communication with a company's customers and suppliers

Procedures designed to enhance the company's image to potential investors

Measuring business activities and communicating them to external parties

1. Financial accounting does **not** deal with which of the following?

Measuring a company's economic activity

Providing information to internal users

Preparing financial reports

Communicating financial results to investors

1. Financial accounting:

Provides information primarily for external decision makers.

Provides information primarily for a company's employees.

Provides information primarily for the use of managers of the company.

Is primarily used to compute a company's tax obligation.

1. The primary focus for financial accounting information is to provide information useful for:

Investing decisions and credit decisions.

Investing decisions but not credit decisions.

Credit decisions but not investing decisions.

Neither investing decisions nor credit decisions.

1. Which of the following groups is **not** among the external users for whom financial statements are prepared?

Creditors

Regulators

Investors

Managers

1. Which of the following groups is **not** among the external users for whom financial statements are prepared?

Customers

Suppliers

Employees

Customers, suppliers, and employees are all external users of financial statements

1. The form of business organization that is legally separate from its owners is a:

Partnership.

Sole proprietorship.

Corporation.

Separation entity.

1. Which business form has the advantage of limited liability?

Corporation

Sole proprietorship

Partnership

All business forms share equal limited liability

1. Limited liability means:

Stockholders of a corporation are not obligated to pay the corporation's debts out of their own pocket.

Liabilities of a company cannot exceed its assets.

Companies are not allowed to borrow unless they are profitable.

Companies are less likely to be sued if they are formed as a corporation.

1. One disadvantage of the corporate form of business is:

Limited liability.

Access to more capital.

Smaller in size.

Double taxation.

1. Which of the following is an operating activity?

Issuing common stock

Paying dividends

Borrowing cash from a bank to acquire a building

Paying electricity bills for the month

1. How many of the following cash transactions are operating activities?  
      
    Borrow $50,000 from the bank.  
    Purchase $12,000 in supplies.  
    Provide services to customers for $27,000.  
    Pay the utility bill of $750.  
    Purchase a delivery truck for $12,000.  
    Receive $25,000 from issuing common stock.

One

Two

Three

Four

1. Transactions related to the primary business activities of the company, such as selling goods and services to customers and the associated costs of doing so, are referred to as:

Investing activities.

Operating activities.

Management activities.

Financing activities.

1. Draco Company engages in the following cash payments:

|  |  |
| --- | --- |
| **Purchase equipment** | $ 4,000 |
| **Pay rent** | 550 |
| **Repay loan to the bank** | 5,200 |
| **Pay workers’ salaries** | 1,150 |

What is the total amount of cash paid for operating activities?

$4,000

$9,200

$1,700

$6,350

1. Draco Company engages in the following cash payments:

|  |  |
| --- | --- |
| **Purchase equipment** | $ 2,000 |
| **Pay rent** | 500 |
| **Repay loan to the bank** | 5,000 |
| **Pay workers' salaries** | 1,000 |

What is the total amount of cash paid for operating activities?

$6,000

$2,000

$7,000

$1,500

1. Accountants are responsible for measuring various operating, investing, and financing activities. Which of the following correctly matches the activity with its type?

Investing––paying for utilities used during the month

Investing––purchasing land for cash

Operating––paying cash dividends to stockholders

Financing––providing products and services to customers

1. Transactions of a company that include the purchase and sale of resources that are expected to benefit the company for several years are referred to as:

Investing activities.

Financing activities.

Expenditure activities.

Operating activities.

1. McGill purchases additional office equipment to better serve its customers. This purchase is classified as what type of activity?

Company activity

Financing activity

Investing activity

Operating activity

1. Cash transactions of a company with lenders and with stockholders are referred to as:

Investing activities.

Financing activities.

External activities.

Operating activities.

1. Financing activities include:

Primary operations such as selling goods to customers.

Transactions with company employees.

Transactions the company has with investors and creditors.

The purchase and sale of resources that are expected to benefit the company for several years.

1. Financing activities include:

The purchase of equipment.

Issuing common stock to stockholders.

Transactions with company employees.

Selling goods or services to customers.

1. The accounting equation is defined as:

Assets = Liabilities + Stockholders' Equity.

Assets = Liabilities − Stockholders' Equity.

Net Income = Revenues − Expenses.

Liabilities + Revenues = Assets.

1. Which statement below best describes the accounting equation?

The change in retained earnings equals net income less dividends.

Revenue and expense transactions tend to equal out over time.

The total resources of the company equals creditors' and owners' claims to those resources.

Financing activities equal investing and operating activities.

1. If a company has stockholders' equity of $60,000 at the end of the year, which of the following statements must be true?

The company's assets exceed liabilities by $60,000.

The company has issued $60,000 of common stock.

Net income for the year equals $60,000.

Total revenues during the year equal $60,000.

1. Emmitt had the following final balances after the first year of operations: assets, $36,300; stockholders' equity, $14,400; dividends, $2,700; and net income, $10,700. What is the amount of Emmitt's liabilities?

$21,900

$8,500

$18,500

$36,300

1. Emmitt had the following final balances after the first year of operations: assets, $55,000; stockholders' equity, $25,000; dividends, $3,000; and net income, $10,000. What is the amount of Emmitt's liabilities?

$55,000

$30,000

$13,000

$7,000

1. An alternative form of the accounting equation is:

Net Income = Revenues − Expenses.

Stockholders' Equity = Assets + Liabilities.

Assets = Liabilities − Stockholders' Equity.

Assets − Liabilities = Stockholders' Equity.

1. The accounts that represent the resources of the company are called:

Liabilities.

Revenues.

Expenses.

Assets.

1. The assets of a company represent:

Amounts owed to creditors.

Sales of goods or services to customers.

Total resources of a company.

Investments by stockholders.

1. Which of the following accounts represents a resource of the company?

Common stock

Service revenue

Supplies

Salaries expense

1. Which of the following does **not** represent an asset of a company?

Supplies held by the company

Amounts owed to suppliers

Equipment owned and used for operations

Land owned by the company

1. Creditors' claims to a company’s resources are referred to as:

Dividends.

Assets.

Liabilities.

Stockholders' equity.

1. Liabilities are best defined as:

Amounts the company expects to collect in the future from customers.

Amounts owed to creditors.

The amounts that owners have invested in the business.

Payments to stockholders.

1. Amounts owed to suppliers for supplies purchased on account are an example of a(n):

Revenue.

Asset.

Liability.

Expense.

1. Which of the following does **not** represent a liability of a company?

Salaries owed to employees

Taxes owed to the government

Amounts owed to suppliers

All of the other answers are liabilities

1. The accounts that typically include claims that must be paid by a specific date are called:

Assets.

Liabilities.

Dividends.

Stockholders' equity.

1. Liabilities can be best described as:

The total amount of costs used over the past year.

Amounts expected to be distributed to stockholders.

Amounts owed to creditors.

The total amount of services provided to customers during the year.

1. The stockholders' interest in a corporation is called:

Dividends.

Assets.

Liabilities.

Stockholders' equity.

1. Owners’ claims to the company's resources are referred to as:

Stockholders' equity.

Revenues.

Assets.

Liabilities.

1. Using the information below from the accounting records of Thomas Corporation, owners’ claims to the company's resources amount to:

|  |  |
| --- | --- |
| **Assets** | $ 1,200,000 |
| **Liabilities** | $ 800,000 |
| **Net income** | $ 100,000 |
| **Retained earnings** | $ 250,000 |

$1,200,000

$800,000

$250,000

$400,000

1. Which of the following best describes revenue?

Resources of a company

An amount recognized when the company sells products or provides services to a customer

Cash received from a customer

Dividends paid to stockholders

1. The costs of providing goods and services to customers are referred to as:

Assets.

Expenses.

Liabilities.

Revenues.

1. The costs associated with producing revenues are referred to as:

Dividends.

Assets.

Liabilities.

Expenses.

1. Net income can best be described as:

Net cash received by a company during the year.

The difference between revenues and expenses.

The profits retained in a company.

Resources of a company.

1. Use the following appropriate amounts to calculate net income: Revenues, $10,800; Liabilities, $4,700; Expenses, $5,000; Assets, $17,000; Dividends, $1,100.

$5,800

$4,700

$12,300

$5,850

1. Use the following appropriate amounts to calculate net income: Revenues, $12,000; Liabilities, $5,000; Expenses, $4,000; Assets, $19,000; Dividends, $4,000.

$6,000

$8,000

$4,000

$14,000

1. The account type that represents payments to stockholders is called:

Liabilities.

Assets.

Stockholders' equity.

Dividends.

1. Dividends represent:

Resources of the company.

Distributions (most often cash) to the owners of the company.

Amounts owed to creditors.

Expenses of operating the company.

1. The equation best describing the income statement is:

Revenues − Expenses = Net Income.

Assets = Revenues − Expenses.

Assets = Liabilities + Stockholders' Equity.

Revenues + Expenses = Net Income.

1. Expenses are reported on which of the following statements?

Income statement

Statement of cash flows

Balance sheet

Statement of stockholders' equity

1. Which of the following items would **not** appear in an income statement?

Salaries expense

Advertising expense

Service revenue

Cash

1. Which of the following items would **not** appear in an income statement?

Delivery Expense

Accounts Payable

Service Revenue

Utilities Expense

1. Consider the following account balances of the Shattuck Law Firm at the end of the year:

|  |  |
| --- | --- |
| **Accounts Payable** | $ 4,400 |
| **Salaries Expense** | 12,800 |
| **Cash** | 1,700 |
| **Common Stock** | 2,400 |
| **Service Revenue** | 8,300 |
| **Supplies** | 4,300 |
| **Retained Earnings** | 1,100 |
| **Utilities Expense** | 5,000 |

How many of these accounts would appear in Shattuck's year-end income statement?

Five

Four

Three

Two

1. Consider the information below that relates to the end of the current period:

|  |  |
| --- | --- |
| **Accounts Receivable** | $ 14,700 |
| **Rent Expense** | 7,500 |
| **Insurance Expense** | 2,100 |
| **Common Stock** | 24,000 |
| **Service Revenue** | 28,300 |
| **Supplies** | 4,300 |
| **Equipment** | 21,600 |
| **Income Tax Expense** | 4,200 |

What is the amount of net income in the current period?

$27,300

$29,200

$14,500

$10,200

1. A company had the following amounts at the end of the year:

|  |  |
| --- | --- |
| **Cash** | $ 11,200 |
| **Supplies Expense** | 1,500 |
| **Dividends** | 2,600 |
| **Service Revenue** | 23,500 |
| **Prepaid Rent** | 4,300 |
| **Salaries Expense** | 8,200 |
| **Accounts Payable** | 12,700 |
| **Land** | 36,900 |

What amount would the company report for net income?

