Test Bank for Financial Accounting 10th Edition by Libby

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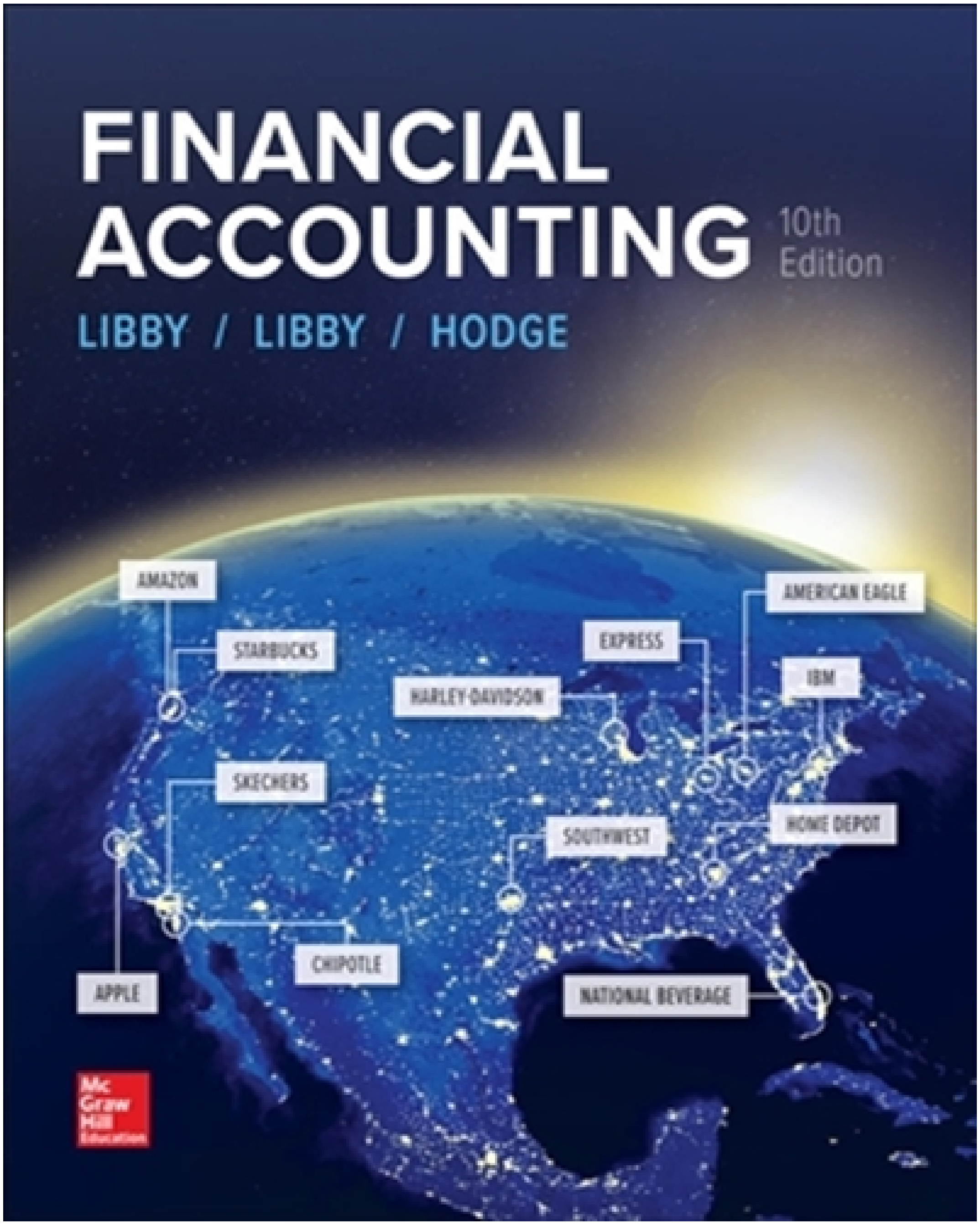

Test Bank

***Financial Accounting, 10e* (Libby)**
Chapter 2 Investing and Financing Decisions and the Accounting System

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

Answer: TRUE
Explanation: The primary objective of external financial reporting is to provide useful financial information about a business to help external decision makers.
Difficulty: 1 Easy
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: Relevant information is timely and has predictive and/or feedback value. Faithful representation requires that information be complete, neutral, and free from error.
Difficulty: 1 Easy
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
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3) In order for information to be relevant, the information should have both predictive and/or feedback value.

Answer: TRUE
Explanation: Relevant information provides feedback and predictive value on a timely basis.
Difficulty: 1 Easy
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
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4) The continuity assumption states that a business will continue to operate into the foreseeable future.

Answer: TRUE
Explanation: The continuity assumption assumes that a business will continue operating long enough to meet its contractual commitments and plans. This is also called the going-concern assumption.
Difficulty: 1 Easy
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
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5) The current assets section of a balance sheet includes both inventory and prepaid expenses.

Answer: TRUE
Explanation: Current assets are resources that a business will use or turn into cash within one year.
Difficulty: 1 Easy
Topic: Balance sheet—Elements
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
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6) The stockholders' equity section of a balance sheet includes capital contributed by owners and also retained earnings.

Answer: TRUE
Explanation: The stockholders' equity section reports the financing provided by the owners and by its business operations.
Difficulty: 1 Easy
Topic: Balance sheet—Elements
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
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7) Under the monetary unit assumption**,** accounting information should be measured and reported in terms of the national monetary unit, with an adjustment for changes in purchasing power.

Answer: FALSE
Explanation: The monetary unit assumption guides financial reporting so that the national monetary unit is the reporting unit for financial statements and will not be adjusted for changes in purchasing power.
Difficulty: 2 Medium
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Understand
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8) Assets are reported on the balance sheet in the order of liquidity.

Answer: TRUE
Explanation: Assets are reported in order of liquidity. The asset section of the balance sheet begins with cash.
Difficulty: 1 Easy
Topic: Balance sheet—Elements; Preparing a classified balance sheet
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.; 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
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9) Many valuable internally-developed intangible assets such as trademarks and copyrights are **not** reported on a company's balance sheet.

Answer: TRUE
Explanation: Intangible assets that are not purchased but that are developed inside a company are not reported on the balance sheet.
Difficulty: 2 Medium
Topic: Balance sheet—Elements
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Understand
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10) Stockholders' equity reflects the financing provided by owners.

Answer: TRUE
Explanation: The stockholders' equity section of the balance sheet includes financing provided by owners and net income retained from business operations.
Difficulty: 1 Easy
Topic: Balance sheet—Elements
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
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11) Common stock and additional-paid in capital represent the financing sources from shareholders.

Answer: TRUE
Explanation: Common stock and additional paid-in capital are contributed capital components representing the financing sources from owners.
Difficulty: 1 Easy
Topic: Balance sheet—Elements; Balance sheet—Common account titles
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
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12) Financial reporting focuses on reporting the impact of transactions on an entity's financial position.

Answer: TRUE
Explanation: Accounting focuses on certain events that have an economic impact on the entity. Those events that are recorded as part of the accounting process are called transactions.
Difficulty: 1 Easy
Topic: Business transactions—General information; Transaction analysis—Principles
Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.; 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Understand
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13) Unearned revenue is reported on the balance sheet as a liability and represents amounts paid to an entity in exchange for future services and/or goods.

Answer: TRUE
Explanation: Accounts with "unearned" in the title are always liabilities representing amounts paid to the company in the past, by others, with the promise of goods and/or services in the future.
Difficulty: 2 Medium
Topic: Balance sheet—Common account titles
Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.
Bloom's: Understand
AACSB: Reflective Thinking
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14) A transaction may be an exchange of assets or services by one business for assets, services, or promises to pay from a different business.

Answer: TRUE
Explanation: A transaction is an exchange of assets or services for assets, services, or promises to pay between a business and one or more external parties to that business.
Difficulty: 2 Medium
Topic: Business transactions—General information
Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.
Bloom's: Understand
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15) The dual effects concept implies that every transaction has at least two effects on the accounting equation.

Answer: TRUE
Explanation: Every accounting transaction has at least two effects on the accounting equation; this concept is known as dual effects.
Difficulty: 2 Medium
Topic: Transaction analysis—Principles
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Remember
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16) The accounting equation does **not** have to be in balance after the recording of each transaction.

Answer: FALSE
Explanation: One of the underlying principles of an accounting transaction is that the accounting equation must remain in balance after recording every transaction.
Difficulty: 1 Easy
Topic: Transaction analysis—Principles
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Remember
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17) Additional paid-in capital is reported on the balance sheet as a component of shareholders' equity.