$11,200

$6,900

$13,800

$42,300

1. Net income (loss) is reported on which of the following financial statement(s)?

Balance sheet and income statement

Income statement and statement of stockholders' equity

Statement of stockholders' equity and balance sheet

Net income is reported only on the income statement

1. Which of the following items is reported on the statement of stockholders' equity?

Total assets

Total expenses

Net income

Operating cash flows

1. Which of the following accounts is reported on the statement of stockholders' equity?

Accounts Payable

Accounts Receivable

Common Stock

Supplies

1. Which of the following accounts is reported on the statement of stockholders' equity?

Supplies

Cash

Salaries Payable

Retained Earnings

1. Which one of the following statements regarding financial reports is correct?

The balance sheet classifies all assets according to operating, investing, and financing activities.

The income statement is used to show that a company's total resources equal the sum of claims to those resources.

The statement of stockholders' equity updates the balances of common stock and retained earnings for related transactions during the year.

The statement of cash flows reports cash inflows and outflows from operating activities only.

1. Which of the following best explains the meaning of total stockholders' equity?

The difference between total revenues and total expenses, less dividends for the year

The amount of common stock less dividends over the life of the company

All revenues, expenses, and dividends over the life of the company

Owners’ claims to resources, which arise primarily from contributions by the owners and company operations

1. Which of the following statements regarding financial reports is **not** correct?

A balance sheet presents the financial position of the company on a particular date.

An income statement shows revenues and expenses over an interval of time.

A statement of stockholders' equity reports liabilities, net income, and dividend information.

A statement of cash flows classifies all cash transactions into three categories that correspond to the three fundamental business activities—operating, investing, and financing.

1. Retained earnings at the end of the year is calculated using:

Beginning retained earnings, net income, and dividends.

Common stock and dividends.

Stockholders' equity, net income, and dividends.

Net income and dividends.

1. Alpha Company has an ending Retained Earnings balance of $51,400. If, during the year, the company paid dividends of $4,500 and had net income of $21,800, then what was the beginning Retained Earnings balance?

$17,400

$34,100

$25,100

$68,700

1. Alpha Company has an ending Retained Earnings balance of $51,100. If, during the year, the company paid dividends of $4,300 and had net income of $22,500, then what was the beginning Retained Earnings balance?

$24,300

$32,900

$300

$69,300

1. The ending Retained Earnings balance of Carriage, Incorporated decreased by $1.2 million from the beginning of the year. The company declared a dividend of $5.2 million during the year. What was the net income for the year?

$6.4 million

$3.1 million

$4.0 million

$1.2 million

1. The ending Retained Earnings balance of Carriage, Incorporated decreased by $1.0 million from the beginning of the year. The company declared a dividend of $5.4 million during the year. What was the net income for the year?

$7.5 million

$6.4 million

$4.4 million

$1.0 million

1. Consider the information provided below:

|  |  |
| --- | --- |
| **Beginning retained earnings** | $ 44,000 |
| **Ending retained earnings** | $ 101,000 |
| **Decrease in cash** | $ 9,600 |
| **Net income** | $ 86,000 |
| **Change in stockholders’ equity** | $ 19,000 |

What was the total amount of dividends the company paid to stockholders in the current period?

$19,400

$29,000

$0

$101,000

1. Consider the information provided below:

|  |  |
| --- | --- |
| **Beginning retained earnings** | $ 54,000 |
| **Ending retained earnings** | $ 110,000 |
| **Decrease in cash** | $ 10,000 |
| **Net income** | $ 84,000 |
| **Change in stockholders’ equity** | $ 15,000 |

What was the total amount of dividends the company paid to stockholders in the current period?

$13,000

$110,000

$28,000

$18,000

1. For the past five years, Mookie Consulting Services reported the following annual net income and dividend amounts:

|  |  |  |
| --- | --- | --- |
| **Year** | **Net Income** | **Dividends** |
| **1** | $ 22,000 | $ 2,000 |
| **2** | 17,000 | 2,000 |
| **3** | 9,000 | 1,000 |
| **4** | 14,000 | 3,000 |
| **5** | 25,000 | 4,000 |

If Mookie had Retained Earnings of $88,000 at the end of year 5, what was the company's Retained Earnings at the beginning of Year 1?

$13,000

$25,000

$7,000

$1,000

1. Nina Corporation had the following net income (loss) for the first three years of operations, respectively: $7,100, ($1,300), and $2,500. If the Retained Earnings balance at the end of year three is $800, what was the total amount of dividends paid over these three years?

$8,300

$7,500

$0

$500

1. Nina Corporation had the following net income (loss) for the first three years of operations, respectively: $7,100, ($1,600), and $3,600. If the Retained Earnings balance at the end of year three is $1,100, what was the total amount of dividends paid over these three years?

$500

$0

$9,100

$8,000

1. Aikman Company paid dividends of $2,480, $0, $1,510 and $1,060 over the first four years of the company's existence, respectively. If Retained Earnings has an ending balance of $10,500 at the end of year four, what was the average annual amount of net income (loss) over the first four years for Aikman? **(Round your answer to the nearest dollar amount.)**

$1,263

$3,888

$15,550

$3,623

1. Aikman Company paid dividends of $2,410, $0, $1,570 and $1,060 over the first four years of the company's existence, respectively. If Retained Earnings has an ending balance of $9,700 at the end of year four, what was the average annual amount of net income (loss) over the first four years for Aikman?

$3,685

$14,740

$840

$1,260

1. On January 1, Barton Brothers, Incorporated started the year with a $691,000 balance in Retained Earnings and a $597,000 balance in Common Stock. During the year, the company reported net income of $98,000, paid a dividend of $14,900, and issued more common stock for $24,500. What is total stockholders' equity at the end of the year?

$1,425,400

$1,346,600

$1,395,600

$1,288,000

1. On January 1, Barton Brothers, Incorporated started the year with a $492,000 balance in Retained Earnings and a $605,000 balance in Common Stock. During the year, the company reported net income of $92,000, paid a dividend of $15,200, and issued more common stock for $27,500. What is total stockholders' equity at the end of the year?

$1,231,700

$1,097,000

$1,201,300

$1,588,300

1. The financial statement that represents the accounting equation is the:

Income statement.

Statement of cash flows.

Balance sheet.

Statement of stockholders' equity.

1. The equation best describing the balance sheet is:

Assets = Liabilities + Stockholders' Equity.

Revenues − Expenses = Net Income.

Ending Retained Earnings + Dividends = Net Income.

Revenues + Expenses = Net Income.

1. The financial statement that represents activity over the entire life of the company is the:

Income statement.

Balance sheet.

Statement of financial accounting.

Statement of cash flows.

1. Liabilities are reported on which of the following statements?

Income statement

Statement of cash flows

Balance sheet

Statement of stockholders' equity

1. Consider the following account balances of the Shattuck Law Firm at the end of the year:

|  |  |
| --- | --- |
| **Accounts Payable** | $ 4,400 |
| **Salaries Expense** | 12,800 |
| **Cash** | 1,700 |
| **Common Stock** | 2,400 |
| **Service Revenue** | 8,300 |
| **Supplies** | 4,300 |
| **Retained Earnings** | 1,100 |
| **Utilities Expense** | 5,000 |

How many of these accounts would appear in Shattuck's year-end balance sheet?

Five

Four

Three

Two

1. The two categories of stockholders' equity usually found in the balance sheet of a corporation are:

Common stock and liabilities.

Assets and liabilities.

Common stock and retained earnings.

Revenues and expenses.

1. Which of the following is**not** reported in the balance sheet?

Assets

Retained Earnings

Expenses

Liabilities

1. Which of the following is a balance sheet item?

Net Income

Dividends

Utilities Expense

Cash

1. Which of the following statements is**not** correct about the financial statements?

An income statement reports revenues, expenses, and net income information.

The statement of stockholders' equity presents common stock, dividends, and retained earnings information.

A balance sheet reports assets, liabilities, revenues, and expenses.

The statement of cash flows shows cash inflows and outflows from operating, financing, and investing activities.

1. The balance sheet depicts which of the following equations?

Net income = revenue − expenses

Ending retained earnings = beginning retained earnings + net income − dividends

Assets = liabilities + stockholders' equity

Net cash flows = total cash inflows − total cash outflows

1. Which of the following financial statements reports a company's retained earnings?

Income statement

Balance sheet

Statement of cash flows

All of the other answers are financial statements that report retained earnings.

1. Which of the following is**not** reported in the balance sheet?

Assets

Common stock

Retained earnings

Revenues

1. Which of the following is **not** a major section in the statement of cash flows?

Operating cash flows

Customer cash flows

Financing cash flows

Investing cash flows

1. Cash paid for which of the following activities would affect the amount reported for operating cash flows in the statement of cash flows?

Issuing common stock

Paying dividends

Paying electricity bill for the month

Borrowing cash from a bank to acquire a building

1. How many of the following transactions would affect operating cash flows? (All transactions involve cash.)  
      
    Repay $40,000 borrowed from the bank.  
    Pay $11,000 in salaries to employees.  
    Receive $25,000 from customers for services provided.  
    Pay $750 for advertising.  
    Purchase equipment for $15,000.  
    Receive $25,000 from the sale of land.

One

Two

Three

Four

1. Investing cash flows in the statement of cash flows would include which of the following?

Paying salaries for the month

Purchase of land

Paying dividends to stockholders

Selling goods or services to customers

1. Lansing Company purchases additional office equipment to better serves its customers. This cash purchase is reported on the statement of cash flows as what type of activity?

External activity

Investing activity

Financing activity

Operating activity

1. Financing cash flows in the statement of cash flows would include which of the following?

Paying salaries for the month

Purchase of land

Paying dividends to stockholders

Selling goods or services to customers

1. Cash received from a bank borrowing would be reported on the statement of cash flows as what type of activity?

Investing

Merchandising

Operating

Financing

1. The total change in cash equals $44,000, net operating cash flows equals $22,000, and net investing cash flows equals ($13,000). What is net financing cash flows?

$15,000

$35,000

$25,000

$45,000

1. The financial statement(s) that record activity over an interval of time include the:

Income statement.

Balance sheet.

Balance sheet and income statement.

Income statement and statement of cash flows.

1. Which of the following is the correct order for preparing the financial statements listed?

Balance sheet, statement of stockholders' equity, and income statement

Balance sheet, income statement, and statement of stockholders' equity

Statement of stockholders' equity, income statement, and balance sheet

Income statement, statement of stockholders' equity, and balance sheet

1. In what order are the following financial statements prepared: (1) balance sheet, (2) income statement, and (3) statement of stockholders' equity?