Answer: TRUE
Explanation: Shareholders' equity includes common stock, additional paid-in capital, and retained earnings.
Difficulty: 1 Easy
Topic: Balance sheet—Common account titles
Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.
Bloom's: Remember
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18) Common stock and additional paid-in capital are both reported on the balance sheet as components of shareholders' equity.

Answer: TRUE
Explanation: Shareholders' equity includes common stock, additional paid-in capital, and retained earnings.
Difficulty: 1 Easy
Topic: Balance sheet—Common account titles
Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.
Bloom's: Remember
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19) A company's assets and stockholders' equity both increase when the company sells additional shares of stock in exchange for cash.

Answer: TRUE
Explanation: Receiving cash increases assets; selling stock increases stockholders' equity. Both sides of the balance sheet equation are increased with this transaction.
Difficulty: 1 Easy
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
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20) Purchasing supplies for cash results in an increase in total assets for the purchasing company.

Answer: FALSE
Explanation: This transaction has zero effect on the total asset amount. The asset Supplies is increased and the asset Cash is decreased by the same amount.
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
AACSB: Analytical Thinking
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21) The normal balance for an asset account is a debit and the normal balance for a liability account is a credit.

Answer: TRUE
Explanation: The normal balance refers to what is usual or what increases an account. Assets have debit balances and liabilities have credit balances.
Difficulty: 1 Easy
Topic: Transaction analysis-Direction of effects
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Remember
AACSB: Reflective Thinking
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22) The recording of a journal entry precedes the posting to the general ledger.

Answer: TRUE
Explanation: The accounting cycle during the period starts with analyzing a transaction, recording journal entries in the general journal, and finally posting the amounts to the general ledger.
Difficulty: 1 Easy
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: The normal account balance for an asset is a debit balance; accounts are increased on the same side as their position in the accounting equation. Assets are on the left side of the accounting equation and therefore assets are increased on the left. A left-side entry is a debit.
Difficulty: 1 Easy
Topic: Transaction analysis-Direction of effects
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: The normal balance for liabilities and stockholders' equity is a credit balance; accounts are increased on the same side as their position in the accounting equation. Liability and stockholders' equity accounts are on the right side of the accounting equation and therefore they are increased on the right. A right-side entry is a credit. Therefore they are decreased with a left-side entry, which is a debit.
Difficulty: 1 Easy
Topic: Transaction analysis-Direction of effects
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: A journal entry is an accounting method for expressing the effects of a transaction on separate accounts. The journal entry must have equal debit and credit amounts.
Difficulty: 1 Easy
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Understand
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26) The general ledger is a chronological listing of each transaction and its effects on the accounting equation.

Answer: FALSE
Explanation: Transactions are first recorded in the general journal, which is a chronological listing of each transaction. Accounts in the general ledger are updated by posting the effects listed in the general journal. The general ledger is a record of effects to and balances of each account.
Difficulty: 1 Easy
Topic: Transaction analysis—T-accounts
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Remember
AACSB: Reflective Thinking
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27) The T-account is very useful for accumulating the effects of transactions on account balances and for determining individual account balances.

Answer: TRUE
Explanation: The T-account is a very useful tool for summarizing the transaction effects, determining the balances for individual accounts, and drawing inferences about a company's activities.
Difficulty: 1 Easy
Topic: Transaction analysis—T-accounts
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Understand
AACSB: Reflective Thinking
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28) The trial balance is similar to the balance sheet in that it is a listing of assets, liabilities, and stockholders' equity and is provided to external decision makers.

Answer: FALSE
Explanation: A trial balance is a list of all accounts with their balances to provide a check on the equality of the debits and credits and is not provided to external users.
Difficulty: 1 Easy
Topic: Trial balance
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Remember
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29) The trial balance is a listing of account balances that are found in the general ledger.

Answer: TRUE
Explanation: A trial balance is a list of all accounts with their balances to provide a check on the equality of the debits and credits.
Difficulty: 1 Easy
Topic: Trial balance
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Remember
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30) An objective of preparing the trial balance is to test the equality of debits and credits.

Answer: TRUE
Explanation: A trial balance is a list of all accounts with their balances to provide a check on the equality of the debits and credits.
Difficulty: 1 Easy
Topic: Trial balance
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Remember
AACSB: Reflective Thinking
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31) Current assets include accounts receivable and prepaid expenses.

Answer: TRUE
Explanation: Current assets are those to be used or turned into cash within the upcoming year.
Difficulty: 1 Easy
Topic: Balance sheet—Elements; Preparing a classified balance sheet
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.; 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Remember
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32) The current ratio is current assets divided by current liabilities.

Answer: TRUE
Explanation: The current ratio shows an entity's ability to cover its short-term liabilities. It is equal to current assets divided by current liabilities.
Difficulty: 1 Easy
Topic: Ratio analysis
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: Current liabilities are those obligations to be paid within the next twelve months.
Difficulty: 1 Easy
Topic: Balance sheet—Elements; Preparing a classified balance sheet
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.; 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Remember
AACSB: Reflective Thinking
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34) The current ratio measures the ability of a company to pay its short-term obligations with short-term assets.

Answer: TRUE
Explanation: The current ratio is current assets divided by current liabilities. This measures a company's ability to pay its current liabilities with current assets.
Difficulty: 1 Easy
Topic: Ratio analysis
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Understand
AACSB: Reflective Thinking
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35) A company with a high current ratio should never have liquidity problems.

Answer: FALSE
Explanation: A company with its current assets tied up in slow-moving inventory may have a high current ratio but still have liquidity problems.
Difficulty: 2 Medium
Topic: Ratio analysis
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Understand
AACSB: Reflective Thinking
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36) When a company borrows money from a bank, the statement of cash flows will report a cash increase from an investing activity.

Answer: FALSE
Explanation: Borrowing cash from a bank leads to a cash inflow from a financing activity.
Difficulty: 1 Easy
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Remember
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37) Issuing stock in exchange for cash creates an increase in cash from a financing activity.

Answer: TRUE
Explanation: Stock issuance for cash is a financing activity.
Difficulty: 1 Easy
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Remember
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38) Which of the following statements about stockholders' equity is **false**?
A) Stockholders' equity is the shareholders' residual interest in the company resulting from the difference in assets and liabilities.
B) Stockholders' equity accounts are increased with credits.
C) Stockholders' equity results only from contributions of the owners.
D) The purchase of land for cash has no effect on stockholders' equity.

Answer: C
Explanation: Retained earnings from business operations are also a component of stockholders' equity.
Difficulty: 2 Medium
Topic: Balance sheet—Elements; Transaction analysis—Direction of effects
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.; 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
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39) Assets, liabilities, and stockholders' equity are all found within which of the following financial statements?
A) Balance sheet.
B) Income statement.
C) The investing activities section of the Statement of Cash Flows.
D) Statement of stockholders' equity.

Answer: A
Explanation: The balance sheet contains three parts: 1) Assets, 2) Liabilities, and 3) Stockholders' Equity.
Difficulty: 1 Easy
Topic: Balance sheet—Elements
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
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40) Accounts payable would be reported within which of the following financial statements?
A) Statement of cash flows.
B) Income statement.
C) Balance sheet.
D) Statement of stockholders' equity.

Answer: C
Explanation: An accounts payable is a liability reported on the balance sheet.
Difficulty: 1 Easy
Topic: Balance sheet—Elements
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
AACSB: Reflective Thinking
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41) Which of the following assumptions implies that a business can continue to remain in operation into the foreseeable future?
A) Historical cost principle.
B) Monetary unit assumption.
C) Continuity assumption.
D) Separate-entity assumption.

Answer: C
Explanation: The continuity assumption, also known as the going-concern assumption, states that a business will continue operating long enough to meet its contractual commitments and plans.
Difficulty: 1 Easy
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
AACSB: Reflective Thinking
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42) Which of the following best describes assets?
A) Resources with possible future economic benefits owed by an entity as a result of past transactions.
B) Resources with probable future economic benefits owned by an entity as a result of past transactions.
C) Resources with probable future economic benefits owned by an entity as a result of future transactions.
D) Resources with possible future economic benefits owed by an entity as a result of future transactions.

Answer: B
Explanation: Assets are economic resources with probable future benefits owned or controlled by an entity as a result of past transactions.
Difficulty: 2 Medium
Topic: Balance sheet—Elements
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Understand
AACSB: Reflective Thinking
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43) Which of the following assumptions implies that the assets and liabilities of the business are accounted for separately from the assets and liabilities of the owners?
A) Monetary unit assumption.
B) Continuity assumption.
C) Historical cost principle.
D) Separate entity assumption.

Answer: D
Explanation: The separate entity assumption states that each business's activities must be accounted for separately from the activities of its owners, all other persons, and other entities.
Difficulty: 1 Easy
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
AACSB: Reflective Thinking
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44) Which of the following is being applied when, under certain conditions, the value recorded for an asset is adjusted to a different amount?
A) Comparability
B) Timeliness
C) Mixed-attribute
D) Understandability

Answer: C
Explanation: Accountants measure the elements of the balance sheet using the mixed-attribute measurement model. Most balance sheet elements are recorded at historical cost, but under certain conditions these values are adjusted to other amounts. Comparability, timeliness, and understandability are attributes that enhance the quality of financial information.
Difficulty: 1 Easy
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
AACSB: Reflective Thinking
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45) Which of the following best describes liabilities?
A) Possible debts or obligations of an entity as a result of future transactions, which will be paid with assets or services.
B) Possible debts or obligations of an entity as a result of past transactions, which will be paid with assets or services.
C) Probable debts or obligations of an entity as a result of future transactions, which will be paid with assets or services.
D) Probable debts or obligations of an entity as a result of past transactions, which will be paid with assets or services.

Answer: D
Explanation: Liabilities are probable debts or obligations that result from a company's past transactions and will be paid with assets or services.
Difficulty: 2 Medium
Topic: Balance sheet—Elements
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

46) Which of the following statements is **incorrect** concerning balance sheets prepared under IFRS and GAAP?
A) The same elements are used in preparing balance sheets under both GAAP and IFRS.
B) Under IFRS stockholders' equity is listed before liabilities, while under GAAP liabilities are listed before stockholders' equity.
C) Under GAAP assets are usually listed in increasing order of liquidity, while under IFRS assets are usually listed in decreasing order of liquidity.
D) Under GAAP current items are presented first, while under IFRS noncurrent items are presented first.

Answer: C
Explanation: Under IFRS assets are usually listed in increasing order of liquidity, while under GAAP assets are usually listed in decreasing order of liquidity.
Difficulty: 2 Medium
Topic: Preparing a classified balance sheet
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

47) Chad Jones is the sole owner and manager of Jones Glass Repair Shop. Jones purchased a truck, to be used in the business, for its market value of $35,000. Which of the following fundamentals requires Jones to record the truck at the price paid to buy it?
A) Separate-entity assumption.
B) Revenue principle.
C) Monetary unit assumption.
D) Historical cost principle.

Answer: D
Explanation: The historical cost principle requires assets to be recorded at cost equal to cash paid plus the dollar value of all noncash considerations received in the exchange.
Difficulty: 1 Easy
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Understand
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48) In what order are current assets listed on a balance sheet?
A) By dollar amount (largest first).
B) By date of acquisition (earliest first).
C) By liquidity.
D) By relevance to the operation of the business.

Answer: C
Explanation: Assets are listed on the balance sheet in order of liquidity with the most liquid assets listed first.
Difficulty: 1 Easy
Topic: Balance sheet—Elements; Preparing a classified balance sheet
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.; 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Remember
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49) In what order would the following assets be listed on a balance sheet?
A) Cash, Short-term Investments, Accounts Receivable, Inventory.
B) Cash, Intangible Assets, Accounts Receivable, Property and Equipment.
C) Cash, Accounts Receivable, Property and Equipment, Inventory.
D) Cash, Inventory, Intangible Assets, Accounts Receivable.

Answer: A
Explanation: Assets are listed in order of liquidity. Cash is always first, and Property and Equipment is listed as a non-current asset. Accounts Receivable is more liquid than Inventory.
Difficulty: 2 Medium
Topic: Balance sheet—Elements; Preparing a classified balance sheet
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.; 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Analyze
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50) Where would changes in stockholders' equity resulting from financing provided by operations be reported?
A) Within a long-term asset account.
B) Within the additional paid-in capital account.
C) Within a liability account.
D) Within the retained earnings account.

Answer: D
Explanation: Stockholders' equity has two parts; financing from contributed capital and business operations. Retained earnings are the result of business operations, and therefore changes in stockholders' equity from operations are reported in retained earnings.
Difficulty: 2 Medium
Topic: Balance sheet—Elements
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Understand
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51) Which of the following events will cause retained earnings to increase?
A) Dividends declared by the Board of Directors.
B) Net income reported for the period.
C) Net loss reported for the period.
D) Issuance of stock in exchange for cash.

Answer: B
Explanation: Beginning Retained Earnings + Net Income – Dividends = Ending Retained Earnings.
Difficulty: 1 Easy
Topic: Balance sheet—Elements; Transaction analysis—Direction of effects
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.; 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Analyze
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52) Which of the following correctly describes retained earnings?
A) It is the cumulative earnings of a company.
B) It represents the investments by stockholders in a company.
C) It equals total assets minus total liabilities.
D) It is the cumulative earnings of a company less dividends declared.

Answer: D
Explanation: Retained earnings are the cumulative earnings not distributed to the owners. That is the cumulative net income less dividends declared.
Difficulty: 2 Medium
Topic: Balance sheet—Elements
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

53) Which of the following statements is **false**?
A) Absent evidence to the contrary, a company is expected to continue operating for the foreseeable future.
B) An item is considered relevant if it has the ability to influence a decision.
C) Information is considered to be faithfully represented when it is complete, neutral, and free from error.
D) Accounting information should be reported in the national monetary unit with adjustment for inflation.

Answer: D
Explanation: Accounting information should be reported in the national monetary unit **without** adjustment for inflation.
Difficulty: 2 Medium
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

54) Which of the following describes the primary objective of financial accounting?
A) To provide useful financial information only to stockholders.
B) To provide information about a business' future business strategies.
C) To provide useful financial information about a business to help external parties make informed decisions.
D) To provide useful financial information about a business to help internal parties make informed decisions.

Answer: C
Explanation: The primary objective of external financial reporting is to provide useful financial information about a business to help external parties, primarily investors and creditors, make sound investing and financing decisions.
Difficulty: 2 Medium
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

55) For accounting information to be useful, it must be which of the following?
A) It must be consistent and comparable.
B) It must be a faithful representation and relevant.
C) It must be comparable and reliable.
D) It must be relevant and consistent.

Answer: B
Explanation: Faithful representation and relevance are the fundamental qualitative characteristics that allow accounting information to be useful.
Difficulty: 2 Medium
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

56) Which of the following would **not** be considered a current asset?
A) Inventory.
B) Prepaid expenses.
C) Land used in daily operations.
D) Accounts receivable.

Answer: C
Explanation: Land is part of property and equipment and is listed as a part of long-term assets.
Difficulty: 1 Easy
Topic: Balance sheet—Elements; Preparing a classified balance sheet
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.; 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

57) Which of the following statements is **true**?
A) Contributed capital is a noncurrent asset.
B) Current liabilities are debts expected to be paid within the next year.
C) Current assets are resources of a company that might include cash and copyrights.
D) Patents, copyrights, and research and development expense are classified as intangible assets on the balance sheet.

Answer: B
Explanation: Current liabilities are debts expected to be paid within the next year and expected to consume current assets.
Difficulty: 1 Easy
Topic: Balance sheet—Elements
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

58) Which of the following does **not** correctly describe business transactions or events?
A) They include exchanges of assets or services by one business for assets, services, or promises to pay from another business.
B) They include the using up of insurance paid for in advance.
C) They have an economic impact on a business entity.
D) They do not include measurable internal events such as the use of assets in operations.

Answer: D
Explanation: A business transaction includes measurable internal events such as the use of assets in operations.
Difficulty: 2 Medium
Topic: Business transactions—General information
Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

59) Which of the following would **not** be included under the account category of expenses within the chart of accounts?
A) Cost of goods sold.
B) Interest expense.
C) Prepaid insurance expense.
D) Income tax expense.

Answer: C
Explanation: Expenses listed as "prepaid" are included in the chart of accounts as assets.
Difficulty: 2 Medium
Topic: Balance sheet—Common account titles
Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

60) Which of the following liability accounts does **not** usually require a future cash payment?
A) Accounts payable.
B) Unearned revenues.
C) Taxes payable.
D) Notes payable.

Answer: B
Explanation: Unearned revenue relates to payments that have been received in the past for future goods or services.
Difficulty: 2 Medium
Topic: Balance sheet—Common account titles
Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

61) Which of the following transactions would **not** be considered an external exchange?
A) The purchase of supplies on credit.
B) Cash received from the issuance of common stock.
C) Cash paid to a bank for interest on a loan.
D) Using up insurance, which had been paid for in advance.

Answer: D
Explanation: Using up prepaid expenses is an internal event.
Difficulty: 1 Easy
Topic: Business transactions—General information
Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

62) Which of the following reflects the impact of a transaction where $200,000 cash was invested by stockholders in exchange for stock?
A) Assets and retained earnings each increased $200,000.
B) Assets and revenues each increased $200,000.
C) Stockholders' equity and revenues each increased $200,000.
D) Stockholders' equity and assets each increased $200,000.