1, 2, 3

3, 2, 1

1, 3, 2

2, 3, 1

1. Which financial statement is typically prepared first?

Balance sheet

Income statement

Statement of stockholders' equity

Statement of cash flows

1. Which of the following best represents value created for stockholders during the current period?

Retained earnings

Total assets

Net income

Stockholders' equity

1. While many financial accounting numbers have an impact on stock prices, which of the following has the single greatest impact, on average?

Total dividends

Total assets

Total revenues

Net income

1. Which financial accounting number impacts stock prices more than any other single piece of information?

Retained earnings

Net income

Common stock

Total assets

1. Which financial statement best reveals to investors and creditors information about a company's debt?

Income statement

Balance sheet

Statement of cash flows

Statement of stockholders' equity

1. GAAP is an abbreviation for:

Generally authorized accounting procedures.

Generally applied accounting procedures.

Generally accepted auditing practices.

Generally accepted accounting principles.

1. Generally Accepted Accounting Principles (GAAP) are best defined as:

Standards for presenting financial accounting information.

Government-mandated rules that companies must follow.

Rules that best estimate profitability for a company.

The group of individuals that create and enforce all accounting rules.

1. The body of rules and procedures that guide the measurement and communication of financial accounting information in the United States is known as:

Standards of Professional Compliance (SPC).

Generally Accepted Accounting Principles (GAAP).

Generally Accepted Auditing Standards (GAAS).

Rules of Financial Reporting (RFR).

1. The independent, private-sector group that is primarily responsible for setting financial reporting standards in the United States is the:

FASB.

IASB.

SEC.

IRS.

1. Financial accounting and reporting standards in the United States are established primarily by the:

Securities and Exchange Commission.

Financial Accounting Standards Board.

International Accounting Standards Board.

U.S. Congress.

1. The private sector organization that is currently responsible for setting accounting standards in the United States is the:

Financial Accounting Standards Board.

Accounting Principles Board.

Securities and Exchange Commission.

American Institute of Certified Public Accountants.

1. The legal authority to set accounting standards lies with the:

Financial Accounting Standards Board.

Accounting Principles Board.

Securities and Exchange Commission.

American Institute of Certified Public Accountants.

1. The International Accounting Standards Board:

Is governed by the U.S. Securities and Exchange Commission.

Can overrule the FASB when their policies disagree.

Promotes the use of high-quality, understandable global accounting standards.

Is the primary standard-setting body in the United States.

1. Financial accounting objectives do **not** include providing information:

Useful to investors and creditors in making decisions.

To determine market values, assess profit potential, and evaluate management.

Helpful to investors in predicting cash flows.

About a company's economic resources and claims to those resources.

1. Which statement below best describes the objectives of financial accounting?

Provide information that helps to predict cash flows

Provide information about the economic resources, claims to resources, and changes in resources and claims

Provide information that is useful to investors and creditors in making decisions

All of the answer choices describe objectives of financial accounting.

1. Of the following, the most important objective for financial accounting is to provide information useful for:

Predicting cash flows.

Determining taxable income.

Providing accountability.

Increasing future profits.

1. Independent auditors express an opinion on the:

Extent to which financial statements are in compliance with GAAP.

Accuracy of the amount of income taxes a company owes to the government.

Quality of the company's products.

Well-being and fair treatment of a company's workforce.

1. To ensure that management has in fact appropriately applied GAAP, the SEC requires independent outside verification of the financial statements of public traded companies by an:

Advisor.

Attorney.

Auditor.

Analyst.

1. Which of the following best describes auditors with regards to their role in financial reporting?

Consultants that are hired by company management to advise on key matters related to competition, product pricing, employee retention, and financial reporting strategies

Key employees of the company that actively participate on the management team in strategic planning, product development, and financial reporting

Government employees assigned by local officials to ensure accurate financial reporting and operational integrity by the company

Independent party hired by management to express a professional opinion of the extent to which the company’s financial reporting is in compliance with generally accepted accounting principles

1. The role of the Public Company Accounting Oversight Board is to:

Advise investors and creditors of companies’ future profit potential.

Ensure that auditors follow a strict set of guidelines when conducting their audits.

Assist company management in the case of financial default on debt.

Develop accounting and reporting standards in the United States.

1. A career in a public accounting firm traditionally involves working in the area of:

Auditing.

Tax preparation/planning.

Business consulting.

All of the other answer choices are correct statements.

1. A career in private accounting indicates:

Working undercover for an organization such as the Federal Bureau of Investigation (FBI).

Being employed by one of the "Big 4" accounting firms.

Providing accounting services to the company that employs you.

All of the other answer choices are correct statements.

1. The term "cooking the books" refers to:

Purposely providing misleading financial information to investors and creditors.

Hiring an auditor to provide independent verification of the fairness of financial statements.

Filing all tax-related statements by the required deadline.

Preparing internal budgets to plan for expenditures in the following year.

1. Fundamental qualitative characteristics of accounting information are:

Relevance and comparability.

Comparability and consistency.

Faithful representation and relevance.

Faithful representation and consistency.

1. The qualitative characteristic that says accounting information can influence users' decisions by allowing them to assess past performance is:

Timeliness.

Neutrality.

Confirmatory value.

Predictive value.

1. Accounting information that does not provide measurement bias in favor of a particular set of companies has the characteristic of:

Relevance.

Consistency.

Materiality.

Neutrality.

1. If accounting information is considered to have faithful representation, then which of the following is true?

The information represents to users what it claims to represent.

The information follows conservatism principles and is also material.

The information is considered pertinent to or affects decisions.

The information will have predictive value, feedback value, and is timely.

1. For accounting information to be relevant, it should possess which of the following characteristics?

Predictive value and confirmatory value

Large in amount and timely

Comparability and consistency

Verifiability

1. Materiality is based upon which factor(s)?

Timeliness of an item

Amount and nature of an item

Consistency of an item

Relevance of an item

1. The conceptual framework's qualitative characteristic of relevance includes:

Predictive value.

Verifiability.

Completeness.

Neutrality.

1. According to the conceptual framework, verifiability implies:

Consensus.

Logic.

Legal evidence.

Legal verdict.

1. The conceptual framework's qualitative characteristic of faithful representation includes:

Predictive value.

Neutrality.

Confirmatory value.

Comparability.

1. Constraints on qualitative characteristics of accounting information include:

Freedom from material error.

Going concern.

Neutrality.

Cost effectiveness.

1. Enhancing qualitative characteristics of accounting information include:

Relevance and comparability.

Comparability and consistency.

Faithful representation and relevance.

Cost effectiveness and materiality.

1. The major underlying assumptions of accounting include all of the following **except**:

Economic entity.

Monetary unit.

Legal liability.

Going concern.

1. If a company has gone bankrupt, its financial statements likely violate the:

Periodicity assumption.

Monetary unit assumption.

Going concern assumption.

Economic entity assumption.

1. The assumption that a business will continue to operate into the future is the:

Monetary unit assumption.

Periodicity assumption.

Economic entity assumption.

Going concern assumption.

1. The assumption that the assets and liabilities of the business are accounted for on the books of the company but not included in the records of the owner is the:

Monetary unit assumption.

Economic entity assumption.

Going concern assumption.

Periodicity assumption.

1. The assumption that the life of the business can be divided into time intervals for reporting purposes is the:

Monetary unit assumption.

Periodicity assumption.

Economic entity assumption.

Going concern assumption.

1. The assumption that amounts are reported using a common scale (such as the dollar in the United States) is the:

Monetary unit assumption.

Periodicity assumption.

Economic entity assumption.

Going concern assumption.

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.**

1. Match each business activity with its example.

A) Purchase office building.

B) Pay utilities.

C) Receive investments from stockholders.

Operating  
 Financing  
 Investing

1. Match each financial statement with the accounts reported on it:

A) Dividends.

B) Assets and liabilities.

C) Revenues and expenses.

Income statement  
 Statement of stockholders' equity  
 Balance sheet

1. Match each organization to its role:

A) Ensure that auditors follow strict guidelines when conducting their audits.

B) Independent, private-sector group that is primarily responsible for setting financial reporting rules in the United States.

C) Develop a single set of high-quality, understandable global accounting standards.

D) Enforce proper application of financial reporting rules for companies whose securities are publicly traded.

Financial Accounting Standards Board  
 Public Company Accounting Oversight Board  
 International Accounting Standards Board  
 Securities and Exchange Commission

1. Match each qualitative characteristic with its definition:

A) All information necessary to describe an item is reported.

B) Information provides feedback on past activities.

C) Information is presented in time to make useful decisions.

D) Information is useful in helping to forecast future outcomes.

E) Measurements that independent parties would agree upon.

F) Information that does not bias the decision maker.

Predictive value  
 Confirmatory value  
 Verifiability  
 Timeliness  
 Neutrality  
 Completeness

1. For each transaction, indicate whether a company would classify the related account as an asset, liability, stockholders' equity, dividend, revenue, or expense.

|  |  |
| --- | --- |
| **Transactions** | **Related Accounts** |
| **1. Receive cash from investors.** | Common Stock |
| **2. Pay rent for the current period.** | Rent Expense |
| **3. Purchase office equipment.** | Equipment |
| **4. Pay cash to stockholders.** | Dividends |
| **5. Provide services to customers.** | Service Revenue |

1. Account classifications include assets, liabilities, stockholders' equity, dividends, revenues, and expenses. Indicate the account classification for each account name.

|  |  |  |
| --- | --- | --- |
| **Account Classifications** | **Accounts** | **Related Transactions** |
| **1. \_\_\_\_\_\_\_\_** | Common Stock | Sell common stock to investors. |
| **2. \_\_\_\_\_\_\_\_** | Cash | Receive cash from customers. |
| **3. \_\_\_\_\_\_\_\_** | Salaries Payable | Incur amounts owed to employees. |
| **4. \_\_\_\_\_\_\_\_** | Service Revenue | Sell services to customers. |
| **5. \_\_\_\_\_\_\_\_** | Utilities Expense | Incur cost of utilities. |
| **6. \_\_\_\_\_\_\_\_** | Supplies | Purchase of office supplies. |
| **7. \_\_\_\_\_\_\_\_** | Advertising Expense | Pay for cost of advertising. |
| **8. \_\_\_\_\_\_\_\_** | Buildings | Purchase building for operations. |
| **9. \_\_\_\_\_\_\_\_** | Accounts Payable | Purchase supplies on credit. |
| **10. \_\_\_\_\_\_\_\_** | Dividends | Distribute cash to stockholders. |

1. Indicate whether a company would classify the transaction as financing, investing, or operating.

|  |
| --- |
| **Transactions** |
| 1. Receive cash from investors. |
| 2. Pay rent for the current period. |
| 3. Purchase office equipment. |
| 4. Pay cash to stockholders. |
| 5. Provide services to customers. |

1. Below are typical transactions for a company. Indicate whether each transaction is classified as a financing, investing, or operating activity.

|  |  |
| --- | --- |
| **Type of Business Activity** | **Transactions** |
| **1. \_\_\_\_\_\_\_\_** | Purchase office building. |
| **2. \_\_\_\_\_\_\_\_** | Pay building maintenance fees. |
| **3. \_\_\_\_\_\_\_\_** | Pay sales taxes to the local government. |
| **4. \_\_\_\_\_\_\_\_** | Provide services to customers. |
| **5. \_\_\_\_\_\_\_\_** | Borrow from the bank. |
| **6. \_\_\_\_\_\_\_\_** | Pay workers' salaries. |
| **7. \_\_\_\_\_\_\_\_** | Sell equipment used in operations. |
| **8. \_\_\_\_\_\_\_\_** | Sell common stock to investors. |

1. Below are typical transactions for a company. Indicate whether each transaction is classified as a financing, investing, or operating activity.

|  |  |
| --- | --- |
| **Type of Business Activity** | **Related Transactions** |
| **1. \_\_\_\_\_\_\_\_** | Sell common stock to investors. |
| **2. \_\_\_\_\_\_\_\_** | Receive cash from customers. |
| **3. \_\_\_\_\_\_\_\_** | Incur amounts owed to employees. |
| **4. \_\_\_\_\_\_\_\_** | Sell services to customers. |
| **5. \_\_\_\_\_\_\_\_** | Incur cost of utilities. |
| **6. \_\_\_\_\_\_\_\_** | Purchase rent one year in advance. |
| **7. \_\_\_\_\_\_\_\_** | Pay for cost of advertising. |
| **8. \_\_\_\_\_\_\_\_** | Purchase building for operations. |
| **9. \_\_\_\_\_\_\_\_** | Purchase supplies on credit. |
| **10. \_\_\_\_\_\_\_\_** | Distribute cash to stockholders. |

1. Below are cash transactions of a company. Indicate whether the transaction will affect an account reported on the income statement or the balance sheet. **Ignore the impact of the transaction on the Cash and Retained Earnings accounts**. The first item has been completed as an example.

|  |  |
| --- | --- |
| **Financial Statement** | **Related Transactions** |
| **1. Income Statement** | Pay taxes for the current period. |
| **2. \_\_\_\_\_\_\_\_** | Borrow cash from the bank. |
| **3. \_\_\_\_\_\_\_\_** | Pay salaries to employees for the current period. |
| **4. \_\_\_\_\_\_\_\_** | Receive cash from customers for services provided in the current period. |
| **5. \_\_\_\_\_\_\_\_** | Pay one year of rent in advance. |
| **6. \_\_\_\_\_\_\_\_** | Pay for supplies. |
| **7. \_\_\_\_\_\_\_\_** | Pay for advertising for the current period. |
| **8. \_\_\_\_\_\_\_\_** | Pay for land. |
| **9. \_\_\_\_\_\_\_\_** | Pay utilities for the current period. |
| **10. \_\_\_\_\_\_\_\_** | Repay amount borrowed from the bank. |

1. At the end of the current period, Rivet, Incorporated reports the following amounts: Assets = $57,400; Liabilities = $31,000; Dividends = $2,830; Revenues = $20,600; Expenses = $10,400. Calculate net income and stockholders' equity at the end of the period.

1. At the end of the current period, Rivet, Incorporated reports the following amounts: Assets = $50,000; Liabilities = $28,000; Dividends = $4,000; Revenues = $22,000; Expenses = $16,000. Calculate net income and stockholders' equity at the end of the period.

1. At the end of the current period, Aberdeen Company reports the following amounts: Assets = $29,000; Liabilities = $14,000; Dividends = $3,700; Revenues = $17,000; Expenses = $10,000. Calculate net income and stockholders' equity at the end of the period.

1. At the end of the current period, Aberdeen Company reports the following amounts: Assets = $25,000; Liabilities = $15,000; Dividends = $3,000; Revenues = $20,000; Expenses = $13,000. Calculate net income and stockholders' equity at the end of the period.

1. Below are the account balances for Schroeder Corporation at the end of December. Use only the appropriate accounts to prepare an income statement.

|  |  |
| --- | --- |
| **Accounts** | **Balances** |
| **Cash** | $ 8,500 |
| **Salaries expense** | 1,600 |
| **Retained earnings** | 3,200 |
| **Advertising expense** | 760 |
| **Equipment** | 9,900 |
| **Service revenue** | 6,200 |
| **Common stock** | 7,700 |
| **Accounts payable** | 1,370 |

1. Below are the account balances for Schroeder Corporation at the end of December. Use only the appropriate accounts to prepare an income statement.

|  |  |
| --- | --- |
| **Accounts** | **Balances** |
| **Cash** | $ 5,200 |
| **Salaries expense** | 2,300 |
| **Retained earnings** | 2,500 |
| **Advertising expense** | 1,200 |
| **Equipment** | 12,400 |
| **Service revenue** | 9,400 |
| **Common stock** | 8,000 |
| **Accounts payable** | 2,200 |

1. At the beginning of the year (January 1), William and Sons had $9,900 of common stock outstanding and retained earnings of $3,100. During the year, the company reports net income of $2,090 and pays dividends of $2,150. In addition, the company issues additional common stock for $9,800. Prepare the statement of stockholders' equity for the year ended December 31.

1. At the beginning of the year (January 1), William and Sons had $12,000 of common stock outstanding and retained earnings of $4,200. During the year, the company reports net income of $3,200 and pays dividends of $1,200. In addition, the company issues additional common stock for $5,000. Prepare the statement of stockholders' equity for the year ended December 31.

1. Shalett Interiors has the following account balances at the end of the year. Use only the appropriate accounts to prepare a balance sheet.

|  |  |
| --- | --- |
| **Accounts** | **Balances** |
| **Equipment** | $ 81,600 |
| **Accounts Payable** | 12,500 |
| **Common Stock** | 16,300 |
| **Service Revenue** | 62,600 |
| **Cash** | 9,900 |
| **Retained Earnings** | ? |
| **Salaries Expense** | 33,500 |
| **Notes Payable** | 28,900 |

1. Shalett Interiors has the following account balances at the end of the year. Use only the appropriate accounts to prepare a balance sheet.

|  |  |
| --- | --- |
| **Accounts** | **Balances** |
| **Equipment** | $78,000 |
| **Accounts payable** | 12,000 |
| **Common stock** | 20,000 |
| **Service revenue** | 62,000 |
| **Cash** | 8,000 |
| **Retained earnings** | ? |
| **Salaries expense** | 38,000 |
| **Notes payable** | 25,000 |

1. Glenview Financial has the following cash transactions for the year. Assume cash at the beginning of the period is $6,000. Prepare a statement of cash flows.

|  |  |
| --- | --- |
| **Accounts** | **Amounts** |
| **Cash received for sale of services to customers** | $ 50,000 |
| **Cash received from issuance of common stock** | 38,000 |
| **Cash paid to purchase office equipment** | (34,000) |
| **Cash paid for building maintenance** | (6,600) |
| **Cash paid for advertisement** | (3,300) |
| **Cash paid to workers** | (17,000) |
| **Cash paid for dividends to stockholders** | (2,900) |
| **Cash received from sale of land** | 8,900 |
| **Cash received from bank borrowing** | 10,200 |

1. Glenview Financial has the following cash transactions for the year. Assume cash at the beginning of the period is $6,000. Prepare a statement of cash flows.

|  |  |
| --- | --- |
| **Accounts** | **Amounts** |
| **Cash received for sale of services to customers** | $ 42,000 |
| **Cash received from issuance of common stock** | 33,000 |
| **Cash paid to purchase office equipment** | (49,000) |
| **Cash paid for building maintenance** | (7,000) |
| **Cash paid for advertisement** | (8,000) |
| **Cash paid to workers** | (18,000) |
| **Cash paid for dividends to stockholders** | (3,000) |
| **Cash received from sale of land** | 7,000 |
| **Cash received from bank borrowing** | 14,000 |

1. Each of the following independent situations represents amounts shown on the four basic financial statements. Fill in the missing blanks using your knowledge of amounts that appear on the financial statements.

Revenues = $30,900; Expenses = $16,000; Net income = \_\_\_\_\_\_\_\_.

Increase in stockholders' equity = $18,000; Issuance of common stock = $9,700; Dividends = $3,100; Net income = \_\_\_\_\_\_\_\_.

Assets = $16,000; Liabilities = $8,000; Stockholders' equity = \_\_\_\_\_\_\_\_.

Total change in cash = +$25,000; Net operating cash flows = +$22,000; Net financing cash flows = +$16,000; Net investing cash flows = \_\_\_\_\_\_\_\_.

1. Each of the following independent situations represents amounts shown on the four basic financial statements. Fill in the missing blanks using your knowledge of amounts that appear on the financial statements.

Revenues = $27,000; Expenses = $18,000; Net income = \_\_\_\_\_\_\_\_.

Increase in stockholders' equity = $20,000; Issuance of common stock = $12,000; Dividends = $5,000; Net income = \_\_\_\_\_\_\_\_.

Assets = $25,000; Liabilities = $13,000; Stockholders' equity = \_\_\_\_\_\_\_\_.

Total change in cash = +$28,000; Net operating cash flows = +$30,000; Net financing cash flows = +$18,000; Net investing cash flows = \_\_\_\_\_\_\_\_.

1. During its first five years of operations, Waterhouse Manufacturing reports net income and pays dividends as follows. Calculate the balance of retained earnings at the end of each year. Note that retained earnings will always equal $0 at the beginning of year 1.

|  |  |  |
| --- | --- | --- |
| **Year** | **Net Income** | **Dividends** |
| **1** | $ 2,700 | $ 1,500 |
| **2** | 2,700 | 1,200 |
| **3** | 3,900 | 2,300 |
| **4** | 5,500 | 2,900 |
| **5** | 8,700 | 3,600 |

1. During its first five years of operations, Waterhouse Manufacturing reports net income and pays dividends as follows. Calculate the balance of retained earnings at the end of each year. Note that retained earnings will always equal $0 at the beginning of year 1.

|  |  |  |
| --- | --- | --- |
| **Year** | **Net Income** | **Dividends** |
| **1** | $ 1,700 | $ 1,000 |
| **2** | 2,700 | 1,000 |
| **3** | 3,200 | 2,000 |
| **4** | 5,400 | 2,000 |
| **5** | 7,600 | 3,000 |

1. Below is information related to retained earnings for five independent situations. Calculate the answer to each.

A company reports an increase in retained earnings of $1,530 and net income of $4,230. What is the amount of dividends?

A company reports beginning retained earnings of $2,640, net income of $780, and $210 dividends. What is the amount of ending retained earnings?