Answer: D
Explanation: Receiving $200,000 cash in exchange for stock increases assets (cash) and stockholders' equity (issuing stock).
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

63) A corporation purchased factory equipment using cash. Which of the following statements regarding this purchase is correct?
A) The cost of the factory equipment is an expense at the time of purchase.
B) The total assets will not change.
C) The total liabilities will increase.
D) The current stockholders' equity will decrease.

Answer: B
Explanation: The purchase of equipment is not expensed and, therefore, has no effect on the income statement. Instead, one asset (cash) is exchanged for another asset (equipment), which means that total assets will not change.
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

64) Which of the following direct effects on the accounting equation is **not** possible as a result of a single business transaction which impacts only two accounts?
A) An increase in a liability and a decrease in an asset.
B) An increase in stockholders' equity and an increase in an asset.
C) An increase in an asset and a decrease in an asset.
D) A decrease in stockholders' equity and a decrease in an asset.

Answer: A
Explanation: With one transaction impacting only two accounts, the accounting equation would not be in balance if there was an increase in a liability and a decrease in an asset because both items are recorded as credits.
Difficulty: 3 Hard
Topic: Transaction analysis—Principles
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

65) Which of the following direct effects on the accounting equation is **not** possible as a result of a single business transaction which impacts only two accounts?
A) An increase in an asset and a decrease in another asset.
B) An increase in an asset and an increase in stockholders' equity.
C) A decrease in stockholders' equity and an increase in an asset.
D) An increase in a liability and an increase in an asset.

Answer: C
Explanation: With one transaction impacting only two accounts, a single transaction that results in a decrease in stockholders' equity and an increase in an asset is not possible; both items are recorded as debits and thus the accounting equation would not be in balance.
Difficulty: 3 Hard
Topic: Transaction analysis—Principles
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

66) A company's January 1, 2019 balance sheet reported total assets of $150,000 and total liabilities of $60,000. During January 2019, the company completed the following transactions: (A) paid a note payable using $10,000 cash (no interest was paid); (B) collected a $9,000 accounts receivable; (C) paid a $5,000 accounts payable; and (D) purchased a truck for $5,000 cash and by signing a $20,000 note payable from a bank. The company's January 31, 2019 balance sheet would report which of the following?

A)

Assets	Liabilities	Stockholders' Equity
$150,000	$60,000	$90,000

B)

Assets	Liabilities	Stockholders' Equity
$155,000	$65,000	$90,000

C)

Assets	Liabilities	Stockholders' Equity
$160,000	$75,000	$85,000

D)

Assets	Liabilities	Stockholders' Equity
$170,000	$100,000	$70,000

Answer: B

Explanation: Assets = $155,000 = $150,000 − $10,000 − $5,000 − $5,000 + $25,000
Liabilities = $65,000 = $60,000 − $10,000 − $5,000 + $20,000
Stockholders' equity = $90,000 = Assets ($155,000) − Liabilities ($65,000)
Difficulty: 3 Hard
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

67) Which of the following is a result of equipment purchased with cash?
A) Total assets decrease.
B) Current assets do not change.
C) Current assets increase.
D) Stockholders' equity does not change.

Answer: D
Explanation: A purchase of equipment with cash decreases current assets (Cash) and increases the asset Equipment; there is no change in stockholders' equity.
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

68) A company's January 1, 2019 balance sheet reported total assets of $120,000 and total liabilities of $40,000. During January 2019, the following transactions occurred: (A) the company issued stock and collected cash totaling $30,000; (B) the company paid an account payable of $6,000; (C) the company purchased supplies for $1,000 with cash; (D) the company purchased land for $60,000, paying $10,000 with cash and signing a note payable for the balance. What is total stockholders' equity after the transactions above?
A) $30,000.
B) $110,000.
C) $80,000.
D) $194,000.

Answer: B
Explanation: Beginning equity = $120,000 − $40,000 = $80,000.
Only transaction (A) affects stockholders' equity.
Therefore, stockholders' equity = $80,000 + $30,000 = $110,000.
Difficulty: 3 Hard
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

69) Which of the following describes the impact on the balance sheet of purchasing supplies for cash?
A) Current assets will decrease.
B) Current assets will increase.
C) Stockholders' equity will decrease.
D) Total assets remain the same.

Answer: D
Explanation: Total assets are unchanged because cash is decreased by the same amount for which supplies are increased.
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

70) Which of the following describes the impact on the balance sheet of paying a current liability using cash?
A) Current assets will decrease.
B) Current liabilities will increase.
C) Stockholders' equity will decrease.
D) Total assets will remain the same.

Answer: A
Explanation: Paying a current liability with cash decreases the cash account thus decreasing current assets.
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

71) Which of the following describes the impact on the balance sheet when cash is received from the collection of an account receivable?
A) Current assets will not change.
B) Current assets will increase.
C) Stockholders' equity will increase.
D) Total assets will increase.

Answer: A
Explanation: Current assets do not change because cash is increased by the same amount the accounts receivable decreases. Both cash and accounts receivable are current assets.
Difficulty: 1 Easy
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

72) A corporation has $80,000 in total assets, $36,000 in total liabilities, and a $12,000 credit balance in retained earnings. What is the balance in the contributed capital accounts?
A) $56,000.
B) $44,000.
C) $48,000.
D) $32,000.

Answer: D
Explanation: Stockholders' equity ($44,000) = Assets ($80,000) – Liabilities ($36,000). Stockholders' equity ($44,000) = Contributed capital of common stock and additional paid-in capital ($32,000) + Retained earnings ($12,000).
Difficulty: 2 Medium
Topic: Transaction analysis—Principles
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

73) The dual effects concept states that:
A) Both the income statement and balance sheet are impacted by every transaction.
B) Every transaction has an impact on assets and stockholders' equity.
C) There are only two accounts involved in every transaction.
D) Every transaction has at least two effects on the accounting equation.

Answer: D
Explanation: Every accounting transaction has at least two effects on the accounting equation. This concept is known as dual effects.
Difficulty: 1 Easy
Topic: Transaction analysis—Principles
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

74) Which of the following is **not** considered to be a recordable transaction?
A) Signing a contract to have an outside cleaning service clean offices nightly.
B) Paying employees their wages.
C) Selling stock to investors.
D) Buying equipment and agreeing to pay a note payable and interest at the end of a year.

Answer: A
Explanation: Signing a contract is an exchange of promises. The recordable event is when assets and/or liabilities are exchanged.
Difficulty: 2 Medium
Topic: Business transactions—General information
Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

75) Which of the following transactions will cause both the left and right side of the accounting equation to decrease?
A) Collecting cash from a customer who owed us money.
B) Paying a supplier for inventory we previously purchased on account.
C) Borrowing money from a bank.
D) Purchasing equipment using cash.

Answer: B
Explanation: Paying a supplier for inventory purchased on account reduces assets and reduces accounts payable.
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

76) When a company buys equipment for $150,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?
A) Total assets increase $150,000.
B) Total liabilities increase $150,000.
C) Total liabilities decrease $50,000.
D) Total assets increase $100,000.

Answer: D
Explanation: Equipment increases $150,000 and cash decreases $50,000 for a net asset increase of $100,000.
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

77) Which of the following describes the impact on the balance sheet when a company uses cash to purchase the stock of another company?
A) Total assets increase.
B) Stockholders' equity increases.
C) Stockholders' equity decreases.
D) Total assets remain the same.

Answer: D
Explanation: Cash decreases by the same amount that the investment in the other company increases.
Difficulty: 3 Hard
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

78) Which of the following transactions will **not** change a company's total stockholders' equity?
A) Reporting of net income.
B) Issuing stock to stockholders in exchange for cash.
C) The declaration of a cash dividend.
D) The purchase of a factory building.

Answer: D
Explanation: The purchase of a factory building, an item of property, whether paid for in cash or financed with a liability, does not affect the income statement and therefore will not affect total stockholders' equity.
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

79) Alpha Company issued 1,000 shares of $10 par value common stock to stockholders, in exchange for $15,000 cash. Which of the following correctly describes the impact of this transaction on Alpha's financial statements?
A) A $15,000 investment is reported as a long-term investment.
B) Stockholders have invested $25,000 as stockholders' equity.
C) Common stock is reported at $15,000 in stockholders' equity.
D) Additional paid-in capital of $5,000 is reported in stockholders' equity.