A company reports an increase in retained earnings of $2,020 and dividends of $2,680. What is the amount of net income?

A company reports ending retained earnings of $2,920, net income of $1,450, and dividends of $190. What is the amount of beginning retained earnings?

A company reports an increase in retained earnings of $770 and net income of $1,610. What is the amount of dividends?

1. Below is information related to retained earnings for five independent situations. Calculate the answer to each.

A company reports an increase in retained earnings of $3,200 and net income of $4,800. What is the amount of dividends?

A company reports beginning retained earnings of $1,800, net income of $1,200, and $200 dividends. What is the amount of ending retained earnings?

A company reports an increase in retained earnings of $2,500 and dividends of $1,500. What is the amount of net income?

A company reports ending retained earnings of $2,700, net income of $900, and dividends of $500. What is the amount of beginning retained earnings?

A company reports an increase in retained earnings of $500 and net income of $1,200. What is the amount of dividends?

1. Below is balance sheet information for five independent situations. Calculate the answer to each.

A company reports total assets of $2,840 and total liabilities of $630. What is the amount of stockholders' equity?

A company reports total liabilities of $3,000 and stockholders' equity of $1,700. What is the amount of total assets?

A company reports total assets of $2,500 and total stockholders' equity of $620. What is the amount of total liabilities?

A company reports an increase in assets of $1,650 and an increase in liabilities of $670. What is the amount of the change in stockholders' equity?

A company reports an increase in liabilities of $150 and a decrease in stockholders' equity of $890. What is the amount of the change in total assets?

1. Below is balance sheet information for five independent situations. Calculate the answer to each.

A company reports total assets of $2,000 and total liabilities of $900. What is the amount of stockholders' equity?

A company reports total liabilities of $2,400 and stockholders' equity of $1,100. What is the amount of total assets?

A company reports total assets of $2,700 and total stockholders' equity of $700. What is the amount of total liabilities?

A company reports an increase in assets of $1,700 and an increase in liabilities of $400. What is the amount of the change in stockholders' equity?

A company reports an increase in liabilities of $300 and a decrease in stockholders' equity of $800. What is the amount of the change in total assets?

1. Below is cash flow information for five independent situations. Calculate the answer to each.

A company reports operating cash flows of $3,160, investing cash flows of $330, and financing cash flows of −$340. What is the amount of the change in total cash?

A company reports operating cash flows of $2,450, investing cash flows of −$390, and financing cash flows of −$1,060. If the beginning cash amount is $610, what is the ending cash amount?

A company reports operating cash flows of $970, investing cash flows of $870, and a change in total cash of $160. What is the amount of cash flows from financing activities?

A company reports operating cash flows of $850, financing cash flows of $150, and a change in total cash of $200. What is the amount of cash flows from investing activities?

A company reports investing cash flows of −$1,760, financing cash flows of $960, and a change in total cash of $360. What is the amount of cash flows from operating activities?

1. Below is cash flow information for five independent situations. Calculate the answer to each.

A company reports operating cash flows of $3,200, investing cash flows of $700, and financing cash flows of −$400. What is the amount of the change in total cash?

A company reports operating cash flows of $1,800, investing cash flows of −$400, and financing cash flows of −$1,100. If the beginning cash amount is $500, what is the ending cash amount?

A company reports operating cash flows of $700, investing cash flows of $300, and a change in total cash of $100. What is the amount of cash flows from financing activities?

A company reports operating cash flows of $600, financing cash flows of $400, and a change in total cash of $100. What is the amount of cash flows from investing activities?

A company reports investing cash flows of −$1,400, financing cash flows of $900, and a change in total cash of $200. What is the amount of cash flows from operating activities?

1. Midwest, Incorporated reports the following amounts at the end of the year:

|  |  |  |  |
| --- | --- | --- | --- |
| **Cash** | $ 74,300 | **Service Revenue** | $ 99,200 |
| **Buildings** | 49,000 | **Salaries Expense** | 67,800 |
| **Accounts Payable** | 9,200 | **Equipment** | 63,000 |
| **Interest Expense** | 2,700 | **Supplies** | 5,900 |
| **Advertising Expense** | 10,000 | **Notes Payable** | 56,000 |

In addition, the company had common stock of $81,000 at the beginning of the year and issued an additional $5,400 during the year. The company also had retained earnings of $23,200 at the beginning of the year and paid dividends of $1,300 during the year. Prepare the income statement, statement of stockholders' equity, and balance sheet.

1. Northeast, Incorporated reports the following amounts at the end of the year:

|  |  |  |  |
| --- | --- | --- | --- |
| **Cash** | $ 3,200 | **Service Revenue** | $ 92,500 |
| **Buildings** | 60,000 | **Salaries Expense** | 72,800 |
| **Accounts Payable** | 8,500 | **Equipment** | 72,000 |
| **Interest Expense** | 4,000 | **Supplies** | 6,400 |
| **Advertising Expense** | 11,300 | **Notes Payable** | 40,000 |

In addition, the company had common stock of $65,000 at the beginning of the year and issued an additional $5,000 of common stock during the year. The company also had retained earnings of $20,700 at the beginning of the year and paid dividends of $2,000 during the year. Prepare the income statement, statement of stockholders' equity, and balance sheet.

1. Below are incomplete financial statements for Kamloops, Incorporated. Calculate the missing amounts.

|  |  |
| --- | --- |
| Income Statement | |
| **Service revenue** | $ (a) |
| **Expenses:** |  |
| **Salaries** | 6,900 |
| **Delivery** | 3,200 |
| **Utilities** | 5,100 |
| **Net income** | (b) |
| Statement of Stockholders' Equity | | |
|  | **Common Stock** | **Retained Earnings** |
| **Beginning** | $ 20,200 | $ 17,700 |
| **Issuances** | (c) |  |
| **Net income** |  | 6,300 |
| **Dividends** |  | (d) |
| **Ending** | $ 39,600 | $ 21,480 |
| Balance Sheet | | | |
| **Assets:** |  | **Liabilities:** |  |
| **Cash** | $ 10,600 | **Accounts payable** | $ 15,900 |
| **Supplies** | 5,000 | **Stockholders' Equity:** |  |
| **Prepaid rent** | (e) | **Common stock** | (g) |
| **Equipment** | 23,500 | **Retained earnings** | (h) |
| **Total assets** | (f) | **Total liabilities and stockholders' equity** | (i) |

1. Below are incomplete financial statements for Barrington, Incorporated. Calculate the missing amounts.

|  |  |
| --- | --- |
| Income Statement | |
| **Service revenue** | $ (a) |
| **Expenses:** |  |
| **Salaries** | 8,000 |
| **Delivery** | 7,000 |
| **Utilities** | 5,000 |
| **Net income** | (b) |
| Statement of Stockholders' Equity | | |
|  | **Common Stock** | **Retained Earnings** |
| **Beginning** | $ 25,000 | $ 12,000 |
| **Issuances** | (c) |  |
| **Net income** |  | 5,000 |
| **Dividends** |  | (d) |
| **Ending** | $ 30,000 | $ 15,000 |
| Balance Sheet | | | |
| **Assets:** |  | **Liabilities:** |  |
| **Cash** | $ 15,000 | **Accounts payable** | $ 15,000 |
| **Supplies** | 7,000 | **Stockholders' Equity:** |  |
| **Prepaid rent** | (e) | **Common stock** | (g) |
| **Equipment** | 35,000 | **Retained earnings** | (h) |
| **Total assets** | (f) | **Total liabilities and stockholders' equity** | (i) |

1. Use the following information available as of December 31 to prepare an income statement for the year and a balance sheet at December 31st for Glacier Company.  
      
   Fees received for services performed during the year, $125,000  
   Accounts payable, $18,300  
   Accounts receivable, $17,500  
   Miscellaneous expenses for the year, $8,900  
   Supplies on hand, $3,100  
   Notes payable, $30,000  
   Interest expense on the note for the year, $3,100  
   Equipment, $93,100  
   Cash on hand, $12,000  
   Salaries expense for the year, $70,700  
   Supplies expense for the year, $8,600  
   Rent expense for the year, $11,900  
   Common stock that has been issued, $57,000  
   Retained earnings at the end of the year, $20,400

1. Use the following information available as of December 31 to prepare an income statement for the year and a balance sheet at December 31st for Bronzer Company.  
     
    Fees received for services performed during the year, $120,000  
   Accounts payable, $18,500   
   Accounts receivable, $17,300  
   Miscellaneous expenses for the year, $8,700  
   Supplies on hand, $2,700  
   Notes payable, $30,000  
   Interest expense on the note for the year, $3,000  
   Equipment, $84,400  
   Cash on hand, $11,200  
   Salaries expense for the year, $71,500  
   Supplies expense for the year, $9,400  
   Rent expense for the year, $12,000  
   Common stock that has been issued, $60,000  
   Retained earnings at the end of the year, $7,100

1. Define accounting. Describe the two primary functions of financial accounting and its role in our society.

1. Describe the three fundamental business activities that accountants measure using the statement of cash flows.

1. List and describe the four financial statements most frequently provided to external users.

1. How does the value of an audit affect financial statements?

1. Define the four basic assumptions underlying Generally Accepted Accounting Principles: (a) economic entity, (b) going concern, (c) periodicity, (d) monetary unit.

**Answer Key**Test name: chapter 1

TRUE

TRUE

FALSE

Creditors lend money to a company.

FALSE

Financial accounting primarily serves to provide information to external parties.

TRUE

TRUE

TRUE

TRUE

FALSE

These are examples of assets.

TRUE

TRUE

FALSE

Total assets = Total liabilities ($16,000) + Total stockholders' equity ($9,000) = $25,000.

TRUE

FALSE

These are examples of expenses.

TRUE

TRUE

FALSE

Expenses include costs of providing products and services. Cash payments to stockholders are called dividends.

TRUE

FALSE

Stockholders of a corporation have limited liability.

TRUE

FALSE

Assets are the total resources of a company. Liabilities are amounts owed to creditors. Stockholders' equity represents owners’ claims to those resources. These claims arise from two primary sources: (1) contributions by the owners themselves and (2) net resources generated by company operations.

TRUE

FALSE

Financial statements are designed to provide information to external users.

FALSE

The income statement reports revenues and expenses.

TRUE

FALSE

Stockholders’ equity arises from two primary sources—common stock and retained earnings.

TRUE

TRUE

FALSE

Dividends are not an expense. Expenses are the costs necessary to run the business to produce revenues. Dividends, on the other hand, are not costs related to providing products and services to customers; dividends are distributions (most often cash) to the *owners* of the company – the stockholders.

TRUE

FALSE

These are operating activities.

FALSE

Operating cash flows include cash receipts and cash payments for transactions involving revenue and expense activities during the period. Investing cash flows generally include cash transactions for the purchase and sale of investments and long-term assets. Long-term assets are resources owned by a company that are thought to provide benefits for more than one year.

TRUE

TRUE

TRUE

TRUE

TRUE

TRUE

TRUE

TRUE

TRUE

TRUE

TRUE

FALSE

Financial accounting is intended primarily to provide information to investors and creditors.

TRUE

TRUE

FALSE

The two fundamental characteristics are relevance and faithful representation.

TRUE

TRUE

TRUE

FALSE

The economic entity assumption states that we identify all economic events with a particular economic entity. In other words, only business transactions involving the specific company should be reported as part of the company’s financial accounting information.

C

D

D

B

A

A

D

D

C

A

A

D

D

C

(1) Purchase supplies, (2) Provide services to customers, and (3) Pay utility bill.

B

C

Operating cash flows include cash receipts and cash payments for transactions involving revenue and expense activities during the period. Cash paid for operating activities = $550 + $1,150 = $1,700.

D

Operating cash flows include cash receipts and cash payments for transactions involving revenue and expense activities during the period. Cash paid for operating activities = $500 + $1,000 = $1,500.

B

A

C

B

C

B

A

C

Assets = Liabilities + Stockholders' Equity.

A

Assets − Liabilities = Stockholders' Equity.

A

Assets ($36,300) = Liabilities ($21,900) + Stockholders' Equity ($14,400)

B

Assets ($55,000) = Liabilities ($30,000) + Stockholders' Equity ($25,000).

D

D

C

C

B

C

B

C

D

B

C

D

A

D

Owners’ claims (Stockholders' Equity) = Assets ($1,200,000) − Liabilities ($800,000)

B

B

D

B

A

Revenues ($10,800) − Expenses ($5,000) = Net Income ($5,800).

B

Revenues ($12,000) − Expenses ($4,000) = Net Income ($8,000).

D

B

A

A

D

B

C

Salaries Expense, Service Revenue, and Utilities Expense.

C

Service Revenue ($28,300) − Rent Expense ($7,500) − Insurance Expense ($2,100) − Income Tax Expense ($4,200) = $14,500.

C

Service Revenue ($23,500) − Supplies Expense ($1,500) − Salaries Expense ($8,200) = $13,800.

B

C

C

D

C

D

C

A

B

Beginning Retained Earnings ($34,100) + Net Income ($21,800) − Dividends ($4,500) = Ending Retained Earnings ($51,400).

B

Beginning Retained Earnings ($32,900) + Net Income ($22,500) − Dividends ($4,300) = Ending Retained Earnings ($51,100).

C

Beginning Retained Earnings ($0) + Net Income ($4.0) − Dividends ($5.2) = Ending Retained Earnings (−$1.2)

C

Beginning Retained Earnings ($0) + Net Income ($4.4) − Dividends ($5.4) = Ending Retained Earnings (−$1.0).

B

Beginning Retained Earnings ($44,000) + Net Income ($86,000) − Dividends ($29,000) = Ending Retained Earnings ($101,000)

C

Beginning Retained Earnings ($54,000) + Net Income ($84,000) − Dividends ($28,000) = Ending Retained Earnings ($110,000).

A

Beginning Retained Earnings ($13,000) = Ending Retained Earnings ($88,000) − Total Net Income ($87,000) + Total Dividends ($12,000).

B

Beginning Retained Earnings ($0) + Net Income ($7,100 − $1,300 + $2,500) − Dividends ($7,500) = Ending Retained Earnings ($800)

D

Beginning Retained Earnings ($0) + Net Income ($7,100 − $1,600 + $3,600) − Dividends ($8,000) = Ending Retained Earnings ($1,100).

B

Beginning Retained Earnings ($0) + Net Income ($15,550) − Dividends ($2,480 + $0 + $1,510 + $1,060) = Ending Retained Earnings ($10,500). Divide net income amount by 4 to get average ($15,550 / 4 years) = $3,888.

A

Beginning Retained Earnings ($0) + Net Income ($14,740) − Dividends ($2,410 + $0 + $1,570 + $1,060) = Ending Retained Earnings ($9,700). Divide net income amount by 4 to get average ($14,470 / 4 years) = $3,685.

C

Total Stockholders’ Equity = Common Stock ($597,000 + $24,500) + Retained Earnings ($691,000 + $98,000 − $14,900) = $1,395,600.

C

Total Stockholders’ Equity = Common Stock ($605,000 + $27,500) + Retained Earnings ($492,000 + $92,000 − $15,200) = $1,201,300.

C

A

B

C

A

Accounts Payable, Cash, Common Stock, Supplies, and Retained Earnings.

C

C

D

C

C

B

D

B

C

C

(1) Pay salaries, (2) Receive from customers, and (3) Pay advertising.

B

B

C

D

B

Total change in cash ($44,000) = net operating cash flows ($22,000) + net investing cash flows (−$13,000) + net financing cash flows ($35,000).

D

D

D

B

C

D

B

B

D

A

B

A

B

A

C

C

B

D

A

A

C

D

B

D

C

A

C

C

D

A

A

B

A

A

B

D

B

C

C

D

B

B

A

Essay

Operating B  
 Financing C  
 Investing A

Essay

Income statement C  
 Statement of stockholders' equity A  
 Balance sheet B

Essay

Financial Accounting Standards Board B  
 Public Company Accounting Oversight Board A  
 International Accounting Standards Board C  
 Securities and Exchange Commission D

Essay

Predictive value D  
 Confirmatory value B  
 Verifiability E  
 Timeliness C  
 Neutrality F  
 Completeness A

Essay

1. Stockholders' equity; 2. Expense; 3. Asset; 4. Dividend; 5. Revenue

Essay

1. Stockholders' equity; 2. Asset; 3. Liability; 4. Revenue; 5. Expense; 6. Asset; 7. Expense; 8. Asset; 9. Liability; 10. Dividend

Essay

1. Financing; 2. Operating; 3. Investing; 4. Financing; 5. Operating

Essay

1. Investing; 2. Operating; 3. Operating; 4. Operating; 5. Financing; 6. Operating; 7. Investing; 8. Financing

Essay

1. Financing; 2. Operating; 3. Operating; 4. Operating; 5. Operating; 6. Operating; 7. Operating; 8. Investing; 9. Operating; 10. Financing

Essay

1. Income Statement; 2. Balance Sheet; 3. Income Statement; 4. Income Statement; 5. Balance Sheet; 6. Balance Sheet; 7. Income Statement; 8. Balance Sheet; 9. Income Statement; 10. Balance Sheet

Essay

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenues** | **−** | **Expenses** | **=** | **Net Income** |
| $ 20,600 | − | $ 10,400 | = | $ 10,200 |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $ 57,400 | = | $ 31,000 | + | $ X |
| $ 57,400 | − | $ 31,000 | = | $ 26,400 |

Essay

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenues** | **−** | **Expenses** | **=** | **Net Income** |
| $ 22,000 | − | $ 16,000 | = | $ 6,000 |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $ 50,000 | = | $ 28,000 | + | $X |
| $ 50,000 | − | $ 28,000 | = | $ 22,000 |

Essay

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenues** | **−** | **Expenses** | **=** | **Net Income** |
| $ 17,000 | − | $ 10,000 | = | $ 7,000 |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $ 29,000 | = | $ 14,000 | + | $ X |
| $ 29,000 | − | $ 14,000 | = | $ 15,000 |

Essay

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenues** | **−** | **Expenses** | **=** | **Net Income** |
| $ 20,000 | − | $ 13,000 | = | $ 7,000 |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $ 25,000 | = | $ 15,000 | + | $X |
| $ 25,000 | − | $ 15,000 | = | $ 10,000 |

Essay

|  |  |  |
| --- | --- | --- |
| Schroeder Corporation | | |
| Income Statement | | |
| For the year ended December 31 | | |
| **Service revenue** |  | $ 6,200 |
| **Expenses:** |  |  |
| **Salaries** | $ 1,600 |  |
| **Advertising** | 760 |  |
| **Total expenses** |  | 2,360 |
| **Net income** |  | $ 3,840 |

Essay

|  |  |  |
| --- | --- | --- |
| Schroeder Corporation | | |
| Income Statement | | |
| For the year ended December 31 | | |
| **Service revenue** |  | $ 9,400 |
| **Expenses:** |  |  |
| **Salaries** | $ 2,300 |  |
| **Advertising** | 1,200 |  |
| **Total expenses** |  | 3,500 |
| **Net income** |  | $ 5,900 |

Essay

|  |  |  |  |
| --- | --- | --- | --- |
| William and Sons | | | |
| Statement of Stockholders' Equity | | | |
| For the year ended December 31 | | | |
|  | **Common Stock** | **Retained Earnings** | **Total Stockholders' Equity** |
| **Balance at January 1** | $ 9,900 | $ 3,100 | $ 13,000 |
| **Issuance of common stock** | 9,800 |  | 9,800 |
| **Add: Net income for the year** |  | 2,090 | 2,090 |
| **Less: Dividends** |  | (2,150) | (2,150) |
| **Balance at December 31** | $ 19,700 | $ 3,040 | $ 22,740 |

Essay

|  |  |  |  |
| --- | --- | --- | --- |
| William and Sons | | | |
| Statement of Stockholders' Equity | | | |
| For the year ended December 31 | | | |
|  | **Common Stock** | **Retained Earnings** | **Total Stockholders' Equity** |
| **Balance at January 1** | $ 12,000 | $ 4,200 | $ 16,200 |
| **Issuance of common stock** | 5,000 |  | 5,000 |
| **Add: Net income for the year** |  | 3,200 | 3,200 |
| **Less: Dividends** |  | (1,200) | (1,200) |
| **Balance at December 31** | $ 17,000 | $ 6,200 | $ 23,200 |

Essay

|  |  |  |  |
| --- | --- | --- | --- |
| Shalett Interiors | | | |
| Balance Sheet | | | |
| December 31 | | | |
| **Assets** |  | **Liabilities** |  |
| **Cash** | $ 9,900 | **Accounts payable** | $ 12,500 |
| **Equipment** | 81,600 | **Notes payable** | 28,900 |
|  |  | **Total liabilities** | 41,400 |
|  |  | **Stockholders' Equity** |  |
|  |  | **Common stock** | 16,300 |
|  |  | **Retained earnings** | 33,800\* |
|  |  | **Total stockholders' equity** | 50,100 |
| **Total assets** | $ 91,500 | **Total liabilities and stockholders' equity** | $ 91,500 |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' equity** |
| $91,500 | = | $41,400 | + | ($16,300 + Retained earnings) |
| $91,500 | − | $41,400 | − | $16,300 = Retained earnings |
|  |  |  |  | $33,800 = Retained earnings |