Answer: D
Explanation: Common stock = $10,000 = 1,000 shares × $10 par value. Additional paid-in capital = the excess of the $15,000 selling price above the stock's par value. Additional paid-in capital = $5,000 = $15,000 − $10,000 and is a component of stockholders' equity.
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

80) Which of the following statements is **incorrect**?
A) Stockholders' equity accounts normally have credit balances.
B) Liability accounts are decreased by credits.
C) Stockholders' equity accounts are increased by credits.
D) Asset accounts are increased by debits.

Answer: B
Explanation: Liability accounts are increased by credits.
Difficulty: 1 Easy
Topic: Transaction analysis-Direction of effects
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

81) Selling stock to investors for cash would result in which of the following?
A) A debit to additional paid-in capital and a credit to cash.
B) A credit to both cash and additional paid-in capital.
C) A debit to cash and a credit to common stock.
D) A debit to cash and a credit to the investment account.

Answer: C
Explanation: This transaction results in an increase in cash with a debit; common stock is a stockholders' equity account and is increased with a credit.
Difficulty: 1 Easy
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

82) Borrowing cash from a bank would result in which of the following?
A) A debit to cash and a credit to notes payable.
B) A debit to notes payable and a credit to cash.
C) A debit to both cash and notes payable.
D) A debit to cash and a credit to additional paid-in capital.

Answer: A
Explanation: Cash is received and increased with a debit; the loan from the bank is recognized with a credit to notes payable.
Difficulty: 1 Easy
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

A)

Cash	xxx	
Retained earnings		xxx

B)

Cash	xxx	
Additional paid-in capital		xxx

C)

Cash	xxx	
Common Stock		xxx

D)

Cash	xxx	
Common Stock		xxx
Additional paid-in capital		xxx

Answer: D
Explanation: Common stock and additional paid-in capital are both credited when common stock is sold for more than par value.
Difficulty: 1 Easy
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

84) Which of the following statements is **false**?
A) The common stock account has a credit balance.
B) The additional paid-in capital account has a credit balance.
C) Common stock may be issued for more than par value.
D) The par value of common stock represents the stock's market value.

Answer: D
Explanation: Par value has no relationship to the market value of common stock. The par value represents the minimum amount a stockholder must contribute.
Difficulty: 1 Easy
Topic: Transaction analysis—Principles; Transaction analysis—Direction of effects
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.; 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

85) A company purchases a delivery van by paying $5,000 cash and by signing a $25,000 note payable. Which of the following correctly describes the recording of the delivery van purchase?
A) The delivery van account is debited for $25,000.
B) Notes payable is debited for $25,000.
C) The delivery van account is debited for $30,000.
D) Cash is debited for $5,000.

Answer: C
Explanation: The cost of the asset is recorded at cash paid plus all noncash considerations. The delivery van account is debited for $30,000. ($5,000 + $25,000 = $30,000).
Difficulty: 2 Medium
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

A)

Accounts payable	1,000	
Cash		1,000

B)

Cash	1,000	
Accounts payable		1,000

C)

Notes Payable	1,000	
Cash		1,000

D)

Cash	1,000	
Cost of goods sold		1,000

Answer: A
Explanation: Accounts Payable is reduced with a debit, and cash is reduced with a credit.
Difficulty: 1 Easy
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

87) Centex, Inc. issued 50,000 shares of its $1 par value common stock for $20 per share. The journal entry to record the stock issue would include which of the following?
A) A credit to cash for $1,000,000.
B) A credit to additional paid-in capital for $1,000,000.
C) A credit to additional paid-in capital for $50,000.
D) A credit to common stock for $50,000.

Answer: D
Explanation: Common stock is credited for the par value of the shares issued.
Difficulty: 1 Easy
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

88) Which of the following correctly describes the recording of a dividend declaration by a company's board of directors?
A) A debit to retained earnings and a credit to cash.
B) A debit to additional paid-in capital and a credit to dividends payable.
C) A debit to cash and a credit to retained earnings.
D) A debit to retained earnings and a credit to dividends payable.

Answer: D
Explanation: Dividends declared decrease retained earnings and create a liability for dividends payable. A debit decreases retained earnings, and a credit to dividends payable increases the liability.
Difficulty: 2 Medium
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

The common stock account balance at the beginning of the year was $20,000 and the year-end balance was $25,000.
The additional paid-in capital account balance increased $2,500 during the year.
The retained earnings balance at the beginning of the year was $75,000 and the year-end balance was $91,000.
Net income was $26,000.

How much were Superior's dividend declarations during its recent year of operation?
A) $10,000.
B) $42,000.
C) $26,000.
D) The dividend declarations cannot be determined from the information provided.

Answer: A
Explanation: Ending retained earnings ($91,000) = Beginning retained earnings ($75,000) + Net income ($26,000) – Dividends declared ($10,000).
Difficulty: 3 Hard
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

90) Superior has provided the following information for its recent year of operation:

The common stock account balance at the beginning of the year was $20,000 and the year-end balance was $25,000.
The additional paid-in capital account balance increased $2,500 during the year.
The retained earnings balance at the beginning of the year was $75,000 and the year-end balance was $91,000.
Net income was $26,000.

How much did Superior sell its common stock for during the year?
A) $5,000.
B) $2,500.
C) $7,500.
D) $27,500.

Answer: C
Explanation: The increase in the common stock account ($5,000) plus the increase in additional paid-in capital ($2,500) equals the selling price of the common stock ($7,500).
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

91) Which of the following statements is correct?
A) Assets normally have a credit balance and are increased with debits.
B) Assets normally have a debit balance and are increased with credits.
C) Liability accounts normally have debit balances and are increased with debits.
D) Stockholders' equity accounts normally have credit balances and are increased with credits.

Answer: D
Explanation: An account balance increases on the same side as the normal balance. Stockholders' equity accounts have a normal credit balance and are increased with credits.
Difficulty: 1 Easy
Topic: Transaction analysis-Direction of effects
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

A)

Cash	30,000	
Notes Payable		30,000

B)

Land	30,000	
Accounts payable		30,000

C)

Land	30,000	
Notes Payable		30,000

D)

Notes Payable	30,000	
Land		30,000

Answer: C
Explanation: The transaction results in the company receiving an asset, land, and incurring a liability, notes payable. This results in a debit to land to increase the land account, and a credit to notes payable to recognize and record the liability.
Difficulty: 1 Easy
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

A)

Cash	xxx	
Common Stock		xxx
Retained earnings		xxx

B)

Cash	xxx	
Common Stock		xxx
Additional paid-in capital		xxx

C)

Cash	xxx	
Investments		xxx

D)

Common stock	xxx	
Cash		xxx

Answer: B
Explanation: Cash is received in the transaction; the cash account is increased with a debit. Stock is being issued in exchange for the cash so a credit to common stock and additional paid-in capital is required.
Difficulty: 1 Easy
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

A)

Building	xxx	
Cash		xxx
Notes Payable		xxx

B)

Building	xxx	
Cash		xxx

C)

Cash	xxx	
Notes Payable		xxx
Building		xxx

D)

Building	xxx	
Cash		xxx
Notes Payable		xxx

Answer: A

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

Difficulty: 2 Medium

Topic: Transaction analysis—Journal entries

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

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

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

A)

Cash	xxx	
Advertising expense		xxx

B)

Advertising expense	xxx	
Cash		xxx

C)

Cash	xxx	
Prepaid advertising expense		xxx

D)

Prepaid advertising expense	xxx	
Cash		xxx

Answer: D
Explanation: Advertising is purchased in advance of use and therefore is recorded in a balance sheet account. The prepaid advertising expense account needs to be increased with a debit; cash is decreased and recorded with a credit to cash.
Difficulty: 2 Medium
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

A)

Accounts Payable	xxx	
Cash		xxx

B)

Accounts Receivable	xxx	
Cash		xxx

C)

Cash	xxx	
Accounts Payable		xxx

D)

Cash	xxx	
Notes Payable		xxx

Answer: A
Explanation: Both the accounts payable and cash accounts need to be decreased as a result of this transaction. This is recorded with a debit to accounts payable and a credit to cash.
Difficulty: 1 Easy
Topic: Transaction analysis—Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

97) Which of the following transactions would result in an increase in the current ratio?
A) Collection of cash from an account receivable.
B) Selling shares of stock to stockholders in exchange for cash.
C) Purchasing a building with cash.
D) Declaration of a cash dividend by the board of directors.

Answer: B
Explanation: The current ratio is current assets divided by current liabilities. When issuing common stock, the increase in stockholders' equity does not impact current assets or current liabilities, but the receipt of cash in this transaction increases current assets. Therefore, the increase in the numerator of the ratio will increase the ratio.
Difficulty: 3 Hard
Topic: Ratio analysis
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

98) Which of the following transactions would result in a decrease in the current ratio?
A) Collection of cash from an account receivable.
B) Selling shares of stock to stockholders in exchange for cash.
C) Purchasing a delivery vehicle by signing a long-term note payable.
D) Purchasing land by paying cash.