Essay

|  |  |  |  |
| --- | --- | --- | --- |
| Shalett Interiors | | | |
| Balance Sheet | | | |
| December 31 | | | |
| **Assets** |  | **Liabilities** |  |
| **Cash** | $ 8,000 | **Accounts payable** | $ 12,000 |
| **Equipment** | 78,000 | **Notes payable** | 25,000 |
|  |  | **Total liabilities** | 37,000 |
|  |  | **Stockholders' Equity** |  |
|  |  | **Common stock** | 20,000 |
|  |  | **Retained earnings** | 29,000\* |
|  |  | **Total stockholders' equity** | 49,000 |
| **Total assets** | $ 86,000 | **Total liabilities and stockholders' equity** | $ 86,000 |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' equity** |
| $86,000 | = | $37,000 | + | ($20,000 + Retained earnings) |
| $86,000 | − | $37,000 | − | $20,000 = Retained earnings |
|  |  |  |  | $29,000 = Retained earnings |

Essay

|  |  |  |
| --- | --- | --- |
| Glenview Financial | | |
| Statement of Cash Flows | | |
| For the year ended December 31 | | |
| **Cash Flows from Operating Activities** |  |  |
| **Cash inflows:** |  |  |
| **From sale of services to customers** | $ 50,000 |  |
| **Cash outflows:** |  |  |
| **For building maintenance** | (6,600) |  |
| **For advertisement** | (3,300) |  |
| **For workers** | (17,000) |  |
| **Net cash flows from operating activities** |  | $ 23,100 |
| **Cash Flows from Investing Activities** |  |  |
| **Purchase office equipment** | (34,000) |  |
| **Sale of land** | 8,900 |  |
| **Net cash flows from investing activities** |  | (25,100) |
| **Cash Flows from Financing Activities** |  |  |
| **Issue common stock** | 38,000 |  |
| **Borrow from bank** | 10,200 |  |
| **Pay dividends** | (2,900) |  |
| **Net cash flows from financing activities** |  | 45,300 |
| **Net increase in cash** |  | 43,300 |
| **Cash at the beginning of the year** |  | 4,400 |
| **Cash at the end of the year** |  | $ 47,700 |

Essay

|  |  |  |
| --- | --- | --- |
| Glenview Financial | | |
| Statement of Cash Flows | | |
| For the year ended December 31 | | |
| **Cash Flows from Operating Activities** |  |  |
| **Cash inflows:** |  |  |
| **From sale of services to customers** | $ 42,000 |  |
| **Cash outflows:** |  |  |
| **For building maintenance** | (7,000) |  |
| **For advertisement** | (8,000) |  |
| **For workers** | (18,000) |  |
| **Net cash flows from operating activities** |  | $ 9,000 |
| **Cash Flows from Investing Activities** |  |  |
| **Purchase office equipment** | (49,000) |  |
| **Sale of land** | 7,000 |  |
| **Net cash flows from investing activities** |  | (42,000) |
| **Cash Flows from Financing Activities** |  |  |
| **Issue common stock** | 33,000 |  |
| **Borrow from bank** | 14,000 |  |
| **Pay dividends** | (3,000) |  |
| **Net cash flows from financing activities** |  | 44,000 |
| **Net increase in cash** |  | 11,000 |
| **Cash at the beginning of the year** |  | 6,000 |
| **Cash at the end of the year** |  | $ 17,000 |

Essay

**1.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenues** | **−** | **Expenses** | **=** | **Net Income** |
| $30,900 | − | $16,000 | = | $14,900 |

**2.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Change in Stockholders' Equity** | **=** | **Issue Common Stock** | **−** | **Dividends** | **+** | **Net Income** |
| $18,000 | = | $9,700 | − | $3,100 | + | $X |
| $18,000 | − | $9,700 | + | $3,100 | = | $11,400 |

**3.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $16,000 | = | $8,000 | + | $X |
| $16,000 | − | $8,000 | = | $8,000 |

**4.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Financing Cash Flows** | **+** | **Investing Cash Flows** |
| $25,000 | = | $22,000 | + | $16,000 | + | $X |
| $25,000 | − | $22,000 | − | $16,000 | = | ($13,000) |

Essay

1.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenues** | **−** | **Expenses** | **=** | **Net Income** |
| $27,000 | − | $18,000 | = | $9,000 |

2.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Change in Stockholders' Equity** | **=** | **Issue Common Stock** | **−** | **Dividends** | **+** | **Net Income** |
| $20,000 | = | $12,000 | − | $5,000 | + | $X |
| $20,000 | − | $12,000 | + | $5,000 | = | $13,000 |

3.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $25,000 | = | $13,000 | + | $X |
| $25,000 | − | $13,000 | = | $12,000 |

4.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Financing Cash Flows** | **+** | **Investing Cash Flows** |
| $28,000 | = | $30,000 | + | $18,000 | + | $X |
| $28,000 | − | $30,000 | − | $18,000 | = | ($20,000) |

Essay

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Net Income** | **Dividends** | **Retained Earnings\*** |
| **1** | $ 2,700 | $ 1,500 | $ 1,200 |
| **2** | 2,700 | 1,200 | 2,700 |
| **3** | 3,900 | 2,300 | 4,300 |
| **4** | 5,500 | 2,900 | 6,900 |
| **5** | 8,700 | 3,600 | 12,000 |

\* Retained earnings = Beginning Retained Earnings + Net Income − Dividends

Essay

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| --- | --- | --- | --- |
| **Year** | **Net Income** | **Dividends** | **Retained**  **Earnings\*** |
| **1** | $ 1,700 | $ 1,000 | $ 700 |
| **2** | 2,700 | 1,000 | 2,400 |
| **3** | 3,200 | 2,000 | 3,600 |
| **4** | 5,400 | 2,000 | 7,000 |
| **5** | 7,600 | 3,000 | 11,600 |

\* Retained earnings = Beginning Retained Earnings + Net Income − Dividends

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| --- | --- | --- | --- | --- |
| **Change in Retained Earnings** | **=** | **Net Income** | **−** | **Dividends** |
| $1,530 | = | $4,230 | − | $X |
| $1,530 | = | $4,230 | − | $2,700 |

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| **Change in Retained Earnings** | **=** | **Net Income** | **−** | **Dividends** |
| [$X − $2,640] | = | $780 | − | $210 |
| $X = $3,210 |  |  |  |  |

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| --- | --- | --- | --- | --- |
| **Change in Retained Earnings** | **=** | **Net Income** | **−** | **Dividends** |
| $2,020 | = | $X | − | $2,680 |
| $2,020 | = | $4,700 | − | $2,680 |

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| --- | --- | --- | --- | --- |
| **Change in Retained Earnings** | **=** | **Net Income** | **−** | **Dividends** |
| [$2,920 − $X] | = | $1,450 | − | $190 |
| $X = $1,660 |  |  |  |  |

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| --- | --- | --- | --- | --- |
| **Change in Retained Earnings** | **=** | **Net Income** | **−** | **Dividends** |
| $770 | = | $1,610 | − | $X |
| $770 | = | $1,610 | − | $840 |

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| --- | --- | --- | --- | --- |
| **Change in Retained Earnings** | **=** | **Net Income** | **−** | **Dividends** |
| $3,200 | = | $4,800 | − | $X |
| $3,200 | = | $4,800 | − | $1,600 |

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| --- | --- | --- | --- | --- |
| **Change in Retained Earnings** | **=** | **Net Income** | **−** | **Dividends** |
| [$X − $1,800] | = | $1,200 | − | $200 |
| $X = $2,800 |  |  |  |  |

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| --- | --- | --- | --- | --- |
| **Change in Retained Earnings** | **=** | **Net Income** | **−** | **Dividends** |
| $2,500 | = | $X | − | $1,500 |
| $2,500 | = | $4,000 | − | $1,500 |

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| --- | --- | --- | --- | --- |
| **Change in Retained Earnings** | **=** | **Net Income** | **−** | **Dividends** |
| [$2,700 − $X] | = | $900 | − | $500 |
| $X = $2,300 |  |  |  |  |

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| --- | --- | --- | --- | --- |
| **Change in Retained Earnings** | **=** | **Net Income** | **−** | **Dividends** |
| $500 | = | $1,200 | − | $X |
| $500 | = | $1,200 | − | $700 |

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| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $2,840 | = | $630 | + | $X |
| $2,840 | = | $630 | + | $2,210 |

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| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $X | = | $3,000 | + | $1,700 |
| $4,700 | = | $3,000 | + | $1,700 |

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| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $2,500 | = | $X | + | $620 |
| $2,500 | = | $1,880 | + | $620 |

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| --- | --- | --- | --- | --- |
| **Change in Assets** | **=** | **Change in liabilities** | **+** | **Change in stockholders' equity** |
| $1,650 | = | $670 | + | $X |
| $1,650 | = | $670 | + | $980 |

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| --- | --- | --- | --- | --- |
| **Change in Assets** | **=** | **Change in liabilities** | **+** | **Change in stockholders' equity** |
| $X | = | $150 | + | ($890) |
| ($740) | = | $150 | + | ($890) |

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| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $2,000 | = | $900 | + | $X |
| $2,000 | = | $900 | + | $1,100 |

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| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $X | = | $2,400 | + | $1,100 |
| $3,500 | = | $2,400 | + | $1,100 |

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| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** |
| $2,700 | = | $X | + | $700 |
| $2,700 | = | $2,000 | + | $700 |

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| --- | --- | --- | --- | --- |
| **Change in Assets** | **=** | **Change in liabilities** | **+** | **Change in stockholders' equity** |
| $1,700 | = | $400 | + | $X |
| $1,700 | = | $400 | + | $1,300 |

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| --- | --- | --- | --- | --- |
| **Change in Assets** | **=** | **Change in liabilities** | **+** | **Change in stockholders' equity** |
| $X | = | $300 | + | ($800) |
| ($500) | = | $300 | + | ($800) |

Essay

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| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Investing Cash Flows** | **+** | **Financing**  **cash flows** |
| $3,150 | = | $3,160 | + | $330 | + | ($340) |
|  |

**2.**

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| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Investing Cash Flows** | **+** | **Financing cash flows** |
| ($X − $610) | = | $2,450 | + | ($390) | + | ($1,060) |
| $X = $1,610 |  |  |  |  |  |  |

**3.**

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| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Investing Cash Flows** | **+** | **Financing cash flows** |
| $160 | = | $970 | + | $870 | + | ($1,680) |

**4.**

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| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Investing Cash Flows** | **+** | **Financing cash flows** |
| $200 | = | $850 | + | ($800) | + | $150 |

**5.**

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| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Investing Cash Flows** | **+** | **Financing cash flows** |
| $360 | = | $1,160 | + | ($1,760) | + | $960 |

Essay

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| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Investing Cash Flows** | **+** | **Financing**  **cash flows** |
| $3,500 | = | $3,200 | + | $700 | + | ($400) |
|  |

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| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Investing Cash Flows** | **+** | **Financing cash flows** |
| ($X − $500) | = | $1,800 | + | ($400) | + | ($1,100) |
| $X = $800 |  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Investing Cash Flows** | **+** | **Financing cash flows** |
| $100 | = | $700 | + | $300 | + | ($900) |

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| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Investing Cash Flows** | **+** | **Financing cash flows** |
| $100 | = | $600 | + | ($900) | + | $400 |

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| --- | --- | --- | --- | --- | --- | --- |
| **Total Change in Cash** | **=** | **Operating Cash Flows** | **+** | **Investing Cash Flows** | **+** | **Financing cash flows** |
| $200 | = | $700 | + | ($1,400) | + | $900 |

Essay

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| MIDWEST, INCORPORATED | | |
| Income Statement | | |
| For the year ended December 31 | | |
| **Service revenue** |  | $ 99,200 |
| **Expenses:** |  |  |
| **Salaries** | $ 67,800 |  |
| **Advertising** | 10,000 |  |
| **Interest** | 2,700 |  |
| **Total expenses** |  | 80,500 |
| **Net income** |  | $ 18,700 |
| MIDWEST, INCORPORATED | | | |
| Statement of Stockholders' Equity | | | |
| For the year ended December 31 | | | |
|  | **Common Stock** | **Retained Earnings** | **Total Stockholders' Equity** |
| **Balance at beginning of the year** | $ 81,000 | $ 23,200 | $ 104,200 |
| **Issuance of common stock** | 5,400 |  | 5,400 |
| **Add: Net income for the year** |  | 18,700 | 18,700 |
| **Less: Dividends** |  | (1,300) | (1,300) |
| **Balance at end of the year** | $ 86,400 | $ 40,600 | $ 127,000 |
| MIDWEST, INCORPORATED | | | |
| Balance Sheet | | | |
| December 31 | | | |
| **Assets** |  | **Liabilities** |  |
| **Cash** | $ 74,300 | **Accounts payable** | $ 9,200 |
| **Supplies** | 5,900 | **Notes payable** | 56,000 |
| **Equipment** | 63,000 | **Total liabilities** | 65,200 |
| **Building** | 49,000 | **Stockholders' Equity** |  |
|  |  | **Common stock** | 86,400 |
|  |  | **Retained earnings** | 40,600 |
|  |  | **Total stockholders' equity** | 127,000 |
| **Total assets** | $ 192,200 | **Total liabilities and stockholders' equity** | $ 192,200 |

Essay

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| --- | --- | --- |
| Northeast, Incorporated | | |
| Income Statement | | |
| For the year ended December 31 | | |
| **Service revenue** |  | $ 92,500 |
| **Expenses:** |  |  |
| **Salaries** | $ 2,300 |  |
| **Advertising** | 11,300 |  |
| **Interest** | 4,000 |  |
| **Total expenses** |  | 88,100 |
| **Net income** |  | $ 4,400 |
| Northeast, Incorporated | | | |
| Statement of Stockholders' Equity | | | |
| For the year ended December 31 | | | |
|  | **Common Stock** | **Retained Earnings** | **Total Stockholders' Equity** |
| **Balance at beginning of the year** | $ 65,000 | $ 20,700 | $ 85,700 |
| **Issuance of common stock** | 5,000 |  | 5,000 |
| **Add: Net income for the year** |  | 4,400 | 4,400 |
| **Less: Dividends** |  | (2,000) | (2,000) |
| **Balance at end of the year** | $ 70,000 | $ 23,100 | $ 93,100 |
| Northeast, Incorporated | | | |
| Balance Sheet | | | |
| December 31 | | | |
| **Assets** |  | **Liabilities** |  |
| **Cash** | $ 3,200 | **Accounts payable** | $ 8,500 |
| **Supplies** | 6,400 | **Notes payable** | 40,000 |
| **Equipment** | 72,000 | **Total liabilities** | 48,500 |
| **Building** | 60,000 | **Stockholders' Equity** |  |
|  |  | **Common stock** | 70,000 |
|  |  | **Retained earnings** | 23,100 |
|  |  | **Total stockholders' equity** | 93,100 |
| **Total assets** | $ 141,600 | **Total liabilities and stockholders' equity** | $ 141,600 |

Essay

Income Statement, Net Income (b) = **$6,300** (from Statement of Stockholders' Equity).  
   
 Income Statement, Revenues (a) = **$21,500** (Net Income $6,300 + Total Expenses $15,200).  
   
 Statement of Stockholders' Equity, Common Stock Issuances (c) = **$19,400** ($20,200 + (c) = $39,600).  
   
 Statement of Stockholders' Equity, Dividends (d) = **$2,520** ($17,700 + $6,300 − (d) = $21,480).  
   
 Balance Sheet, Common Stock (g) = **$39,600** (from Statement of Stockholders' Equity).  
   
 Balance Sheet, Retained Earnings (h) = **$21,480** (from Statement of Stockholders’ Equity).  
   
 Balance Sheet, Total liabilities and stockholders’ equity (i) = **$76,980** ($15,900 liabilities + $39,600 common stock + $21,480 retained earnings).  
   
 Balance Sheet, Total assets (f) = **$76,980** (Total assets = Total liabilities and stockholders’ equity).  
   
 Balance Sheet, Prepaid Rent (e) = **$37,880** ($76,980 Total assets − $10,600 Cash − $5,000 Supplies − $23,500 Equipment).

Essay

Income Statement, Net Income (b) = **$5,000** (from Statement of Stockholders' Equity).  
   
 Income Statement, Revenues (a) = **$25,000** (Net Income $5,000 + Total Expenses $20,000).  
   
 Statement of Stockholders' Equity, Common Stock Issuances (c) = **$5,000** ($25,000 + (c) = $30,000).  
   
 Statement of Stockholders' Equity, Dividends (d) = **$2,000** ($12,000 + $5,000 − (d) = $15,000).  
   
 Balance Sheet, Common Stock (g) = **$30,000** (from Statement of Stockholders' Equity).  
   
 Balance Sheet, Retained Earnings (h) = **$15,000** (from Statement of Stockholders’ Equity).  
   
 Balance Sheet, Total liabilities and stockholders’ equity (i) = **$60,000** ($15,000 liabilities + $30,000 common stock + $15,000 retained earnings).  
   
 Balance Sheet, Total assets (f) = **$60,000** (Total assets = Total liabilities and stockholders’ equity).  
   
 Balance Sheet, Prepaid Rent (e) = **$3,000** ($60,000 Total assets − $15,000 Cash − $7,000 Supplies − $35,000 Equipment).

Essay

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| GLACIER COMPANY | | |
| Income Statement | | |
| For the year ended December 31 | |
| **Service revenue** | $ 125,000 |
| **Expenses:** |  |
| **Salaries** | 70,700 |
| **Rent** | 11,900 |
| **Supplies** | 8,600 |
| **Interest** | 3,100 |
| **Miscellaneous** | 8,900 |
| **Total expenses** | 103,200 |
| **Net income** | $ 21,800 |
| GLACIER COMPANY | | | |
| Balance Sheet | | | |
| December 31 | | | |
| **Assets** |  | **Liabilities** |  |
| **Cash** | $ 12,000 | **Accounts payable** | $ 18,300 |
| **Accounts Receivable** | 17,500 | **Notes payable** | 30,000 |
| **Supplies** | 3,100 | **Total liabilities** | 48,300 |
| **Equipment** | 93,100 | **Stockholders' Equity** |  |
|  |  | **Common stock** | 57,000 |
|  |  | **Retained earnings** | 20,400 |
|  |  | **Total stockholders' equity** | 77,400 |
| **Total assets** | $ 125,700 | **Total liabilities and stockholders' equity** | $ 125,700 |

Essay

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| --- | --- | --- |
| Bronzer Company | | |
| Income Statement | | |
| For the year ended December 31 | |
| **Service revenue** | $ 120,000 |
| **Expenses:** |  |
| **Salaries** | 71,500 |
| **Rent** | 12,000 |
| **Supplies** | 9,400 |
| **Interest** | 3,000 |
| **Miscellaneous** | 8,700 |
| **Total expenses** | 104,600 |
| **Net income** | $ 15,400 |
| Bronzer Company | | | |
| Balance Sheet | | | |
| December 31 | | | |
| **Assets** |  | **Liabilities** |  |
| **Cash** | $ 11,200 | **Accounts payable** | $ 18,500 |
| **Accounts Receivable** | 17,300 | **Notes payable** | 30,000 |
| **Supplies** | 2,700 | **Total liabilities** | 48,500 |
| **Equipment** | 84,400 | **Stockholders' Equity** |  |
|  |  | **Common stock** | 60,000 |
|  |  | **Retained earnings** | 7,100 |
|  |  | **Total stockholders' equity** | 67,100 |
| **Total assets** | $ 115,600 | **Total liabilities and stockholders' equity** | $ 115,600 |

Essay

Accounting is "the language of business." The functions of financial accounting are to measure the business activities of a company and to communicate those measurements to external parties for decision-making purposes. A large number of people, including investors and creditors, rely on financial accounting information to make informed, and presumably, better decisions about companies.

Essay

Financing activities include transactions the company has with investors and creditors. There are two basic sources of this external funding–the owners of the company who invest their own funds in the business, and creditors who lend money to the company. Investing activities include transactions involving the purchase and sale of resources that are expected to benefit the company for several years. Operating activities include transactions that relate to the primary operations of the company, such as providing products and services to customers and the associated costs of doing so.

Essay

The income statement presents revenues and expenses over an interval of time. The statement of shareholders' equity summarizes the changes in stockholders' equity (common stock and retained earnings) over an interval of time. The balance sheet presents the financial position of the company on a particular date. The statement of cash flows presents the cash receipts and cash payments over an interval of time for operating, investing, & financing activities.

Essay

Outside auditors add credibility to financial statements, increasing the confidence of capital market participants who rely on financial statements in making investment and credit decisions and recommendations. Auditors express a professional opinion of the extent to which the financial statements are prepared in compliance with GAAP and are free of material misstatement. If auditors find mistakes or fraudulent reporting behavior, they require the company to correct all significant information before issuing financial statements.

Essay

Economic entity - All economic events can be identified with a particular economic entity. Going concern - In the absence of information to the contrary, it is anticipated that a business entity will continue to operate indefinitely. Periodicity - The life of a company can be divided into artificial time periods to provide timely information to external users. Monetary unit - In the U.S., financial statement elements should be measured in terms of the U.S. dollar. It assumes that the value of a dollar is stable over time.