Answer: D
Explanation: The current ratio is current assets divided by current liabilities. A cash payment reduces current assets and decreases the current ratio. Since land is a noncurrent asset, it does not affect the current ratio.
Difficulty: 3 Hard
Topic: Ratio analysis
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

99) Which of the following account balances would **not** be included in the calculation of the current ratio?
A) Accounts receivable.
B) Short-term investments.
C) Equipment.
D) Supplies.

Answer: C
Explanation: The current ratio is current assets divided by current liabilities. Equipment is a noncurrent asset.
Difficulty: 1 Easy
Topic: Ratio analysis
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

100) Which of the following statements does **not** properly describe the current ratio?
A) It measures the ability of a firm to pay its debts in the short-run.
B) It is current assets divided by current liabilities.
C) It is a measure of a firm's short-run liquidity.
D) It measures a firm's ability to pay its long-term debts as they mature.

Answer: D
Explanation: The current ratio is a measure of short-term liquidity. It does not measure a firm's ability to pay its long-term debt.
Difficulty: 1 Easy
Topic: Ratio analysis
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

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

What are Pioneer's total current assets?
A) $48,000.
B) $96,000.
C) $90,000.
D) $42,000.

Answer: B
Explanation: Current assets = $96,000 = $38,000 + $4,000 + $48,000 + $6,000.
Difficulty: 2 Medium
Topic: Preparing a classified balance sheet
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

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

What are Pioneer's total current liabilities?
A) $44,000.
B) $34,000.
C) $48,000.
D) $140,000.

Answer: C
Explanation: Current liabilities = $48,000 = $30,000 + $4,000 + $14,000.
Difficulty: 2 Medium
Topic: Preparing a classified balance sheet
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

103) The Pioneer Company has provided the following account balances:

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

What is Pioneer's current ratio?
A) 2.00.
B) 2.17.
C) 2.71.
D) 1.00.

Answer: A
Explanation: Current assets = $96,000 = $38,000 + $4,000 + $48,000 + $6,000. Current liabilities = $48,000 = $30,000 + $4,000 + $14,000. Current ratio = 2 = $96,000 ÷ $48,000.
Difficulty: 2 Medium
Topic: Ratio analysis
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Additional shares of stock were sold for $20,000 cash.
A building costing $95,000 was purchased using $10,000 cash and by signing an $85,000 long-term note payable.
Short-term investments costing $9,000 were purchased using cash.
$10,000 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.

How much are Warren's total assets at the end of April?
A) $335,000.
B) $249,000.
C) $345,000.
D) $250,000.

Answer: C
Explanation: Total assets = $345,000 = $240,000 + $20,000 + $95,000 − $10,000 (building payment).
Difficulty: 3 Hard
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Additional shares of stock were sold for $20,000 cash.
A building costing $95,000 was purchased using $10,000 cash and by signing an $85,000 long-term note payable.
Short-term investments costing $9,000 were purchased using cash.
$10,000 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.

How much are Warren's total liabilities at the end of April?
A) $145,000.
B) $155,000.
C) $165,000.
D) $135,000.

Answer: A
Explanation: Total liabilities = $145,000 = $60,000 + $85,000.
Difficulty: 3 Hard
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Net income of $79,000.
Dividend declarations totaling $17,000.
Issued stock to stockholders in exchange for $42,000 cash.
Borrowed $20,000 from a stockholder.

What is Tiger's total stockholders' equity at the end of the year?
A) $296,000.
B) $279,000.
C) $290,000.
D) $273,000.

Answer: B
Explanation: Total stockholders' equity = $279,000 = $175,000 + $79,000 − $17,000 + $42,000. Borrowing money affects cash and liabilities regardless of who is the lender.
Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Net loss of $30,000.
Stock issued in exchange for land totaling $80,000.
Collections of accounts receivable $40,000.
Dividends declared and paid totaling $2,000.

What is ABC's total stockholders' equity at the end of the year?
A) $348,000.
B) $288,000.
C) $248,000.
D) $168,000.

Answer: C
Explanation: $200,000 − $30,000 + $80,000 − $2,000 = $248,000 total stockholders' equity at the end of the year; collections of accounts receivable only affects cash and accounts receivable, but not equity.
Difficulty: 3 Hard
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

108) Which of the following transactions would create an increase in cash from a financing activity?
A) Issuing shares of common stock to stockholders in exchange for cash.
B) Selling a short-term stock investment in exchange for cash.
C) Selling used equipment, which was a part of property and equipment, for cash.
D) The payment of an account payable.

Answer: A
Explanation: Financing cash flow activities include borrowing and repaying debt, issuing and repurchasing stock, and paying dividends.
Difficulty: 2 Medium
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

109) Which of the following best describes financing activities?
A) They primarily deal with securing money by bank loans or selling stock to investors.
B) They primarily are connected to the income-producing activities of the company as reported on the income statement.
C) They primarily deal with buying buildings to be used over many years by the business.
D) They primarily deal with selling facilities once used by the business.

Answer: A
Explanation: Financing cash flow activities include borrowing and repaying debt, issuing and repurchasing stock, and paying dividends.
Difficulty: 1 Easy
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

110) Which of the following would cause a decrease in cash from investing activities?
A) Purchasing shares of stock of another company.
B) Paying a cash dividend to stockholders.
C) Issuing additional shares of the company's common stock.
D) Using cash to purchase supplies.

Answer: A
Explanation: Investing cash flow activities include buying and selling noncurrent assets and investments.
Difficulty: 2 Medium
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

111) Which of the following would result when a company borrows cash and signs a note payable that is due in two years?
A) A noncurrent liability and an investing cash flow are created.
B) A noncurrent liability and a financing cash flow are created.
C) A current liability and an investing cash flow are created.
D) A current liability and a financing cash flow are created.

Answer: B
Explanation: The note is noncurrent because it is due in two years. The cash flow is created from borrowing money and is categorized as a financing cash flow.
Difficulty: 2 Medium
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

112) Which of the following would result when a company sells additional shares of common stock for cash?
A) A noncurrent liability and a financing cash flow are created.
B) Common stock increases and a financing cash flow results.
C) A noncurrent liability and an investing cash flow are created.
D) Common stock increases and an investing cash flow results.

Answer: B
Explanation: Selling additional shares of stock increases common stock and additional paid-in capital. Financing cash flow activities include issuing common stock.
Difficulty: 2 Medium
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

113) Which of the following would result when a company purchases a factory building using cash?
A) A noncurrent asset and an investing cash flow are created.
B) A noncurrent asset and a financing cash flow are created.
C) A current asset and an investing cash flow are created.
D) A current asset and a financing cash flow are created.

Answer: A
Explanation: Buildings are classified as noncurrent assets. Investing cash flows are created with the purchase or sale of noncurrent assets.
Difficulty: 2 Medium
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

114) Which of the following would result when a company lends cash to a customer in exchange for a ten-month note receivable?
A) A noncurrent asset and an investing cash flow are created.
B) A noncurrent asset and a financing cash flow are created.
C) A current asset and a financing cash flow are created.
D) A current asset and an investing cash flow are created.

Answer: D
Explanation: A ten-month note receivable is classified as a current asset. Investing cash flows include lending cash to others.
Difficulty: 2 Medium
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

115) Which of the following would result when a company pays a previously declared cash dividend?
A) Current liabilities are reduced and a financing cash flow is created.
B) Stockholders' equity is reduced and a financing cash flow is created.
C) Current assets are reduced and an investing cash flow is created.
D) Stockholders' equity is reduced and an investing cash flow is created.

Answer: A
Explanation: Declaring a dividend creates a dividend payable. Paying the dividend reduces this current liability account. Paying dividends are classified as financing cash flows.
Difficulty: 1 Easy
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

116) Which of the following would be classified as financing cash flows on a statement of cash flows?
1. Paying cash dividends.
2. Lending cash to others.
3. Issuing stock for cash.
4. Purchasing long-term assets for cash.
A) 1, 2, 3.
B) 2, 3, 4.
C) 1, 3.
D) 2, 4.

Answer: C
Explanation: Financing cash flow activities include paying dividends and issuing stock.
Difficulty: 2 Medium
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

117) Which of the following would be classified as investing cash flows on a statement of cash flows?
1. Acquiring a building by signing a long-term mortgage payable.
2. Lending cash to others.
3. Issuing stock for cash.
4. Purchasing long-term assets for cash.
5. Selling stock investments for cash.
A) 1, 4, 5.
B) 1, 2, 4.
C) 1, 3, 5.
D) 2, 4, 5.

Answer: D
Explanation: Investing cash flows include lending cash to others, purchasing and selling noncurrent assets and investments.
Difficulty: 2 Medium
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

118) Which of the following statements is **false**?
A) Investing cash flows include the cash flows associated with lending money to others.
B) Financing cash flows include the cash flows associated with issuing stock and paying dividends.
C) Financing cash flows include the cash flows associated with borrowing and repaying debt excluding short-term bank loans.
D) Investing cash flows include the cash flows associated with buying and selling noncurrent assets.

Answer: C
Explanation: Financing cash flow activities includes all bank loans, whether short-term or long-term.
Difficulty: 2 Medium
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

119) Why is the continuity assumption so important for balance sheet reporting?

Answer: The continuity assumption is also known as the going-concern assumption. It is important for balance sheet reporting because of valuation issues. If a business is expected to operate into the foreseeable future, amounts presented on the balance sheet for assets and liabilities are based on the historical cost principle. If the continuity assumption is not followed, assets and liabilities might be reported at liquidation values as if they are going out of business.
Difficulty: 2 Medium
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

120) Why is the separate entity assumption so important for balance sheet reporting?

Answer: The separate entity assumption is important for balance sheet reporting because a business should present only its own assets and liabilities on the balance sheet. A business is a separate accounting entity from its owners. Therefore, the owners' assets and liabilities would appear on their own (personal) financial statements.
Difficulty: 2 Medium
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

121) Why is the historical cost principle so important for balance sheet reporting?

Answer: The historical cost principle is important for balance sheet reporting because of valuation issues. The cash-equivalent cost is verifiable. If it were not for the historical cost principle, assets and liabilities could be reported at more subjective values. This could lead to manipulation of balance sheet amounts.
Difficulty: 2 Medium
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

122) Complete the following schedule for Red Eye Company.

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

Answer:

Transaction	Assets	Liabilities	Stockholders' Equity
Beginning balances	$200,000	$80,000	$120,000
Borrowed $20,000 cash by signing a note payable with a bank.	+20,000	+20,000	
Collected accounts receivable for cash, $7,000.	+7,000 —7,000		
Paid accounts payable, $8,000 cash.	—8,000	—8,000	
Purchased office supplies on credit, $2,000.	+2,000	+2,000	
Sold common stock to new investors, at par value, in exchange for $20,000 cash.	+20,000		+20,000
Paid income taxes payable of $12,000.	—12,000	—12,000	
Ending balances	$222,000	$82,000	$140,000

Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

123) Complete the following schedule for Blue Eye Company.

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

Answer:

Transaction	**Assets**	**Liabilities**	**Stockholders' Equity**
Beginning balances	$300,000	$180,000	$120,000
Borrowed $18,000 cash by signing a note payable with a bank.	+18,000	+18,000	
Purchased office equipment for $6,000.	+6,000 -6,000		
Declared a dividend of $30,000 that will be paid in cash next month.		+30,000	-30,000
Purchased office supplies on credit, $8,000.	+8,000	+8,000	
Sold 1,000 shares of $5 par value common stock to new investors in exchange for $20,000 cash.	+20,000		+20,000
Ending balances	$346,000	$236,000	$110,000

Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

124) For each of the following accounts, indicate whether the account is an asset (A), liability (L), or stockholders' equity (SE) **and** whether the account has a normal debit (Dr) or normal credit (Cr) balance.
1. Retained Earnings
2. Supplies
3. Additional paid-in capital
4. Accounts payable
5. Accounts receivable
6. Property and equipment
7. Wages payable
8. Prepaid expenses

Answer:
1. SE, Cr.
2. A, Dr.
3. SE, Cr.
4. L, Cr.
5. A, Dr.
6. A, Dr.
7. L, Cr.
8. A, Dr.

Difficulty: 2 Medium
Topic: Transaction analysis-Direction of effects
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

125) For each of the accounts listed below, indicate whether the typical or normal balance is a debit or credit.
A. Supplies
B. Notes payable
C. Retained earnings
D. Equipment
E. Prepaid insurance expense
F. Accounts receivable
G. Land
H. Additional paid-in capital
I. Accounts payable
J. Unearned revenue

Answer:
A. Debit.
B. Credit.
C. Credit.
D. Debit.
E. Debit.
F. Debit.
G. Debit.
H. Credit.
I. Credit.
J. Credit.

Normal balance:
A. Asset has debit balance.
B. Liability has credit balance.
C. Stockholders' equity has credit balance.
D. Asset has debit balance.
E. Asset has debit balance.
F. Asset has debit balance.
G. Asset has debit balance.
H. Stockholders' equity has credit balance.
I. Liability has credit balance.
J. Liability has credit balance.
Difficulty: 2 Medium
Topic: Transaction analysis-Direction of effects
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

126) The ABC Corporation was formed on January 1, 2019. The three initial owners each invested $100,000 cash and each received 10,000 shares of $1 par value common stock. Below are selected transactions that were completed during January, 2019.
1. Issue shares of common stock to the owners.
2. Borrowed $80,000 on a one-year note payable.
3. Purchased land by signing a $70,000 note payable.
4. Paid $10,000 of accounts payable.
5. Purchased two service vehicles for cash at a cost of $24,000 each.
6. Purchased $2,000 of supplies on credit.

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

Answer:

1.	Cash ($100,000 × 3)	300,000	
	Common stock		30,000
	Additional paid-in capital		270,000
	Investment by owners. Par value = (10,000 × $1) × 3 investors		
2.	Cash	80,000	
	Note payable		80,000
	Borrowed $80,000 on a one-year note.		
3.	Land	70,000	
	Note payable		70,000
	Purchased land by signing a $70,000 note payable.		
4.	Accounts payable	10,000	
	Cash		10,000
	Paid $10,000 of accounts payable		
5.	Equipment	48,000	
	Cash		48,000
	Purchased two service vehicles for $24,000 each.		
6.	Supplies	2,000	
	Accounts Payable		2,000
	Purchased $2,000 of supplies on credit.		

Difficulty: 2 Medium
Topic: Transaction analysis-Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

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

During 2019, the company completed the transactions given below. You are to indicate the appropriate journal entry for each transaction by giving the account letter and amount. Some entries may need three letters. The first transaction is provided as an example.

	Transaction	**Debit**		**Credit**	
		Letter	**Amount**	**Letter**	**Amount**
1.	Borrowed $50,000 and signed a note.	A	$50,000	G	$50,000
2.	Purchased equipment for $50,000. Paid $10,000 cash, signed $40,000 note payable.				
3.	Collected $15,000 of accounts receivable.				
4.	Paid $12,000 of accounts payable.				
5.	Issued 10,000 shares of $10 par value common stock in exchange for $160,000 cash.				
6.	Purchased $5,000 office supplies on credit.				
7.	Paid for the office supplies in (6).				

Answer:

	Transaction	**Debit** Letter	**Debit** Amount	**Credit** Letter	**Credit** Amount
1.	Borrowed $50,000 and signed a note.	A	$50,000	G	$50,000
2.	Purchased equipment for $50,000. Paid $10,000 cash, signed $40,000 note payable.	D	50,000	A G	10,000 40,000
3.	Collected $15,000 accounts receivable.	A	15,000	B	15,000
4.	Paid $12,000 of accounts payable.	F	12,000	A	12,000
5.	Issued 10,000 shares of $10 par value common stock in exchange for $160,000 cash.	A	160,000	H I	100,000 60,000
6.	Purchased $5,000 office supplies (an asset) on credit.	C	5,000	F	5,000
7.	Paid for the office supplies in (6).	F	5,000	A	5,000

Difficulty: 2 Medium
Topic: Balance sheet-Common account titles; Transaction analysis-Journal entries
Learning Objective: 02-02 Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.; 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

128) Describe the general journal and the general ledger.

Answer: Transactions are first recorded in the general journal, which is a chronological listing, in a debit-credit format, of each transaction and its effects. After transactions are journalized, the amounts are posted to the general ledger. The general ledger contains accounts for each financial statement element so that balances can be determined.
Difficulty: 2 Medium
Topic: Transaction analysis-Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

129) On January 1, 2019, Dr. Beth Hill started a new professional corporation, Beth Hill, P. C., to practice medicine with an initial investment of $100,000 in exchange for 20,000 shares of $2 par value common stock. On June 30, 2019, the accounting records showed the following amounts:

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

1. Calculate the amounts for common stock and additional paid-in capital.
2. Prepare a balance sheet as of June 30, 2019.

Answer:
1. Total investment $100,000 ÷ 20,000 shares = $5 per share received.
Received in excess of par value = $3 per share = $5 received — $2 par value.
Common stock: 20,000 shares × $2 par value = $40,000
Additional paid-in capital: 20,000 shares × $3 = $60,000

2.

Beth Hill, P. C.
Balance Sheet
At June 30, 2019

Assets:		
Cash		$48,100
Accounts receivable		6,200
Office supplies		3,500
Office equipment		60,000
Total assets		$117,800
Liabilities:		
Accounts payable	$2,000	
Notes payable	10,000	
Total liabilities		$12,000
Stockholders' equity Common stock	$40,000	
Additional paid-in capital	60,000	
Retained earnings	5,800	
Total Stockholders' equity		105,800
Total Liabilities and Stockholders' equity		$117,800

Difficulty: 2 Medium
Topic: Preparing a classified balance sheet
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

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

Answer:

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

Difficulty: 2 Medium
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

131) The Alex Company, a consulting firm, recorded the following selected business transactions during May, 2019. Indicate whether each transaction would increase, decrease, or have no effect on the total assets of the company.

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

Answer:
1. Increase.
2. No effect.
3. Increase.
4. Decrease.
5. No effect.
6. Increase.
7. No effect.
8. Increase.

Difficulty: 2 Medium
Topic: Transaction analysis-Effect on equation
Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities plus Stockholders' Equity.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

132) Classify the following balance sheet accounts as current assets, noncurrent assets, current liabilities, noncurrent liabilities, or stockholders' equity.
1. Building
2. Retained earnings
3. Notes payable due in 3 months
4. Land
5. Prepaid expenses
6. Supplies inventory
7. Common stock
8. Notes payable due in 5 years
9. Income taxes payable
10. Accounts receivable

Answer:
1. Noncurrent assets.
2. Stockholders' equity.
3. Current Liabilities.
4. Noncurrent assets.
5. Current assets.
6. Current assets.
7. Stockholders' equity.
8. Noncurrent liabilities.
9. Current liabilities.
10. Current assets.
Difficulty: 2 Medium
Topic: Preparing a classified balance sheet
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

1.	Cash
	Common stock
	Additional paid in capital
2.	Supplies
	Accounts Payable
3.	Accounts Payable
	Cash
4.	Buildings
	Cash
	Mortgage Payable
5.	Retained Earnings
	Dividends Payable
6.	Cash
	Notes Payable

Write a brief explanation for each of the above transactions.

Answer:
1. Stockholders invested cash into the corporation in exchange for stock that was issued for more than par value.
2. Supplies were purchased from a supplier on account.
3. Cash was used to pay an account payable.
4. Buildings were purchased using cash and by signing a mortgage note payable for the balance.
5. The board of directors declared a cash dividend.
6. Cash was borrowed in exchange for signing a note payable.

Difficulty: 2 Medium
Topic: Transaction analysis-Journal entries
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

134) What is the primary objective of financial reporting?

Answer: The primary objective of financial reporting is to provide financial information about the reporting entity that is useful to external decision makers such as investors, lenders, and other creditors to help them make decisions about providing resources to the entity.
Difficulty: 1 Easy
Topic: Accounting concepts
Learning Objective: 02-01 Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

135) How is the current ratio calculated and what does it measure?

Answer: The current ratio is current assets divided by current liabilities; it measures a business entity's short-run liquidity, which is the ability of a business entity to pay its short-term obligations using current assets.
Difficulty: 2 Medium
Topic: Ratio analysis
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

136) The Lake Company has provided the following account balances:

Cash \$76,000;
Short-term investments \$8,000;
Accounts receivable \$96,000;
Supplies \$12,000;
Long-term notes receivable \$4,000;
Equipment \$192,000;
Factory Building \$360,000;
Intangible assets \$12,000;
Accounts payable \$90,000;
Accrued liabilities payable \$12,000;
Short-term notes payable \$42,000;
Long-term notes payable \$184,000.

What is Lake's current ratio?

Answer: Current assets = \$192,000 = \$76,000 + \$8,000 + \$96,000 + \$12,000. Current liabilities = \$144,000 = \$90,000 + \$12,000 + \$42,000. Current ratio = 1.33 = \$192,000 ÷ \$144,000.
Difficulty: 2 Medium
Topic: Ratio analysis
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

137) The Superior Company has provided the following account balances:

Cash $152,000;
Short-term investments $18,000;
Accounts receivable $36,000;
Inventory $116,000;
Long-term notes receivable $44,000;
Equipment $174,000;
Factory Building $270,000;
Intangible assets $33,000;
Accounts payable $130,000;
Accrued liabilities payable $19,000;
Short-term notes payable $84,000;
Long-term notes payable $169,000.

What is Superior's stockholders' equity?

Answer: Assets = Debit balances. Total assets = $843,000 = $152,000 + $18,000 + $36,000 + $116,000 + $44,000 + $174,000 + $270,000 + $33,000.
Liabilities and stockholders' equity = Credit balances.
Total liabilities = $402,000 = $130,000 + $19,000 + $84,000 + $169,000.
Stockholders' equity = $843,000 debits - $402,000 credits = **$441,000**.
Difficulty: 2 Medium
Topic: Preparing a classified balance sheet; Trial balance
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

138) The Smith Corporation has provided the following information:
Cash dividend payments were $25,000.
Long-term investments were sold for $79,000 cash.
A building costing $198,000 was purchased using $19,800 cash, and the balance was financed with a mortgage note payable.
Stock was issued to stockholders in exchange for $110,000 cash.
A $44,000 loan was made to a local inventory supplier; the loan will be repaid in twelve months.
Equipment used in operations was sold for $37,000.
Repaid a long-term note payable for $92,000 cash.
Cash received from short-term bank loans totaled $71,000.
Land costing $57,000 was purchased in exchange for a long-term note payable.

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

Answer:
1. Investing activities cash flows = $52,200 = $79,000 - $19,800 - $44,000 + $37,000.
2. Financing activities cash flows = $64,000 = -$25,000 + $110,000 - $92,000 + $71,000.
Difficulty: 3 Hard
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: The investing activities section of the statement of cash flows reports cash flows associated with buying and selling noncurrent assets and investments. Specific examples include buying and selling property and equipment for cash, purchasing and selling long-term investments for cash, lending cash to others, and receiving principal payments from loans made.
The financing activities section of statement of cash flows reports cash flows associated with borrowing and repaying debt, issuing and repurchasing stock, and paying dividends.
Specific examples include borrowing and repaying bank loans, issuing and repurchasing stock using cash, and paying cash dividends to stockholders.
Difficulty: 2 Medium
Topic: Investing and financing-Cash flow
Learning Objective: 02-06 Identify investing and financing transactions and demonstrate how they impact cash flows.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

140) On December 31, 2019, the accounting records for Mountain Trail Corp. showed the following amounts:

Accounts Payable	$23,000
Long-term Investments	$16,000
Accounts Receivable	$87,200
Dividends Payable	$21,400
Cash	$91,400
Common Stock	$14,800
Income Taxes Payable	$54,000
Additional Paid-in Capital	$73,200
Buildings	$17,800
Unearned Revenue	$7,500
Office Supplies	$3,500
Retained Earnings	$12,000
Mortgage Payable (due in 2025)	$10,000

1. Prepare a balance sheet using GAAP as of December 31, 2019.
2. Prepare a balance sheet using IFRS as of December 31, 2019.

Answer:
1.

Mountain Trail Corp. Balance Sheet At December 31, 2019		
Assets:		
Cash		$91,400
Accounts receivable		87,200
Office supplies		3,500
Buildings		17,800
Long-term investments		16,000
Total assets		$215,900
Liabilities:		
Accounts payable	$23,000	
Unearned revenue	7,500	
Dividends payable	21,400	
Income taxes payable	54,000	
Mortgage payable	10,000	
Total liabilities		$115,900
Stockholders' equity:		
Common stock	$14,800	
Additional paid-in capital	73,200	
Retained earnings	12,000	
Total Stockholders' equity		100,000
Total Liabilities and Stockholders' equity		$215,900

2.

Mountain Trail Corp. Balance Sheet At December 31, 2019		
Assets:		
Long-term investments		$16,000
Buildings		17,800
Office supplies		3,500
Accounts receivable		87,200
Cash		91,400
Total assets		$215,900
Stockholders' equity:		
Common stock	$14,800	
Additional paid-in capital	73,200	
Retained earnings	12,000	
Total Stockholders' equity		$100,000
Liabilities:		
Mortgage payable	$10,000	
Income taxes payable	54,000	
Dividends payable	21,400	
Unearned revenue	7,500	
Accounts payable	23,000	
Total liabilities		115,900
Total Stockholders' equity and Liabilities		$215,900

Difficulty: 3 Hard
Topic: Preparing a classified balance sheet
Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation