

Test Bank for Financial Accounting Fundamentals 8th Edition by Wild

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Test Bank

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CH01

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

1) Accounting is an information and measurement system that identifies, records, and communicates an organization's business activities.

1) _____

- ☐ true
- ☐ false

2) Accounting includes the analysis and interpretation of information.

2) _____

- ☐ true
- ☐ false

3) Financial accounting focuses on the needs of external users, who get accounting information from general-purpose financial statements.

3) _____

- ☐ true
- ☐ false

4) Internal users of accounting information do *not* directly manage the organization and have limited access to its accounting information.

4) _____

- ☐ true
- ☐ false

5) Auditors verify the effectiveness of internal controls.

5) _____

- ☐ true
- ☐ false

6) External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.

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6) _____

- ☐ true
- ☐ false

7) External users include lenders, shareholders, customers, and regulators.

7) _____

- ☐ true
- ☐ false

8) Internal users include lenders, shareholders, brokers and nonexecutive employees.

8) _____

- ☐ true
- ☐ false

9) Opportunities in accounting include auditing, consulting, market research, and tax planning.

9) _____

- ☐ true
- ☐ false

10) The fraud triangle shows that three factors that push a person to commit fraud are opportunity, pressure, and rationalization.

10) _____

- ☐ true
- ☐ false

11) Internal controls are procedures to protect assets, ensure reliable accounting, promote efficiency, and uphold company policies.

11) _____

- ☐ true
- ☐ false

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12) A partnership is a business owned by two or more people.

12) _____

- ☐ true
- ☐ false

13) Owners of a corporation are called shareholders or stockholders.

13) _____

- ☐ true
- ☐ false

14) In a partnership, the owners are called stockholders.

14) _____

- ☐ true
- ☐ false

15) The balance sheet shows a company's net income or loss over a period of time.

15) _____

- ☐ true
- ☐ false

16) The Financial Accounting Standards Board (FASB) is given the task of setting generally accepted accounting principles (GAAP) from the Securities and Exchange Commission.

16) _____

- ☐ true
- ☐ false

17) The business entity assumption means that accounting information presumes that the business will continue operating instead of being closed or sold.

17) _____

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- ☐ true
- ☐ false

18) GAAP wants information to have relevance and faithful representation.

18) _____

- ☐ true
- ☐ false

19) The business entity assumption means that a business is accounted for separately from other business entities and its owner(s).

19) _____

- ☐ true
- ☐ false

20) Revenues should not be recognized in the accounting records when earned, but rather when cash is received.

20) _____

- ☐ true
- ☐ false

21) Specific accounting principles are basic assumptions, concepts, and guidelines for preparing financial statements and arise out of long-used accounting practice.

21) _____

- ☐ true
- ☐ false

22) A sole proprietorship is a business with multiple owners.

22) _____

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- ☐ true
- ☐ false

23) Unlimited liability and separate taxation of the business are advantages of a sole proprietorship.

23) _____

- ☐ true
- ☐ false

24) Objectives, qualitative characteristics, elements, and recognition and measurement are components of the FASB conceptual framework.

24) _____

- ☐ true
- ☐ false

25) Objectivity means that information is supported by independent, unbiased evidence.

25) _____

- ☐ true
- ☐ false

26) The going-concern assumption presumes that a business will continue operating instead of being closed or sold.

26) _____

- ☐ true
- ☐ false

27) The measurement principle prescribes that accounting information is based on subjective opinion rather than cost.

27) _____

- ☐ true
- ☐ false

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28) The monetary unit assumption means that companies should express transactions and events in terms such as “a lot” or “very little”.

28) _____

- ☐ true
- ☐ false

29) The International Accounting Standards Board (IASB) issues International Financial Reporting Standards (IFRS) that identify preferred accounting practices.

29) _____

- ☐ true
- ☐ false

30) A limited liability company (LLC) offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.

30) _____

- ☐ true
- ☐ false

31) A limited liability company (LLC) offers the limited liability of a corporation and the tax treatment of a partnership or proprietorship.

31) _____

- ☐ true
- ☐ false

32) The Securities and Exchange Commission (SEC) is a U.S. government agency that oversees proper use of GAAP by companies that sell stock and debt to the public.

32) _____

- ☐ true
- ☐ false

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33) The four common forms of business ownership include sole proprietorship, partnership, I-corporation, and non-profit.

33) _____

- ☐ true
- ☐ false

34) The statement of cash flows reports cash flows from operating activities, investing activities, and financing activities.

34) _____

- ☐ true
- ☐ false

35) Materiality is the ability of information to influence decisions.

35) _____

- ☐ true
- ☐ false

36) Financing activities on the statement of cash flows include long-term borrowing and repaying of cash from lenders.

36) _____

- ☐ true
- ☐ false

37) Investing activities on the statement of cash flows include long-term borrowing and repaying of cash from lenders.

37) _____

- ☐ true
- ☐ false

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38) Investing activities on the statement of cash flows include buying equipment that is held for long-term use.

38) _____

- ☐ true
- ☐ false

39) Return on assets equals total revenues divided by average total assets.

39) _____

- ☐ true
- ☐ false

40) Revenues are increases in equity (via net income) from sales of products and services to customers.

40) _____

- ☐ true
- ☐ false

41) A net loss occurs when revenues exceed expenses.

41) _____

- ☐ true
- ☐ false

42) Net income occurs when revenues exceed expenses.

42) _____

- ☐ true
- ☐ false

43) Liabilities are the owner's claim on assets.

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43) _____

- ☐ true
- ☐ false

44) Assets are the resources a company owns or controls and are expected to yield future benefits.

44) _____

- ☐ true
- ☐ false

45) Maintenance expenses incurred increase equity.

45) _____

- ☐ true
- ☐ false

46) The accounting equation can be restated as: $\text{Assets} - \text{Equity} = \text{Liabilities}$.

46) _____

- ☐ true
- ☐ false

47) The accounting equation can be restated as: $\text{Assets} + \text{Liabilities} = \text{Equity}$.

47) _____

- ☐ true
- ☐ false

48) Total assets of Morris Company equal \$7,000,000 and its equity is \$4,200,000. Morris Company has total liabilities of \$11,200,000.

48) _____

- ☐ true
- ☐ false

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49) After each transaction and event, assets always equal liabilities plus equity.

49) _____

- ☐ true
- ☐ false

50) From an accounting perspective, an event is a happening that affects the accounting equation but cannot be measured.

50) _____

- ☐ true
- ☐ false

51) A company paid \$15,000 cash for rent of office space for the month. This transaction increases both assets and equity by \$15,000.

51) _____

- ☐ true
- ☐ false

52) At the beginning of the year, Shepard Company's assets are \$3,000,000 and its equity is \$1,000,000. If during the year, assets increase by \$800,000 and liabilities increase by \$500,000, then equity at year-end equals \$700,000.

52) _____

- ☐ true
- ☐ false

53) Return on assets is often stated in ratio form as the amount of average total assets divided by revenue.

53) _____

- ☐ true
- ☐ false

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54) Return on assets is often stated in ratio form as the amount of net income divided by average total assets.

54) _____

- ☐ true
- ☐ false

55) The four basic financial statements include the balance sheet, income statement, statement of revenue recognition, and statement of cash flows.

55) _____

- ☐ true
- ☐ false

56) An income statement reports on investing and financing activities.

56) _____

- ☐ true
- ☐ false

57) The income statement reports revenues and expenses and computes net income or loss over a period of time.

57) _____

- ☐ true
- ☐ false

58) The statement of cash flows shows the net effect of revenues and expenses for a reporting period.

58) _____

- ☐ true
- ☐ false

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59) The left side of the balance sheet lists a company's assets.

59) _____

- ☐ true
- ☐ false

60) On the statement of cash flows, investing activities involve selling assets such as equipment that is held for long-term use.

60) _____

- ☐ true
- ☐ false

61) The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.

61) _____

- ☐ true
- ☐ false

62) The income statement reports on operating activities at a point in time.

62) _____

- ☐ true
- ☐ false

63) The statement of cash flows identifies cash flows from operating, investing, and financing activities over a period of time.

63) _____

- ☐ true
- ☐ false

64) Butler company records show the following items and amounts on December 31:

Consulting revenue

\$ 70,000

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Rent expense	17,750
Salaries expense	35,000
Telephone expense	3,800
Miscellaneous expenses	2,900

Butler's net income for the month of December is \$10,550.

64) _____

- ☐ true
- ☐ false

65) The cost-benefit constraint says that information disclosed by an entity must have benefits to the user that are greater than the costs of providing it.

65) _____

- ☐ true
- ☐ false

66) Net income is sometimes called earnings or profit.

66) _____

- ☐ true
- ☐ false

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

67) Which of the following is not accomplished by accounting?

67) _____

- A) Identifies business activities.
- B) Records business activities.
- C) Communicates business activities.
- D) Eliminates the need for interpreting financial data.
- E) Helps people make better decisions.

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68) Which of the following is an external user of accounting information?

68) _____

- A) Purchasing manager.
- B) Human resource manager.
- C) Lender.
- D) Chief executive officer (CEO).
- E) Marketing manager.

69) The primary objective of financial accounting is to:

69) _____

- A) Serve the decision-making needs of internal users.
- B) Provide accounting information that serves external users.
- C) Monitor consumer needs, tastes, and price concerns.
- D) Provide information on both costs and benefits of looking after products and services.
- E) Know what, when, and how much product to produce.

70) The area of accounting aimed at serving the decision-making needs of internal users is:

70) _____

- A) Financial accounting.
- B) Managerial accounting.
- C) External auditing.
- D) SEC reporting.
- E) Bookkeeping.

71) Which of the following is *not* an external user of accounting information?

71) _____

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- A) Shareholders.
- B) Customers.
- C) Purchasing managers.
- D) Government regulators.
- E) Creditors.

72) Which of the following is *not* true regarding a Certified Public Accountant?

72) _____

- A) Must meet education requirements.
- B) Must pass an examination.
- C) Must exhibit ethical character.
- D) Must meet experience requirements.
- E) Cannot hold any certificate other than a CPA.

73) Which of the following factors is *not* a component of the fraud triangle?

73) _____

- A) Opportunity
- B) Pressure
- C) Rationalization
- D) All of the above are components of the fraud triangle.

74) Which of the following is not true regarding ethics:

74) _____

- A) Ethics are beliefs that separate right from wrong.
- B) Good ethics are good business.
- C) Ethics do not affect the operations or outcome of a company.
- D) Accountants face ethical choices as they prepare financial reports.
- E) Ethics are accepted standards of good and bad behavior.

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75) A corporation is:

75) _____

- A) A business legally separate from its owners.
- B) Controlled by the FASB.
- C) Not responsible for its own acts and own debts.
- D) The same as a limited liability partnership.
- E) Not subject to double taxation.

76) The group that sets international preferred accounting practices is called the:

76) _____

- A) AICPA.
- B) IASB.
- C) CAP.
- D) SEC.
- E) FASB.

77) The Securities and Exchange Commission (SEC) has given the task of setting GAAP to the:

77) _____

- A) APB.
- B) FASB.
- C) AAA.
- D) AICPA.
- E) IASB.

78) The accounting concept that requires every business to be accounted for separately from other business entities, including its owner or owners is known as the:

78) _____

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- A) Time-period assumption.
- B) Business entity assumption.
- C) Going-concern assumption.
- D) Revenue recognition principle.
- E) Measurement (Cost) principle.

79) The rule that requires financial statements to assume that the business will continue operating instead of being closed or sold is the:

79) _____

- A) Going-concern assumption.
- B) Business entity assumption.
- C) Objectivity principle.
- D) Measurement (Cost) principle.
- E) Monetary unit assumption.

80) A company is considering purchasing a parcel of land that was originally acquired by the seller for \$90,000. While the land is currently offered for sale at \$160,000, it is considered by the purchaser as easily being worth \$150,000, and is finally purchased for \$147,000, the land should be recorded in the purchaser's books at:

80) _____

- A) \$100,000.
- B) \$147,000.
- C) \$148,500.
- D) \$150,000.
- E) \$160,000.

81) A company is considering purchasing a parcel of land that was originally acquired by the seller for \$85,000. While the land is currently offered for sale at \$150,000, it is considered by the purchaser as easily being worth \$140,000, and is finally purchased for \$137,000, the land should be recorded in the purchaser's books at:

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81) _____

- A) \$95,000.
- B) \$137,000.
- C) \$138,500.
- D) \$140,000.
- E) \$150,000.

82) To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:

82) _____

- A) Objectivity principle.
- B) Monetary unit assumption.
- C) Business entity assumption.
- D) Going-concern assumption.
- E) Revenue recognition principle.

83) The accounting principle that requires accounting information to be based on actual cost and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:

83) _____

- A) Accounting equation.
- B) Measurement (Cost) principle.
- C) Going-concern assumption.
- D) Cost-benefit constraint.
- E) Business entity assumption.

84) The rule that requires revenue to be recognized when (1) goods or services are provided to customers and (2) at the amount expected to be received from the customer is called the:

84) _____

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- A) Going-concern assumption.
- B) Measurement (Cost) principle.
- C) Revenue recognition principle.
- D) Objectivity principle.
- E) Business entity assumption.

85) In accordance with GAAP, the question of when revenue should be recognized on the income statement is addressed by the:

85) _____

- A) Revenue recognition principle.
- B) Going-concern assumption.
- C) Objectivity principle.
- D) Business entity assumption.
- E) Measurement (Cost) principle.

86) The Superior Company acquired a building for \$500,000. The building was appraised at a value of \$575,000. The seller had paid \$300,000 for the building 6 years ago. Which accounting principle would require Superior to record the building on its records at \$500,000?

86) _____

- A) Monetary unit assumption.
- B) Going-concern assumption.
- C) Measurement (Cost) principle.
- D) Business entity assumption.
- E) Revenue recognition principle.

87) On December 15 of the current year, Conrad Accounting Services received \$40,000 from a client to provide bookkeeping services for the client in the following year. Which accounting principle would require Conrad Accounting Services to record the bookkeeping revenue in the following year and not in the year the cash was received?

87) _____

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- A) Monetary unit assumption.
- B) Going-concern assumption.
- C) Measurement (Cost) principle.
- D) Business entity assumption.
- E) Revenue recognition principle.

88) Marsha Bogs is the owner of Bogs Legal Services. Which accounting principle requires Marsha to keep her personal financial information separate from the financial information of Bogs Legal Services?

88) _____

- A) Monetary unit assumption.
- B) Going-concern assumption.
- C) Measurement (Cost) principle.
- D) Business entity assumption.
- E) Expense recognition (Matching) principle.

89) A limited liability company (LLC):

89) _____

- A) Has owners called members.
- B) Is subject to additional business income tax.
- C) Includes a general owner with unlimited liability.
- D) Is the same as a corporation.
- E) Must have more than one owner.

90) A partnership:

90) _____

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- A) Is also called a sole proprietorship.
- B) Has unlimited liability for its partners.
- C) Has an indefinite business life.
- D) Is a separate legal entity from its owners.
- E) Has owners called shareholders.

91) Which of the following accounting principles require that all goods and services purchased be recorded at actual cost?

91) _____

- A) Going-concern assumption.
- B) Expense recognition (Matching) principle.
- C) Measurement (Cost) principle.
- D) Business entity assumption.
- E) Consideration assumption.

92) Which of the following accounting principles prescribes that a company record its expenses incurred to generate the revenue reported?

92) _____

- A) Going-concern assumption.
- B) Expense recognition (Matching) principle.
- C) Measurement (Cost) principle.
- D) Business entity assumption.
- E) Consideration assumption.

93) Revenue is properly recognized:

93) _____

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- A) When the customer makes an order.
- B) Only if the transaction creates an account receivable.
- C) At the end of the accounting period.
- D) When goods or services are provided to customers and at the amount expected to be received from the customer.
- E) When cash from a sale is received.

94) Which of the following is not an external user of accounting information?

94) _____

- A) Lenders.
- B) Shareholders.
- C) Politicians.
- D) Chief executive officer (CEO).
- E) Customers.

95) Which of the following is an internal user of accounting information?

95) _____

- A) Customers.
- B) Internal Revenue Service.
- C) Human resource manager.
- D) Shareholders.
- E) Lenders.

96) If a company uses \$1,350 of its cash to purchase supplies, the effect on the accounting equation would be:

96) _____

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- A) Assets increase \$1,350 and liabilities decrease \$1,350.
- B) One asset increases \$1,350 and another asset decreases \$1,350, causing no effect.
- C) Assets decrease \$1,350 and equity decreases \$1,350.
- D) Assets decrease \$1,350 and equity increases \$1,350.
- E) Assets increase \$1,350 and liabilities increase \$1,350.

97) If a company uses \$1,300 of its cash to purchase supplies, the effect on the accounting equation would be:

97) _____

- A) Assets increase \$1,300 and liabilities decrease \$1,300.
- B) One asset increases \$1,300 and another asset decreases \$1,300, causing no effect.
- C) Assets decrease \$1,300 and equity decreases \$1,300.
- D) Assets decrease \$1,300 and equity increases \$1,300.
- E) Assets increase \$1,300 and liabilities increase \$1,300.

98) If a company receives \$13,800 from a client for services provided, the effect on the accounting equation would be:

98) _____

- A) Assets decrease \$13,800 and equity decreases \$13,800.
- B) Assets increase \$13,800 and liabilities decrease \$13,800.
- C) Assets increase \$13,800 and liabilities increase \$13,800.
- D) Liabilities increase \$13,800 and equity decreases \$13,800.
- E) Assets increase \$13,800 and equity increases \$13,800.

99) If a company receives \$12,000 from a client for services provided, the effect on the accounting equation would be:

99) _____

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- A) Assets decrease \$12,000 and equity decreases \$12,000.
- B) Assets increase \$12,000 and liabilities decrease \$12,000.
- C) Assets increase \$12,000 and liabilities increase \$12,000.
- D) Liabilities increase \$12,000 and equity decreases \$12,000.
- E) Assets increase \$12,000 and equity increases \$12,000.

100) If a company purchases equipment costing \$3,700 on credit, the effect on the accounting equation would be:

100) _____

- A) Assets increase \$3,700 and liabilities decrease \$3,700.
- B) Equity decreases \$3,700 and liabilities increase \$3,700.
- C) One asset increases \$3,700 and another asset decreases \$3,700.
- D) Assets increase \$3,700 and liabilities increase \$3,700.
- E) Equity increases \$3,700 and liabilities decrease \$3,700.

101) If a company purchases equipment costing \$4,500 on credit, the effect on the accounting equation would be:

101) _____

- A) Assets increase \$4,500 and liabilities decrease \$4,500.
- B) Equity decreases \$4,500 and liabilities increase \$4,500.
- C) One asset increases \$4,500 and another asset decreases \$4,500.
- D) Assets increase \$4,500 and liabilities increase \$4,500.
- E) Equity increases \$4,500 and liabilities decrease \$4,500.

102) An example of a financing activity reported on the statement of cash flows is:

102) _____

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- A) Buying office supplies.
- B) Obtaining a long-term loan.
- C) Buying office equipment.
- D) Selling inventory.
- E) Buying land.

103) Increases in equity that result from providing products or services to customers are called:

103) _____

- A) Liabilities.
- B) Revenues.
- C) Financing activities.
- D) Investing activities.
- E) Expenses.

104) Which of the following decreases equity:

104) _____

- A) Investing activities.
- B) Assets.
- C) Accounts receivable.
- D) Revenues.
- E) Expenses.

105) An example of an investing activity on a statement of cash flows is:

105) _____

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- A) Paying wages of employees.
- B) Cash received from clients for services provided.
- C) Purchase of land.
- D) Selling inventory.
- E) Long-term borrowing of cash from lenders.

106) Net Income:

106) _____

- A) Decreases equity.
- B) Equals equity minus liabilities.
- C) Equals assets minus liabilities.
- D) Occurs when revenues exceed expenses.
- E) Represents creditor claims against assets.

107) If equity is \$428,000 and liabilities are \$202,000, then assets equal:

107) _____

- A) \$226,000.
- B) \$202,000.
- C) \$428,000.
- D) \$630,000.
- E) \$1,058,000.

108) If equity is \$300,000 and liabilities are \$192,000, then assets equal:

108) _____

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- A) \$108,000.
- B) \$192,000.
- C) \$300,000.
- D) \$492,000.
- E) \$792,000.

109) If assets are \$430,000 and liabilities are \$201,000, then equity equals:

109) _____

- A) \$229,000.
- B) \$201,000.
- C) \$430,000.
- D) \$631,000.
- E) \$1,061,000.

110) If assets are \$300,000 and liabilities are \$192,000, then equity equals:

110) _____

- A) \$108,000.
- B) \$192,000.
- C) \$300,000.
- D) \$492,000.
- E) \$792,000.

111) Resources a company owns or controls that are expected to yield future benefits are:

111) _____

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- A) Assets.
- B) Revenues.
- C) Liabilities.
- D) Payables.
- E) Expenses.

112) Increases in equity from a company's sales of products or services to customers are:
112) _____

- A) Assets.
- B) Revenues.
- C) Liabilities.
- D) Accounts payable.
- E) Expenses.

113) The difference between a company's assets and its liabilities, or net assets is:
113) _____

- A) Net income.
- B) Expense.
- C) Equity.
- D) Revenue.
- E) Net loss.

114) Creditors' claims on assets are called:
114) _____

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- A) Net losses.
- B) Expenses.
- C) Revenues.
- D) Equity.
- E) Liabilities.

115) Decreases in equity from costs of providing products or services to customers are called:
115) _____

- A) Liabilities.
- B) Equity.
- C) Accounts receivable.
- D) Expenses.
- E) Wages receivable.

116) The description of the relation between a company's assets, liabilities, and equity, which is expressed as $\text{Assets} = \text{Liabilities} + \text{Equity}$, is known as the:
116) _____

- A) Income statement equation.
- B) Accounting equation.
- C) Business equation.
- D) Return on equity ratio.
- E) Net income.

117) Revenues are:
117) _____

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- A) The same as net income.
- B) The excess of expenses over assets.
- C) Resources owned or controlled by a company.
- D) Increases in equity from a company's sales of products and services.
- E) The costs of assets or services used.

118) If assets are \$96,000 and liabilities are \$31,300, then equity equals:

118) _____

- A) \$31,300.
- B) \$64,700.
- C) 96,000.
- D) \$127,300.
- E) \$223,300.

119) If assets are \$99,000 and liabilities are \$32,000, then equity equals:

119) _____

- A) \$32,000.
- B) \$67,000.
- C) \$99,000.
- D) \$131,000.
- E) \$198,000.

120) Another name for equity is:

120) _____

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- A) Net income.
- B) Expenses.
- C) Net assets.
- D) Revenue.
- E) Net loss.

121) When expenses exceed revenues, the result is called:

121) _____

- A) Net assets.
- B) Negative equity.
- C) Net loss.
- D) Net income.
- E) A liability.

122) Haro Company has assets equal to \$1,230,000 and liabilities equal to \$470,000 at year-end. Equity for Haro Company at year-end equals:

122) _____

- A) \$1,700,000.
- B) \$760,000.
- C) \$615,000.
- D) \$235,000.
- E) \$1,085,000.

123) At the beginning of the year, Cassius Company's liabilities equal \$350,000. During the year, assets increase by \$300,000, and at year-end assets equal \$950,000. Liabilities decrease \$25,000 during the year. The ending amount of equity is:

123) _____

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- A) \$625,000.
- B) \$650,000.
- C) \$600,000.
- D) \$900,000.
- E) \$675,000.

124) The assets of a company total \$706,000; the liabilities, \$203,000. What is the amount of equity?

124) _____

- A) \$909,000.
- B) \$706,000.
- C) \$503,000.
- D) \$203,000.
- E) \$1,712,000.

125) The assets of a company total \$700,000; the liabilities, \$200,000. What is the amount of equity?

125) _____

- A) \$900,000.
- B) \$700,000.
- C) \$500,000.
- D) \$200,000.
- E) \$1,700,000.

126) On May 31 of the current year, the assets and liabilities of Riser, Incorporated are as follows: Cash \$18,300; Accounts Receivable, \$7,150; Supplies, \$500; Equipment, \$11,900; Accounts Payable, \$9,150. What is the amount of equity as of May 31 of the current year?

126) _____

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- A) \$47,000.
- B) \$13,050.
- C) \$18,300.
- D) \$28,700.
- E) \$37,850.

127) On May 31 of the current year, the assets and liabilities of Riser, Incorporated are as follows: Cash \$20,500; Accounts Receivable, \$7,250; Supplies, \$650; Equipment, \$12,000; Accounts Payable, \$9,300. What is the amount of equity as of May 31 of the current year?

127) _____

- A) \$49,700.
- B) \$13,050.
- C) \$20,500.
- D) \$31,100.
- E) \$40,400.

128) On August 31 of the current year, the assets and liabilities of Gladstone, Incorporated are as follows: Cash \$30,300; Supplies, \$610; Equipment, \$10,100; Accounts Payable, \$8,700. What is the amount of equity as of August 31 of the current year?

128) _____

- A) \$31,700.
- B) \$32,310.
- C) \$31,090.
- D) \$10,890.
- E) \$12,110.

129) On August 31 of the current year, the assets and liabilities of Gladstone, Incorporated are as follows: Cash \$30,000; Supplies, \$600; Equipment, \$10,000; Accounts Payable, \$8,500. What is the amount of equity as of August 31 of the current year?

129) _____

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- A) \$49,100.
- B) \$32,100.
- C) \$12,100.
- D) \$10,900.
- E) \$30,900.

130) Assets created by selling goods and services on credit are:

130) _____

- A) Accounts payable.
- B) Accounts receivable.
- C) Liabilities.
- D) Expenses.
- E) Equity.

131) An exchange of value between two entities which causes a change in the accounting equation is called:

131) _____

- A) The accounting equation.
- B) Recordkeeping or bookkeeping.
- C) An external transaction.
- D) An asset.
- E) Net Income.

132) Saddleback Company paid off \$47,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?

132) _____

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- A) Assets increase \$47,000; equity increases \$47,000.
- B) Assets decrease \$47,000; liabilities decrease \$47,000.
- C) Assets decrease \$47,000; liabilities increase \$47,000.
- D) Liabilities decrease \$47,000; equity increases \$47,000.
- E) Assets decrease \$47,000; equity decreases \$47,000.

133) Saddleback Company paid off \$30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?

133) _____

- A) Assets increase \$30,000; equity increases \$30,000.
- B) Assets decrease \$30,000; liabilities decrease \$30,000.
- C) Assets decrease \$30,000; liabilities increase \$30,000.
- D) Liabilities decrease \$30,000; equity increases \$30,000.
- E) Assets decrease \$30,000; equity decreases \$30,000.

134) If Dallas Company billed a client for \$18,000 of consulting work completed, the accounts receivable asset increases by \$18,000 and:

134) _____

- A) Accounts payable decreases \$18,000.
- B) Accounts payable increases \$18,000.
- C) Cash increases \$18,000.
- D) Revenue increases \$18,000.
- E) Revenue decreases \$18,000.

135) If Dallas Company billed a client for \$10,000 of consulting work completed, the accounts receivable asset increases by \$10,000 and:

135) _____

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- A) Accounts payable decreases \$10,000.
- B) Accounts payable increases \$10,000.
- C) Cash increases \$10,000.
- D) Revenue increases \$10,000.
- E) Revenue decreases \$10,000.

136) Echo Company has assets of \$620,000, liabilities of \$260,000, and equity of \$360,000. It buys office equipment on credit for \$85,000. What would be the effects of this transaction on the accounting equation?

136) _____

- A) Assets increase by \$85,000 and expenses increase by \$85,000.
- B) Assets increase by \$85,000 and expenses decrease by \$85,000.
- C) Liabilities increase by \$85,000 and expenses decrease by \$85,000.
- D) Assets decrease by \$85,000 and expenses decrease by \$85,000.
- E) Assets increase by \$85,000 and liabilities increase by \$85,000.

137) Echo Company has assets of \$600,000, liabilities of \$250,000, and equity of \$350,000. It buys office equipment on credit for \$75,000. What would be the effects of this transaction on the accounting equation?

137) _____

- A) Assets increase by \$75,000 and expenses increase by \$75,000.
- B) Assets increase by \$75,000 and expenses decrease by \$75,000.
- C) Liabilities increase by \$75,000 and expenses decrease by \$75,000.
- D) Assets decrease by \$75,000 and expenses decrease by \$75,000.
- E) Assets increase by \$75,000 and liabilities increase by \$75,000.

138) Mayfly Company collected \$42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:

138) _____

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- A) Total assets decrease and equity increases.
- B) Both total assets and total liabilities decrease.
- C) Total assets, total liabilities, and total equity are unchanged.
- D) Both total assets and equity are unchanged and liabilities increase.
- E) Total assets increase and equity decreases.

139) If the liabilities of a business increased \$115,000 during a period of time and equity in the business decreased \$50,000 during the same period, the assets of the business must have:

139) _____

- A) Decreased \$165,000.
- B) Decreased \$65,000.
- C) Increased \$50,000.
- D) Increased \$65,000.
- E) Increased \$165,000.

140) If the liabilities of a business increased \$75,000 during a period of time and equity in the business decreased \$30,000 during the same period, the assets of the business must have:

140) _____

- A) Decreased \$105,000.
- B) Decreased \$45,000.
- C) Increased \$30,000.
- D) Increased \$45,000.
- E) Increased \$105,000.

141) If the assets of a business increased \$115,000 during a period of time and its liabilities increased \$80,000 during the same period, equity in the business must have:

141) _____

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- A) Increased \$35,000.
- B) Decreased \$35,000.
- C) Increased \$115,000.
- D) Decreased \$195,000.
- E) Increased \$195,000.

142) If the assets of a business increased \$89,000 during a period of time and its liabilities increased \$67,000 during the same period, equity in the business must have:

142) _____

- A) Increased \$22,000.
- B) Decreased \$22,000.
- C) Increased \$89,000.
- D) Decreased \$156,000.
- E) Increased \$156,000.

143) If the liabilities of a company increased \$108,000 during a period of time and equity in the company decreased \$36,000 during the same period, what was the effect on the assets?

143) _____

- A) Assets would have increased \$72,000.
- B) Assets would have decreased \$72,000.
- C) Assets would have increased \$144,000.
- D) Assets would have decreased \$144,000.
- E) None of the above.

144) If the liabilities of a company increased \$74,000 during a period of time and equity in the company decreased \$19,000 during the same period, what was the effect on the assets?

144) _____

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- A) Assets would have increased \$55,000.
- B) Assets would have decreased \$55,000.
- C) Assets would have increased \$93,000.
- D) Assets would have decreased \$93,000.
- E) None of the above.

145) If a company paid \$38,000 of its accounts payable in cash, what was the effect on the accounting equation?

145) _____

- A) Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would decrease \$38,000.
- B) Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would increase \$38,000.
- C) Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity remains unchanged.
- D) There would be no effect on the accounts because the accounts are affected by the same amount.
- E) Assets would increase \$38,000 and liabilities would decrease \$38,000.

146) If assets are \$379,000 and equity is \$127,000, then liabilities are:

146) _____

- A) \$127,000.
- B) \$252,000.
- C) \$379,000.
- D) \$506,000.
- E) \$631,000.

147) If assets are \$365,000 and equity is \$120,000, then liabilities are:

147) _____

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- A) \$120,000.
- B) \$245,000.
- C) \$365,000.
- D) \$485,000.
- E) \$610,000.

148) Rush Company had net income of \$169 million and average total assets of \$1,870 million. Its return on assets (ROA) is:

148) _____

- A) 9.0%.
- B) 90.4%.
- C) 120.0%.
- D) 111.0%.
- E) 18.1%.

149) Rush Company had net income of \$240 million and average total assets of \$2,000 million. Its return on assets (ROA) is:

149) _____

- A) 12%.
- B) 120%.
- C) 80%.
- D) 8%.
- E) 800%.

150) Cage Company had net income of \$357 million and average total assets of \$2,020 million. Its return on assets (ROA) is:

150) _____

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- A) 1.8%.
- B) 35.0%.
- C) 17.7%.
- D) 5.7%.
- E) 3.5%.

151) Cage Company had net income of \$160 million and average total assets of \$2,000 million. Its return on assets (ROA) is:

151) _____

- A) 80%.
- B) 0.8%.
- C) 8%.
- D) 12.5%.
- E) 125%.

152) Speedy Company has net income of \$21,955, and assets at the beginning of the year of \$203,000. Assets at the end of the year total \$249,000. Compute its return on assets.

152) _____

- A) 8.8%.
- B) 9.7%.
- C) 10.8%.
- D) 11.5%.
- E) 13.9%.

153) Speedy Company has net income of \$18,955, and assets at the beginning of the year of \$200,000. Assets at the end of the year total \$246,000. Compute its return on assets.

153) _____

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CH01

- A) 7.7%.
- B) 8.5%.
- C) 9.5%.
- D) 11.8%.
- E) 13.0%.

154) Chou Company has a net income of \$46,000, assets at the beginning of the year are \$253,000 and assets at the end of the year are \$303,000. Compute its return on assets.

154) _____

- A) 9.0%.
- B) 18.2%.
- C) 15.2%.
- D) 16.5%.
- E) 1.6%.

155) Chou Company has a net income of \$42,900, assets at the beginning of the year are \$250,000 and assets at the end of the year are \$300,000. Compute its return on assets.

155) _____

- A) 8.4%.
- B) 17.2%.
- C) 14.3%.
- D) 15.6%.
- E) 1.5%.

156) Return on assets (ROA) falls into which area of financial statement analysis.

156) _____

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- A) Liquidity and efficiency.
- B) Solvency.
- C) Profitability.
- D) Market prospects.
- E) Market research.

157) Equity is:

157) _____

- A) Net income divided by average total assets.
- B) Equal to assets plus liabilities.
- C) The owner's claim on assets.
- D) Increased by expenses.
- E) Decreased by revenue.

158) Which of the following is not reported on the statement of cash flows?

158) _____

- A) Cash flows from operating activities.
- B) Cash flows from investing activities.
- C) Cash flows from financing activities.
- D) The net increase or decrease in equity for the period reported.
- E) The net increase or decrease in cash for the period reported.

159) Which of the following is *not* a financial statement?

159) _____

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- A) Balance Sheet.
- B) Income Statement.
- C) Statement of Changes in Assets.
- D) Statement of Cash Flows.
- E) All of the above are financial statements.

160) Using the cash flow information in the table below for the month of December, determine the cash balance for Studio Two as of December 31. The cash balance at the start of December 1 was \$10,000.

Cash received from customers	\$ 345,000
Cash paid for equipment	50,000
Cash paid for truck	220,000
Cash paid for expenditures	60,000
	160) _____

- A) \$75,000.
- B) \$25,000.
- C) \$85,000.
- D) \$15,000.
- E) \$65,000.

161) The financial statement that reports whether the business earned a profit and also lists the revenues and expenses is called the:

161) _____

- A) Balance sheet.
- B) Statement of return on assets.
- C) Statement of cash flows.
- D) Income statement.
- E) Statement of financial position.

162) A balance sheet lists:

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162) _____

- A) The types and amounts of the revenues and expenses of a business.
- B) Only the information about what happened to equity during a time period.
- C) The types and amounts of assets, liabilities, and equity of a business at a point in time.
- D) The inflows and outflows of cash during the period.
- E) The assets and liabilities of a company but not the equity.

163) A financial statement providing information that helps users understand a company's financial status, and which lists the types and amounts of assets, liabilities, and equity as of a specific date, is called a(n):

163) _____

- A) Balance sheet.
- B) Income statement.
- C) Statement of cash flows.
- D) Statement of return on assets.
- E) Financial status statement.

164) The financial statement that identifies a company's cash inflows (receipts) and cash outflows (payments) over a period of time is the:

164) _____

- A) Statement of financial position.
- B) Statement of cash flows.
- C) Balance sheet.
- D) Income statement.
- E) Statement of return on assets.

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165) A company purchased a truck. The seller asked for \$22,000, but the company paid only \$20,000 after negotiation. The owner of the company believes he got a great deal, and the truck is really worth \$30,000. What amount should the company record on its financial statements for the truck?

165) _____

- A) \$30,000.
- B) \$27,000.
- C) \$22,000.
- D) \$21,000.
- E) \$20,000.

166) Using the information provided in the table below, determine the missing amount for assets.

Assets	Liabilities	Equity
?	\$ 200,000	\$ 450,000

166) _____

- A) \$200,000.
- B) \$250,000.
- C) \$300,000.
- D) \$450,000.
- E) \$650,000.

167) Accounts payable appear on which of the following statements?

167) _____

- A) Balance sheet.
- B) Income statement.
- C) Statement of return on assets.
- D) Statement of cash flows.
- E) Transaction statement.

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168) Which of the following items is *not* reported on the income statement?

168) _____

- A) Revenues earned by a business.
- B) Expenses incurred by a business.
- C) Assets owned by a business.
- D) Net income or loss earned by a business.
- E) The time period over which the earnings occurred.

169) Use the following information as of December 31 to determine equity.

Cash	\$ 75,000
Buildings	193,000
Equipment	224,000
Liabilities	159,000

169) _____

- A) \$75,000.
- B) \$159,000.
- C) \$333,000.
- D) \$492,000.
- E) \$651,000.

170) Use the following information as of December 31 to determine equity.

Cash	\$ 57,000
Buildings	175,000
Equipment	206,000
Liabilities	141,000

170) _____

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- A) \$57,000.
- B) \$141,000.
- C) \$297,000.
- D) \$438,000.
- E) \$579,000.

171) Use the following information for Meeker Corporation to determine the amount of equity to report.

Cash	\$ 81,000
Buildings	131,000
Land	220,600
Liabilities	137,000

171) _____

- A) \$569,600.
- B) \$307,600.
- C) \$432,600.
- D) \$33,600.
- E) \$295,600.

172) Use the following information for Meeker Corporation to determine the amount of equity to report.

Cash	\$ 70,000
Buildings	125,000
Land	205,000
Liabilities	130,000

172) _____

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- A) \$390,000.
- B) \$140,000.
- C) \$20,000.
- D) \$530,000.
- E) \$270,000.

173) Determine the net income of a company for which the following information is available for the month of July.

Employee salaries expense	\$ 200,000
Interest expense	30,000
Rent expense	40,000
Consulting revenue	480,000
	173) _____

- A) \$210,000.
- B) \$270,000.
- C) \$290,000.
- D) \$480,000.
- E) \$750,000.

174) Determine the net income of a company for which the following information is available for the month of July.

Employee salaries expense	\$ 180,000
Interest expense	10,000
Rent expense	20,000
Consulting revenue	400,000
	174) _____

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- A) \$190,000.
- B) \$210,000.
- C) \$230,000.
- D) \$400,000.
- E) \$610,000.

175) Determine the net income of a company for which the following information is available for the month of September.

Service revenue	\$ 322,000
Rent expense	59,000
Utilities expense	4,300
Salaries expense	92,000

175) _____

- A) \$284,700.
- B) \$477,300.
- C) \$171,000.
- D) \$166,700.
- E) \$263,000.

176) Determine the net income of a company for which the following information is available for the month of September.

Service revenue	\$ 300,000
Rent expense	48,000
Utilities expense	3,200
Salaries expense	81,000

176) _____

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- A) \$263,800.
- B) \$432,200.
- C) \$171,000.
- D) \$167,800.
- E) \$252,000.

177) A company purchases equipment for \$75,000 cash. This represents a(n):

177) _____

- A) Operating activity.
- B) Investing activity.
- C) Financing activity.
- D) Revenue activity.
- E) Expense activity.

178) A company borrows \$125,000 from the Northern Bank and receives the loan proceeds in cash. This represents a(n):

178) _____

- A) Revenue activity.
- B) Operating activity.
- C) Expense activity.
- D) Investing activity.
- E) Financing activity.

179) Zippy had cash inflows from operating activities of \$75,500; cash outflows from investing activities of \$60,000; and cash inflows from financing activities of \$38,000. The net change in cash was:

179) _____

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CH01

- A) \$53,500 increase.
- B) \$53,500 decrease.
- C) \$173,500 decrease.
- D) \$173,500 increase.
- E) \$22,500 decrease.

180) Zippy had cash inflows from operating activities of \$60,500; cash outflows from investing activities of \$47,000; and cash inflows from financing activities of \$25,000. The net change in cash was:

180) _____

- A) \$38,500 increase.
- B) \$38,500 decrease.
- C) \$132,500 decrease.
- D) \$132,000 increase.
- E) \$11,500 decrease.

181) Zinc has beginning equity of \$293,000, total revenues of \$93,000, and total expenses of \$58,000. The company has no other transactions impacting equity. Its ending equity is:

181) _____

- A) \$259,000.
- B) \$258,000.
- C) \$304,000.
- D) \$328,000.
- E) \$217,000.

182) Zinc has beginning equity of \$257,000, total revenues of \$57,000, and total expenses of \$40,000. The company has no other transactions impacting equity. Its ending equity is:

182) _____

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- A) \$223,000.
- B) \$240,000.
- C) \$268,000.
- D) \$274,000.
- E) \$208,000.

183) Darden has beginning equity of \$289,000, total revenues of \$75,000, and total expenses of \$37,000. The company has no other transactions impacting equity. The company's ending equity is:

183) _____

- A) \$401,000.
- B) \$251,000.
- C) \$177,000.
- D) \$327,000.
- E) \$289,000.

184) Darden has beginning equity of \$277,000, total revenues of \$63,000, and total expenses of \$25,000. The company has no other transactions impacting equity. The company's ending equity is:

184) _____

- A) \$365,000.
- B) \$239,000.
- C) \$189,000.
- D) \$315,000.
- E) \$277,000.

185) Rent expense appears on which of the following statements?

185) _____

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CH01

- A) Balance sheet.
- B) Income statement.
- C) Statement of assets.
- D) Income statement and balance sheet.
- E) Statement of cash flows and balance sheet.

186) A company's balance sheet shows: Cash \$56,000, Accounts receivable \$33,000, Office equipment \$67,000, and Accounts payable \$34,000. What is the amount of total equity?

186) _____

- A) \$34,000.
- B) \$46,000.
- C) \$122,000.
- D) \$156,000.
- E) \$190,000.

187) A company's balance sheet shows: Cash \$22,000, Accounts receivable \$16,000, Office equipment \$50,000, and Accounts payable \$17,000. What is the amount of total equity?

187) _____

- A) \$17,000.
- B) \$29,000.
- C) \$71,000.
- D) \$88,000.
- E) \$105,000.

188) A company reported total equity of \$183,000 at the beginning of the year. The company reported \$248,000 in revenues and \$184,000 in expenses for the year. Liabilities at the end of the year totaled \$111,000. What are the total assets of the company at the end of the year?

188) _____

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CH01

- A) \$64,000.
- B) \$111,000.
- C) \$136,000.
- D) \$248,000.
- E) \$358,000.

189) A company reported total equity of \$145,000 at the beginning of the year. The company reported \$210,000 in revenues and \$165,000 in expenses for the year. Liabilities at the end of the year totaled \$92,000. What are the total assets of the company at the end of the year?

189) _____

- A) \$45,000.
- B) \$92,000.
- C) \$98,000.
- D) \$210,000.
- E) \$282,000.

190) Flitter reported net income of \$21,500 for the past year. At the beginning of the year the company had \$208,000 in assets and \$58,000 in liabilities. By year end, assets had increased to \$308,000 and liabilities were \$83,000. Calculate its return on assets:

190) _____

- A) 10.3%.
- B) 8.3%.
- C) 7.0%.
- D) 35.5%.
- E) 25.1%.

191) Flitter reported net income of \$17,500 for the past year. At the beginning of the year the company had \$200,000 in assets and \$50,000 in liabilities. By year end, assets had increased to \$300,000 and liabilities were \$75,000. Calculate its return on assets:

191) _____

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CH01

- A) 8.8%.
- B) 7.0%.
- C) 5.8%.
- D) 35.0%.
- E) 23.3%.

192) Cruz Company had revenues of \$112,000 and expenses of \$66,000 for the year. Its assets at the beginning of the year were \$416,000. At the end of the year, assets were worth \$466,000. Calculate its return on assets.

192) _____

- A) 10.4%.
- B) 11.1%.
- C) 9.9%.
- D) 26.9%.
- E) 25.4%.

193) Cruz Company had revenues of \$80,175 and expenses of \$50,000 for the year. Its assets at the beginning of the year were \$400,000. At the end of the year, assets were worth \$450,000. Calculate its return on assets.

193) _____

- A) 7.1%.
- B) 7.5%.
- C) 6.7%.
- D) 20.0%.
- E) 18.8%.

194) Lito Company had cash inflows from operating activities of \$42,000; cash outflows from investing activities of \$37,000, and cash outflows from financing activities of \$27,000. Calculate the net increase or decrease in cash.

194) _____

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CH01

- A) \$106,000 increase.
- B) \$52,000 increase.
- C) \$22,000 decrease.
- D) \$22,000 increase.
- E) \$64,000 decrease.

195) Lito Company had cash inflows from operating activities of \$27,000; cash outflows from investing activities of \$22,000, and cash outflows from financing activities of \$12,000. Calculate the net increase or decrease in cash.

195) _____

- A) \$61,000 increase.
- B) \$37,000 increase.
- C) \$7,000 decrease.
- D) \$7,000 increase.
- E) \$34,000 decrease.

196) Charlie's Chocolates' has accounts receivable of \$74,000 and accounts payable of \$32,000. The company has revenues of \$107,000 and expenses of \$76,000. Calculate its net income.

196) _____

- A) \$42,000.
- B) \$107,000.
- C) \$76,000.
- D) \$31,000.
- E) \$73,000.

197) Charlie's Chocolates' has accounts receivable of \$50,000 and accounts payable of \$20,000. The company has revenues of \$83,000 and expenses of \$64,000. Calculate its net income.

197) _____

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- A) \$30,000.
- B) \$83,000.
- C) \$64,000.
- D) \$19,000.
- E) \$49,000.

198) Nexis had beginning equity of \$73,000; revenues of \$93,000, and expenses of \$75,100. The company had no other transactions impacting equity. Calculate the ending equity.

198) _____

- A) \$90,900.
- B) \$27,000.
- C) \$100,000.
- D) \$36,900.
- E) \$46,000.

199) Nexis had beginning equity of \$72,000; revenues of \$90,000, and expenses of \$74,000. The company had no other transactions impacting equity. Calculate the ending equity.

199) _____

- A) \$88,000.
- B) \$25,000.
- C) \$97,000.
- D) \$38,000.
- E) \$47,000.

200) Doc's Ribhouse had beginning equity of \$59,500; net income of \$23,000. The company has no other transactions impacting equity. Calculate the ending equity.

200) _____

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- A) \$(7,500).
- B) \$36,500.
- C) \$7,500.
- D) \$111,500.
- E) \$82,500.

201) Samsung has beginning equity of \$52,000 and net income of \$23,000. The company has no other transactions impacting equity. Calculate the ending equity.

201) _____

- A) \$(5,000).
- B) \$29,000.
- C) \$5,000.
- D) \$99,000.
- E) \$75,000.

202) A company's balance sheet shows cash of \$34,000, accounts receivable of \$40,000, equipment of \$70,000, and equity of \$82,000. What is the amount of liabilities?

202) _____

- A) \$144,000.
- B) \$126,000.
- C) \$62,000.
- D) \$78,000.
- E) \$226,000.

203) A company's balance sheet shows cash of \$24,000, accounts receivable of \$30,000, equipment of \$50,000, and equity of \$72,000. What is the amount of liabilities?

203) _____

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- A) \$104,000.
- B) \$76,000.
- C) \$32,000.
- D) \$68,000.
- E) \$176,000.

204) If a company has excess space in its building that it rents to another company for \$700, what is the effect on the accounting equation during the first month?

204) _____

- A) Assets would decrease \$700 and liabilities would decrease \$700.
- B) Assets would decrease \$700 and equity would increase \$700.
- C) Assets would increase \$700 and equity would decrease \$700.
- D) Assets would increase \$700 and equity would increase \$700.
- E) Liabilities would decrease \$700 and equity would increase \$700.

205) Which of the following is a *not* an asset account?

205) _____

- A) Accounts Receivable.
- B) Supplies.
- C) Equipment.
- D) Accounts Payable.
- E) Land.

206) Which of the following accounts is *not* included in the calculation of net income?

206) _____

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- A) Consulting revenue.
- B) Services revenue.
- C) Rent expense.
- D) Salaries expense.
- E) Accounts receivable.

207) Which of the following is *not* classified as a liability?

207) _____

- A) Accounts Receivable.
- B) Notes Payable.
- C) Wages Payable.
- D) Accounts Payable.
- E) Taxes Payable.

208) Billington Corporation borrows \$80,000 cash from U.S. Bank. How does this transaction affect the accounting equation?

208) _____

- A) Assets would decrease \$80,000 and liabilities would decrease \$80,000.
- B) Assets would decrease \$80,000 and equity would increase \$80,000.
- C) Assets would increase \$80,000 and equity would decrease \$80,000.
- D) Assets would increase \$80,000 and liabilities would increase \$80,000.
- E) Liabilities would decrease \$80,000 and equity would increase \$80,000.

209) If the assets of a company increase by \$55,000 during the year and its liabilities increase by \$25,000 during the same year, then the change in equity of the company during the year must have been:

209) _____

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- A) An increase of \$80,000.
- B) A decrease of \$80,000.
- C) An increase of \$30,000.
- D) A decrease of \$30,000.
- E) An increase of \$25,000.

210) Which of the following is liability account?

210) _____

- A) Accounts Payable.
- B) Accounts Receivable.
- C) Cash.
- D) Supplies.
- E) Prepaid Insurance.

211) Grandmark Printing pays the current month's rent of \$2,000 to the landlord of the building where its facilities are located. How does this transaction affect the accounting equation for Grandmark?

211) _____

- A) Assets would decrease \$2,000 and liabilities would decrease \$2,000.
- B) Assets would decrease \$2,000 and equity would decrease \$2,000.
- C) Assets would increase \$2,000 and equity would increase \$2,000.
- D) Assets would increase \$2,000 and liabilities would increase \$2,000.
- E) Liabilities would decrease \$2,000 and equity would increase \$2,000.

212) Atkins Company collected \$1,750 as payment for the amount owed by a customer from services provided the prior month on credit. How does this transaction affect the accounting equation for Atkins?

212) _____

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- A) Assets would decrease \$1,750 and liabilities would decrease \$1,750.
- B) One asset would increase \$1,750 and a different asset would decrease \$1,750, causing no net change in the accounting equation.
- C) Assets would increase \$1,750 and equity would increase \$1,750.
- D) Assets would increase \$1,750 and liabilities would increase \$1,750.
- E) Liabilities would decrease \$1,750 and equity would increase \$1,750.

213) The accounting equation for Ying Company shows a decrease in its assets and a decrease in its equity. Which of the following transactions could have caused that effect?

213) _____

- A) Cash was received from providing services to a customer.
- B) The company paid an amount due on credit.
- C) Equipment was purchased for cash.
- D) A utility bill was received for the current month, to be paid in the following month.
- E) Advertising expense for the month was paid in cash.

214) The accounting equation for Long Company shows an increase in its assets and an increase in its liabilities. Which of the following transactions could have caused that effect?

214) _____

- A) Cash was received from providing services to a customer.
- B) Cash was paid toward an account payable.
- C) Equipment was purchased on credit.
- D) Supplies were purchased for cash.
- E) Advertising expense for the month was paid in cash.

215) The expense recognition principle, also called the matching principle:

215) _____

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- A) Prescribes that accounting information is based on actual cost.
- B) Provides guidance on when a company must recognize revenue.
- C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
- D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

216) The measurement principle, also called the cost principle:

216) _____

- A) Prescribes that accounting information is based on actual cost.
- B) Provides guidance on when a company must recognize revenue.
- C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
- D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

217) The revenue recognition principle:

217) _____

- A) Prescribes that accounting information is based on actual cost.
- B) Provides guidance on when a company must recognize revenue.
- C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
- D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

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218) The full disclosure principle:

218) _____

- A) Prescribes that accounting information is based on actual cost.
- B) Provides guidance on when a company must recognize revenue.
- C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
- D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

219) The cost-benefit constraint:

219) _____

- A) Prescribes that accounting information is based on actual cost.
- B) Provides guidance on when a company must recognize revenue.
- C) Says that information disclosed by an entity must have benefits to the user that are greater than the costs of providing it.
- D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

220) The going concern assumption:

220) _____

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- A) Means that accounting information presumes that the business will continue operating instead of being closed or sold.
- B) Means that we can express transactions and events in monetary, or money, units.
- C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
- D) Means that a business is accounted for separately from other business entities, including its owner.
- E) Prescribes that a company record the expenses it incurred to generate the revenue reported.

221) The monetary unit assumption:

221) _____

- A) Means that accounting information presumes that the business will continue operating instead of being closed or sold.
- B) Means that transactions and events are expressed in monetary, or money, units.
- C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
- D) Means that a business is accounted for separately from other business entities, including its owner.
- E) Prescribes that a company record the expenses it incurred to generate the revenue reported.

222) The time period assumption:

222) _____

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- A) Means that accounting information presumes that the business will continue operating instead of being closed or sold.
- B) Means that we can express transactions and events are expressed in monetary, or money, units.
- C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
- D) Means that a business is accounted for separately from other business entities, including its owner.
- E) Prescribes that a company record the expenses it incurred to generate the revenue reported.

223) The business entity assumption:

223) _____

- A) Means that accounting information presumes that the business will continue operating instead of being closed or sold.
- B) Means that we can express transactions and events in monetary, or money, units.
- C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
- D) Means that a business is accounted for separately from other business entities, including its owner.
- E) Prescribes that a company record the expenses it incurred to generate the revenue reported.

224) Internal controls are:

224) _____

- A) Beliefs that separate right from wrong.
- B) Procedures to protect assets, ensure reliable accounting, promote efficiency, and uphold company policies.
- C) An example of a general principle.
- D) An example of a specific principle.
- E) The same across all companies.

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225) The Financial Accounting Standards Board (FASB) is given the task of setting GAAP from the:

225) _____

- A) U.S. State Department.
- B) Securities and Exchange Commission (SEC).
- C) International Accounting Standards Board (IASB).
- D) International Financial Reporting Standards (IFRS).
- E) American Institute of Certified Public Accountants (AICPA).

226) Which of the following accounts is *not* included in the asset section of the balance sheet?

226) _____

- A) Cash.
- B) Accounts receivable.
- C) Supplies.
- D) Land.
- E) Services revenue.

227) Which of the following accounts is *not* included in the asset section of the balance sheet?

227) _____

- A) Buildings.
- B) Wages expense.
- C) Supplies.
- D) Land.
- E) Furniture.

228) Which of the following accounts is *not* included in the liabilities section of the balance sheet?

228) _____

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- A) Accounts receivable.
- B) Wages payable.
- C) Accounts payable.
- D) Notes payable.
- E) Taxes payable.

229) Which of the following accounts is *not* included in the calculation of net income?
229) _____

- A) Services revenue.
- B) Wages expense.
- C) Rent expense.
- D) Cash.
- E) Rent revenue.

230) Which of the following combinations results in a net loss reported on the income statement?
230) _____

- A) Total revenues of \$80,000 and total expenses of \$74,000.
- B) Total revenues of \$70,000 and total expenses of \$74,000.
- C) Total revenues of \$60,000 and total expenses of \$52,000.
- D) Total revenues of \$20,000 and total expenses of \$16,000.
- E) Total revenues of \$40,000 and total expenses of \$31,000.

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CH01

Answer Key

Test name: CH01

- 1) TRUE
- 2) TRUE
- 3) TRUE
- 4) FALSE
- 5) TRUE
- 6) TRUE
- 7) TRUE
- 8) FALSE
- 9) TRUE
- 10) TRUE
- 11) TRUE
- 12) TRUE
- 13) TRUE
- 14) FALSE
- 15) FALSE
- 16) TRUE
- 17) FALSE
- 18) TRUE
- 19) TRUE
- 20) FALSE
- 21) FALSE
- 22) FALSE
- 23) FALSE
- 24) TRUE
- 25) TRUE

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CH01

- 26) TRUE
- 27) FALSE
- 28) FALSE
- 29) TRUE
- 30) FALSE
- 31) TRUE
- 32) TRUE
- 33) FALSE
- 34) TRUE
- 35) TRUE
- 36) TRUE
- 37) FALSE
- 38) TRUE
- 39) FALSE
- 40) TRUE
- 41) FALSE
- 42) TRUE
- 43) FALSE
- 44) TRUE
- 45) FALSE
- 46) TRUE
- 47) FALSE
- 48) FALSE

$\$7,000,000 - \$4,200,000 = \$2,800,000$ Liabilities

- 49) TRUE
- 50) FALSE
- 51) FALSE
- 52) FALSE

Assets	=	Liabilities	+	Equity
$\$3,000,000 + \$800,000$	=	$\$2,000,000 + \$500,000$	+	?

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CH01

$$3,800,000 = 2,500,000 + 1,300,000$$

53) FALSE

54) TRUE

55) FALSE

56) FALSE

57) TRUE

58) FALSE

59) TRUE

60) TRUE

61) FALSE

62) FALSE

63) TRUE

64) TRUE

Net income = Revenues – Expenses

$$= \$70,000 - \$17,750 - \$35,000 - \$3,800 - \$2,900 = \$10,550$$

65) TRUE

66) TRUE

67) D

68) C

69) B

70) B

71) C

72) E

73) D

74) C

75) A

76) B

77) B

78) B

79) A

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CH01

- 80) B
- 81) B
- 82) C
- 83) B
- 84) C
- 85) A
- 86) C
- 87) E
- 88) D
- 89) A
- 90) B
- 91) C
- 92) B
- 93) D
- 94) D
- 95) C
- 96) B
- 97) B
- 98) E
- 99) E
- 100) D
- 101) D
- 102) B
- 103) B
- 104) E
- 105) C
- 106) D
- 107) D

Assets = Liabilities + Equity

Assets = \$202,000 + \$428,000 = \$630,000.

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CH01

108) D

Assets = Liabilities + Equity

$$\text{Assets} = \$192,000 + \$300,000 = \$492,000$$

109) A

Assets = Liabilities + Equity

$$\text{Equity} = \$430,000 - \$201,000 = \$229,000.$$

110) A

Assets = Liabilities + Equity

$$\text{Equity} = \$300,000 - \$192,000 = \$108,000$$

111) A

112) B

113) C

114) E

115) D

116) B

117) D

118) B

Assets = Liabilities + Equity

$$\$96,000 = \$31,300 + \text{Equity}; \text{Equity} = \$64,700$$

119) B

Assets = Liabilities + Equity

$$\$99,000 = \$32,000 + \text{Equity}; \text{Equity} = \$67,000$$

120) C

121) C

122) B

Assets = Liabilities + Equity

$$\$1,230,000 = \$470,000 + \text{Equity}$$

$$\$760,000 = \text{Equity}$$

123) A

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Assets = Liabilities + Equity

$$\$950,000 = (\$350,000 - \$25,000) + \text{Equity}$$

$$\$625,000 = \text{Equity}$$

124) C

Assets = Liabilities + Equity

$$\$706,000 = \$203,000 + \text{Equity}; \text{Equity} = \$503,000$$

125) C

Assets = Liabilities + Equity

$$\$700,000 = \$200,000 + \text{Equity}; \text{Equity} = \$500,000$$

126) D

Assets = Liabilities + Equity

Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Equity

$$\$18,300 + \$7,150 + \$500 + \$11,900 = \$9,150 + \text{Equity}$$

$$\$37,850 = \$9,150 + \text{Equity}; \text{Equity} = \$28,700$$

127) D

Assets = Liabilities + Equity

Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Equity

$$\$20,500 + \$7,250 + \$650 + \$12,000 = \$9,300 + \text{Equity}$$

$$\$40,400 = \$9,300 + \text{Equity}; \text{Equity} = \$31,100$$

128) B

Assets – Liabilities = Equity

Cash + Supplies + Equipment – Accounts Payable = Equity

$$\$30,300 + \$610 + \$10,100 - \$8,700 = \$32,310$$

129) B

Assets – Liabilities = Equity

Cash + Supplies + Equipment – Accounts Payable = Equity

$$\$30,000 + \$600 + \$10,000 - \$8,500 = \$32,100$$

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130) B

131) C

132) B

Assets = Liabilities + Equity

Assets would decrease by \$47,000 in Cash due to the payment of the accounts payable.

Liabilities would also decrease by \$47,000 in Accounts Payable due to the payment of an obligation. There is no effect on Equity.

133) B

Assets = Liabilities + Equity

Assets would decrease by \$30,000 in Cash due to the payment of the accounts payable.

Liabilities would also decrease by \$30,000 in Accounts Payable due to the payment of an obligation. There is no effect on Equity.

134) D

135) D

136) E

Assets = Liabilities + Equity

$$\$620,000 = \$260,000 + \$360,000$$

Assets increase by \$85,000 (Equipment) due to the purchase.

Liabilities also increase by \$85,000 (Accounts Payable) due to the purchase on credit.

137) E

Assets = Liabilities + Equity

$$\$600,000 = \$250,000 + \$350,000$$

Assets increase by \$75,000 (Equipment) due to the purchase.

Liabilities also increase by \$75,000 (Accounts Payable) due to the purchase on credit.

138) C

139) D

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Assets = Liabilities + Equity

Change in Assets = Change in Liabilities + Change in Equity

Change in Assets = +\$115,000 – \$50,000

Change in Assets = Increase of \$65,000

140) D

Assets = Liabilities + Equity

Change in Assets = Change in Liabilities + Change in Equity

Change in Assets = + \$75,000 – \$30,000

Change in Assets = Increase of \$45,000

141) A

Assets = Liabilities + Equity

Change in Assets = Change in Liabilities + Change in Equity

Increase of \$115,000 = Increase of \$80,000 + Change in Equity

Change in Equity = Increase of \$35,000

142) A

Assets = Liabilities + Equity

Change in Assets = Change in Liabilities + Change in Equity

Increase of \$89,000 = Increase of \$67,000 + Change in Equity

Change in Equity = Increase of \$22,000

143) A

Assets = Liabilities + Equity

Change in Assets = Change in Liabilities + Change in Equity

Change in Assets = +\$108,000 – \$36,000

Change in Assets = +\$72,000

144) A

Assets = Liabilities + Equity

Change in Assets = Change in Liabilities + Change in Equity

Change in Assets = + \$74,000 – \$19,000

Change in Assets = + \$55,000

145) C

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Assets = Liabilities + Equity

Assets will decrease by \$38,000 in Cash due to the payment of the debt.

Liabilities will decrease by \$38,000 in Accounts payable due to the payment of the debt.

Equity would not be affected by this transaction.

146) B

Assets = Liabilities + Equity

\$379,000 = Liabilities + \$127,000

Liabilities = \$252,000

147) B

Assets = Liabilities + Equity

\$365,000 = Liabilities + \$120,000

Liabilities = \$245,000

148) A

Return on Assets = Net Income/Average Total Assets

Return on Assets = \$169 million/\$1,870 million = 0.090 = 9.0%

149) A

Return on Assets = Net Income/Average Total Assets

Return on Assets = \$240 million/\$2,000 million = 0.12 = 12%

150) C

Return on Assets = Net Income/Average Total Assets

Return on Assets = \$357 million/\$2,020 million = 0.177 = 17.7%

151) C

Return on Assets = Net Income/Average Total Assets

Return on Assets = \$160 million/\$2,000 million = 0.08 = 8%

152) B

Return on Assets = Net Income/Average Total Assets

Return on Assets = \$21,955/[(\$203,000 + \$249,000)/2]

Return on Assets = \$21,955/\$226,000 = 0.097 = 9.7%

153) B

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Return on Assets = Net Income/Average Total Assets

$$\text{Return on Assets} = \$18,955 / [(\$200,000 + \$246,000) / 2]$$

$$\text{Return on Assets} = \$18,955 / \$223,000 = 0.085 = 8.5\%$$

154) D

Return on Assets = Net Income/Average Assets

$$\text{Return on Assets} = \$46,000 / [(\$253,000 + \$303,000) / 2]$$

$$\text{Return on Assets} = \$46,000 / \$278,000 = 0.165 = 16.5\%$$

155) D

Return on Assets = Net Income/Average Total Assets

$$\text{Return on Assets} = \$42,900 / [(\$250,000 + \$300,000) / 2]$$

$$\text{Return on Assets} = \$42,900 / \$275,000 = 0.156 = 15.6\%$$

156) C

157) C

158) D

159) C

160) B

Cash Balance, December 31 = \$10,000 + \$345,000 – \$50,000 –

\$220,000 – \$60,000

$$= \$25,000$$

161) D

162) C

163) A

164) B

165) E

166) E

Assets = Liabilities + Equity

$$\text{Assets} = \$200,000 + \$450,000 = \$650,000$$

167) A

168) C

169) C

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Assets = Liabilities + Equity

Cash + Equipment + Buildings = Liabilities + Equity

\$75,000 + \$224,000 + \$193,000 = \$159,000 + Equity

\$492,000 = \$159,000 + Equity; Equity = \$333,000

170) C

Assets = Liabilities + Equity

Cash + Equipment + Buildings = Liabilities + Equity

\$57,000 + \$206,000 + \$175,000 = \$141,000 + Equity

\$438,000 = \$141,000 + Equity; Equity = \$297,000

171) E

Assets – Liabilities = Equity

Cash + Buildings + Land – Liabilities = Equity

\$81,000 + \$131,000 + \$220,600 – \$137,000 = \$295,600

172) E

Assets – Liabilities = Equity

Cash + Buildings + Land – Liabilities = Equity

\$70,000 + \$125,000 + \$205,000 – \$130,000 = \$270,000

173) A

Net Income = Revenues – Expenses

Net Income = Consulting Revenue – Employee Salaries Expense –
Interest Expense – Rent Expense

Net Income = \$480,000 – \$200,000 – \$30,000 – \$40,000; Net Income =
\$210,000

174) A

Net Income = Revenues – Expenses

Net Income = Consulting Revenue – Employee Salaries Expense –
Interest Expense – Rent Expense

Net Income = \$400,000 – \$180,000 – \$10,000 – \$20,000; Net Income =
\$190,000

175) D

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Revenues – Expenses = Net Income

Service Revenue – Rent Expense – Utilities Expense – Salaries Expense

$$\$322,000 - \$59,000 - \$4,300 - \$92,000 = \$166,700$$

176) D

Revenues – Expenses = Net Income

Service Revenue – Rent Expense – Utilities Expense – Salaries Expense

$$\$300,000 - \$48,000 - \$3,200 - \$81,000 = \$167,800$$

177) B

178) E

179) A

Net Change in Cash = Cash Flows from Operating Activities + Cash Flows from Investing

Activities + Cash Flows from Financing Activities

Net Change in Cash = \$75,500 + (\$60,000) + \$38,000; Net Change in Cash = \$53,500

180) A

Net Change in Cash = Cash Flows from Operating Activities + Cash Flows from Investing Activities + Cash Flows from Financing Activities

Net Change in Cash = \$60,500 + (\$47,000) + \$25,000; Net Change in Cash = \$38,500

181) D

Ending Equity = Beginning Equity + Total Revenues + Total Expenses

$$\text{Ending Equity} = \$293,000 + \$93,000 - \$58,000$$

$$\text{Ending Equity} = \$328,000$$

182) D

Ending Equity = Beginning Equity + Total Revenues – Total Expenses

$$\text{Ending Equity} = \$257,000 + \$57,000 - \$40,000$$

$$\text{Ending Equity} = \$274,000$$

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CH01

183) D

$$\begin{aligned}\text{Beginning Equity} + \text{Total Revenues} - \text{Total Expenses} &= \text{Ending Equity} \\ \$289,000 + \$75,000 - \$37,000 &= \$327,000\end{aligned}$$

184) D

$$\begin{aligned}\text{Beginning Equity} + \text{Total Revenues} - \text{Total Expenses} &= \text{Ending Equity} \\ \$277,000 + \$63,000 - \$25,000 &= \$315,000\end{aligned}$$

185) B

186) C

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

$$\text{Cash} + \text{Accounts Receivable} + \text{Office Equipment} = \text{Accounts Payable} + \text{Equity}$$

$$\$56,000 + \$33,000 + \$67,000 = \$34,000 + \text{Equity}$$

$$\$156,000 = \$34,000 + \text{Equity}$$

$$\text{Equity} = \$122,000$$

187) C

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

$$\text{Cash} + \text{Accounts Receivable} + \text{Office Equipment} = \text{Accounts Payable} + \text{Equity}$$

$$\$22,000 + \$16,000 + \$50,000 = \$17,000 + \text{Equity}$$

$$\$88,000 = \$17,000 + \text{Equity}$$

$$\text{Equity} = \$71,000$$

188) E

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

$$\text{Assets} = \$111,000 + (\text{Beginning Equity} + \text{Revenues} - \text{Expenses})$$

$$\text{Assets} = \$111,000 + (\$183,000 + \$248,000 - \$184,000)$$

$$\text{Assets} = \$111,000 + \$247,000; \text{Assets} = \$358,000$$

189) E

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Assets = Liabilities + Equity

Assets = \$92,000 + (Beginning Equity + Revenues – Expenses)

Assets = \$92,000 + (\$145,000 + \$210,000 – \$165,000)

Assets = \$92,000 + \$190,000; Assets = \$282,000

190) B

Return on Assets = Net Income/Average Total Assets

Return on Assets = \$21,500/[(\$208,000 + \$308,000)/2]

Return on Assets = \$21,500/\$258,000 = 0.083 = 8.3%

191) B

Return on Assets = Net Income/Average Total Assets

Return on Assets = \$17,500/[(\$200,000 + \$300,000)/2]

Return on Assets = \$17,500/\$250,000 = 0.07 = 7.0%

192) A

Return on Assets = Net Income/Average Total Assets

Return on Assets = (Revenues – Expenses)/Average Total Assets

Return on Assets = (\$112,000 – \$66,000)/[(\$416,000 + \$466,000)/2]

Return on Assets = \$46,000/\$441,000 = 0.1043 = 10.4%

193) A

Return on Assets = Net Income/Average Total Assets

Return on Assets = (Revenues – Expenses)/Average Total Assets

Return on Assets = (\$80,175 – \$50,000)/[(\$400,000 + \$450,000)/2]

Return on Assets = \$30,175/\$425,000 = 7.1%

194) C

Net Increase/(Decrease) in Cash = Cash Flows from Operating Activities
+ Cash Flows from Investing Activities + Cash Flows from Financing
Activities

Net Increase/(Decrease) in Cash = \$42,000 + (\$37,000) + (\$27,000)

Net Increase/(Decrease) in Cash = (\$22,000)

195) C

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Net Increase/(Decrease) in Cash = Cash Flows from Operating Activities
+ Cash Flows from Investing Activities + Cash Flows from Financing
Activities

$$\text{Net Increase/(Decrease) in Cash} = \$27,000 + (\$22,000) + (\$12,000)$$

$$\text{Net Increase/(Decrease) in Cash} = (\$7,000)$$

196) D

Net Income = Revenues – Expenses

$$\text{Net Income} = \$107,000 - \$76,000; \text{Net Income} = \$31,000$$

197) D

Net Income = Revenues – Expenses

$$\text{Net Income} = \$83,000 - \$64,000; \text{Net Income} = \$19,000$$

198) A

Ending Equity = Beginning Equity + Revenues – Expenses

$$\text{Ending Equity} = \$73,000 + \$93,000 - \$75,100$$

$$\text{Ending Equity} = \$90,900$$

199) A

Ending Equity = Beginning Equity + Revenues – Expenses

$$\text{Ending Equity} = \$72,000 + \$90,000 - \$74,000$$

$$\text{Ending Equity} = \$88,000$$

200) E

Ending Equity = Beginning Equity + Net Income

$$\text{Ending Equity} = \$59,500 + \$23,000 = \$82,500$$

201) E

Ending Equity = Beginning Equity + Net Income

$$\text{Ending Equity} = \$52,000 + \$23,000 = \$75,000$$

202) C

Assets – Equity = Liabilities

$$\text{Cash} + \text{Accounts Receivable} + \text{Equipment} - \text{Equity} = \text{Liabilities}$$

$$\$34,000 + \$40,000 + \$70,000 - \$82,000 = \$62,000$$

203) C

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Assets – Equity = Liabilities

Cash + Accounts Receivable + Equipment – Equity = Liabilities

\$24,000 + \$30,000 + \$50,000 – \$72,000 = \$32,000

204) D

Assets and equity both increase at the time the rent is earned.

205) D

206) E

207) A

208) D

209) C

210) A

211) B

212) B

213) E

214) C

215) D

216) A

217) B

218) C

219) C

220) A

221) B

222) C

223) D

224) B

225) B

226) E

227) B

228) A

229) D

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230) B

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

1) The characteristics below apply to at least one of the forms of business organization.

- a. Is a separate legal entity.
- b. Is allowed to be owned by one person only.
- c. Owner or owners are personally liable for debts of the business.
- d. Is subject to an additional business income tax.
- e. Has an unlimited life

Use the following format to indicate (with a “yes” or “no”) whether or not a characteristic applies to each type of business organization.

	Proprietorship	Partnership	Corporation	LLC
a.				
b.				
c.				
d.				
e.				

2) A parcel of land is offered for sale at \$600,000, is recognized by its purchasers as easily being worth \$575,000, and is sold for \$570,000. At what amount should the land be recorded in the purchaser’s books? What accounting principle supports your answer?

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3) You are reviewing the accounting records of Buddy's Foreign Automotive, owned by Bruce Jones. You have uncovered the following situations. List the appropriate accounting principle or assumption related to each independent scenario and suggest a correct action for each.

1. In August, a check for \$500 was written to Community Sports. This amount represents soccer camp for his daughter Cassie.
2. Bruce plans a Going Out of Business Sale for June, since he will be closing the business for a month-long vacation in July. He plans to reopen August 1 and will continue operating Buddy's Foreign Automotive indefinitely.
3. Buddy received a shipment of tools from Ontario, Canada. The invoice was stated in Canadian dollars.
4. Customer Sandy Lane paid \$1,500 to Buddy for a major repair service. The amount was recorded by Buddy as revenue. The parts for the repair must be ordered from overseas and the service won't be complete until the following month.

4) At the beginning of the year, a company had \$120,000 worth of liabilities. During the year, assets increased by \$160,000 and at year-end they equaled \$360,000. Liabilities decreased \$20,000 during the year. Calculate the beginning and ending values of equity.

5) At the beginning of the period, a company had \$350,000 worth of assets, \$110,000 worth of liabilities, and \$240,000 worth of equity. Assume the only change during the period was a \$30,000 purchase of equipment by issuing a note payable. Show the accounting equation with the appropriate amounts at the end of the period.

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6) On December 31, Odie Company's records show the following accounts. Use this information to prepare a December income statement for Odie Company.

Cash	\$ 25,500	Accounts payable	\$ 30,000
Accounts receivable	3,000	Wages expense	40,000
Supplies	10,000	Rent expense	7,500
Equipment	70,000	Supplies expense	3,500
Services revenue	80,000		

7) On December 31, Mason Company's records show the following accounts. Use this information to prepare a December 31 balance sheet for Mason.

Cash	\$ 25,500	Accounts payable	\$ 30,000
Accounts receivable	3,000	Wages expense	40,000
Supplies	10,000	Rent expense	7,500
Equipment	70,000	Supplies expense	3,500
Services revenue	80,000	Total equity	78,500

8) Selected financial information of James Company for the current year ended December 31 follows. Prepare the statement of cash flows for James Company for the current year ended December 31.

Cash, December 31, prior year	2,600
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Cash from investing activities	\$ 3,200
Cash from financing activities	3,600
Cash used by operating activities	(6,000)

9) If the liabilities of a company increased \$92,000 during a period of time and equity in the business decreased \$30,000 during the same period, did the assets of the company increase or decrease? By what amount?

10) Tesla completed these transactions during April of the current year:

- April 2** Rented office space and paid \$1,200 cash for the month of September.
- April 3** Purchased office equipment for \$30,000, paying \$8,000 cash and agreeing to pay the balance in one year.
- April 4** Purchased office supplies for \$750 cash.
- April 8** Completed work for a client and immediately collected \$2,700 cash for the services.
- April 15** Completed \$3,600 services for a client on credit.
- April 20** Received \$3,600 from a client for the work completed on September 15.
- April 30** Paid the office secretary's monthly salary, \$3,000 cash.

Show the effects of the above transactions on the components of the accounting equation. Use the following format for your answers. The first item is shown as an example.

Increase = I, Decrease = D, No effect = N

Date	Assets	Liabilities	Equity
------	--------	-------------	--------

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Example:

April 2	D	N	D
---------	---	---	---

11) For each of the following transactions, identify the effects as reflected in the accounting equation. Use “+” to indicate an increase and “-” to indicate a decrease. Use “A”, “L”, and “E” to indicate assets, liabilities, and equity, respectively. Part 1 has been completed as an example.

- | | | |
|--|----|----|
| 1. Land was purchased for \$50,000 cash. | +A | -A |
| 2. Services were rendered to customers for cash. | | |
| 3. A building was purchased for cash. | | |
| 4. Supplies were purchased for cash. | | |
| 5. Paid the office secretary's salary. | | |
| 6. The amount owed on the land from Part (b) was paid. | | |

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12) Following is a financial summary, including balances, for five transactions (using the accounting equation form).

	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Revenues
1.	\$ 80,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 80,000
2.	76,000	0	6,000	0	2,000	80,000
3.	60,000	0	6,000	16,000	2,000	80,000
4.	60,000	12,000	6,000	16,000	2,000	92,000
5.	62,000	12,000	6,000	16,000	2,000	94,000

Identify the explanation from (a) through (e) that best describes each transaction 1 through 5.

- (a) The company billed a customer \$12,000 for services provided.
- (b) The company provided services and received \$2,000 cash.
- (c) The company purchased equipment for \$16,000 cash.
- (d) The company purchased supplies for \$6,000 by paying \$4,000 cash and putting \$2,000 on credit.
- (e) The company received \$80,000 cash for services provided.

13) The following is selected financial information of Village Company for the current year ended December 31. Prepare the statement of cash flows for Village Company for the current year ended December 31.

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Cash, December 31, prior year	4,600
Cash used by investing activities	\$ (4,000)
Cash used by financing activities	(5,600)
Cash from operating activities	12,000

14) Compute the return on assets (ROA) for each of the following separate examples.

- a. Net income equals \$5,000; Average total assets equals \$25,000.
- b. Net income equals \$1,200; Average total assets equals \$12,000.
- c. Net income equals \$8,000; Average total assets equals \$160,000.

15) Prepare an April 30 balance sheet for Two Rivers Vending Service from the following alphabetical list of the accounts at April 30:

Accounts receivable	\$ 10,000
Accounts payable	18,000
Building	28,000
Cash	10,000
Notes payable	47,000
Office equipment	12,000
Total equity	50,000
Trucks	55,000

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16) Prepare a December 31 balance sheet for Smokey River Supplies from the following list of accounts:

Cash	\$ 10,000
Accounts receivable	8,000
Supplies	12,000
Equipment	35,000
Land	18,000
Accounts payable	13,000
Notes payable	41,000
Total equity	29,000

17) Prepare a December 31 balance sheet for Cane Property Management using the following accounts and amounts:

Accounts payable	3,500
Accounts receivable	5,000
Total equity	104,500
Office equipment	10,000
Advertising expense	3,200
Cash	7,500
Land	35,000
Notes payable	50,000
Office supplies	1,500
Salaries expense	12,000
Salaries payable	1,000
Building	100,000

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18) As of December 31 of the current year, Howard Company's records show the following.

Cash	\$ 50,000	Consulting revenue	\$ 165,000
Accounts receivable	45,000	Rental revenue	110,000
Supplies	35,000	Salaries expense	100,000
Equipment	20,000	Rent expense	60,000
Accounts payable	55,000	Selling expenses	40,000

Prepare the income statement for Howard Company for the current year ended December 31.

19) On December 31, the Kennedy Consulting's records show the following items and amounts. Use this information to prepare a December income statement for the business.

Cash	\$ 113,600	Consulting revenue	\$ 140,000
Accounts receivable	140,000	Rent expense	35,500
Office supplies	32,500	Salaries expense	70,000
Land	460,000	Supplies expense	7,600
Accounts payable	85,000	Miscellaneous expenses	5,800
Notes payable	180,000		

20) Jet Styling has the following beginning cash balance and cash transactions for the month of January. Using this information prepare a statement of cash flows.

Beginning cash balance	\$ 3,200
Cash payment toward long-term loan	1,000
Cash payment of rent	1,800
Purchased equipment for cash	9,500
Purchased store supplies for cash	1,500
Cash collected from customers	22,750

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Cash payment of wages

4,000

21) The records of Autozone show the following information as of December 31. Prepare a December income statement for Autozone.

Accounts payable	\$ 36,000	Wages expense	\$ 75,000
Insurance expense	2,000	Advertising expense	22,000
Accounts receivable	24,000	Cash	11,000
Land	150,000	Office Furniture	15,000
Notespayable	47,000	Maintenance expense	39,000
Equipment	60,000	Services revenue	217,000

22) A company completed the following transactions during the month of May. Show the effects of the transactions on the accounts of the accounting equation by recording increases and decreases in the appropriate columns in the table below. Do not determine new account balances after each transaction. Determine the final total for each account and verify that the equation is in balance. The first transaction is shown as an example.

May The company

1 completed
work for a
customer and
was paid
\$90,000
cash.

May The company

2 purchased
\$25,000 in
office
equipment.
It paid

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\$10,000 in
cash and
signed a
note payable
promising to
pay the
\$15,000 in
three years.

May The company
3 rented
office space
and paid
\$3,000 for
the May
rent.

May The company
6 installed
new vinyl
siding for a
customer and
immediately
collected
\$5,000.

May The company
7 paid a
supplier
\$2,000 for
siding
materials
used on the
May 6 job.

May The company
8 purchased a
\$2,500 copy
machine for
office use
on credit.

May The company
9 completed
work for
additional
customers on
credit in

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the amount
of \$16,000.

May The company

15 paid its
employees'
salaries
\$2,300 for
the first
half of the
month.

May The company

17 installed
new siding
for a
customer and
immediately
collected
\$2,400.

May The company

20 received
\$10,000 in
payments
from the
customers
billed on
May 9.

May The company

28 paid \$1,500
on the copy
machine
purchased on
May 8. It
will pay the
remaining
balance in
June.

May The company

31 paid its
employees'
salaries
\$2,400 for
the second
half of the

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month.

May The company

31 paid a
supplier
\$5,300 for
siding
materials
used on the
remaining
jobs
completed
during May.

May The company

31 paid \$450
for this
month's
utility
bill.

Date	Assets =			Liabilities +		Equity	
	Cash	Accounts Receivable	Equipment	Accounts Payable	Notes Payable	Revenues	Expenses
May	90,000					\$	
1						90,000	

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Answer Key

Test name: CH01C

1)

	Proprietorship	Partnership	Corporation	LLC
a.	no	no	yes	yes
b.	yes	no	yes	yes
c.	yes	yes	no	no
d.	no	no	yes	no
e.	no	no	yes	yes

2) \$570,000. The Measurement (Cost) principle requires the acquisition of an asset to be recorded in the accounting records at cost.

3) 1. Business entity assumption. Buddy should refund the \$500 to the business. In the future, he should use a personal check to pay for soccer camp.

2. Going-concern assumption. Buddy's Foreign Automotive is not going out of business. The business is just closing for vacation. He could hold an appropriate sale to generate extra business before going on vacation.

3. Monetary unit assumption. Since Buddy's business is in the United States, the invoice should be restated in U.S. dollars for accounting purposes.

4. Revenue recognition principle. Since the service has not been completed, revenue should not be recognized. The \$1,500 should be placed in an account such as Deposits Received from Customers (a type of unearned revenue) until the service is completed.

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4) Beginning equity = \$80,000; Ending equity = \$260,000

Beginning Assets = Beginning Liabilities + Beginning Equity

\$200,000 = \$120,000 + \$80,000

Ending Assets = Ending Liabilities + Ending Equity

\$360,000 = \$100,000 + \$260,000

5) \$380,000 = \$140,000 + \$240,000

Ending assets = \$350,000 + \$30,000

Ending liabilities = \$110,000 + \$30,000

Ending equity = \$240,000 (no change)

6)

Odie Company		
Income Statement		
For Month Ended December 31		
Revenues		
Services revenue		\$ 80,000
Expenses		
Wages expense	\$ 40,000	
Rent expense	7,500	
Supplies expense	3,500	
Total expenses	<hr/>	51,000
Net income		<hr/> <hr/>

7)

Mason Company
Balance Sheet
December 31

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Assets		Liabilities	
Cash	\$ 25,500	Accounts payable	\$ 30,000
Accounts receivable	3,000		
Supplies	10,000	Equity	
Equipment	70,000	Total equity	78,500
Total assets	<u>\$ 108,500</u>	Total liabilities and equity	<u>\$ 108,500</u>

8)

James Company	
Statement of Cash Flows	
For Current Year Ended December 31	
Cash used by operating activities	\$ (6,000)
Cash from investing activities	3,200
Cash from financing activities	3,600
Net increase in cash	<u>800</u>
Cash, December 31, prior year	<u>2,600</u>
Cash, December 31, current year	<u>\$ 3,400</u>

9) Assets increased by \$62,000.

Change in Assets = Change in Liabilities + Change in Equity

$$\$62,000 = \$92,000 - \$30,000$$

10)

Date	Assets	Liabilities	Equity
April 2	D	N	D
April 3	I, D	I	N
April 4	I, D	N	N
April 8	I	N	I
April 15	I	N	I
April 20	I, D	N	N
April 30	D	N	D

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11) 1. +A, -A

2. +A, +E

3. +A, -A

4. +A, -A

5. -A, -E

6. -A, -L

12) 1. (e) The company received \$80,000 cash for services provided.

2. (d) The company purchased supplies for \$6,000 by paying \$4,000 cash and putting \$2,000 on credit.

3. (c) The company purchased equipment for \$16,000 cash.

4. (a) The company billed a customer \$12,000 for services provided.

5. (b) The company provided services and received \$2,000 cash.

13)

Village Company	
Statement of Cash Flows	
For Current Year Ended December 31	
Cash from operating activities	\$ 12,000
Cash used by investing activities	(4,000)
Cash used by financing activities	(5,600)
Net increase in cash	<u>\$ 2,400</u>
Cash, December 31, prior year	<u>4,600</u>
Cash, December 31, current year	<u><u>\$ 7,000</u></u>

14) a. 20%

b. 10%

c. 5%

15)

TWO RIVERS VENDING SERVICE	
Balance Sheet	
April 30	
Assets	Liabilities

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Cash	\$ 10,000	Accounts payable	\$ 18,000
Accounts receivable	10,000	Notes payable	47,000
Office equipment	12,000	Total liabilities	<u>\$ 65,000</u>
Building	28,000	Equity	
Trucks	55,000	Total equity	<u>50,000</u>
Total assets	<u>\$ 115,000</u>	Total liabilities and equity	<u>\$ 115,000</u>

16)

SMOKEY RIVER SUPPLIES

Balance Sheet

December 31

Assets		Liabilities	
Cash	\$ 10,000	Accounts payable	\$ 13,000
Accounts receivable	8,000	Notes payable	41,000
Supplies	12,000	Total liabilities	<u>\$ 54,000</u>
Equipment	35,000	Equity	
Land	18,000	Total equity	<u>29,000</u>
Total assets	<u>\$ 83,000</u>	Total liabilities and equity	<u>\$ 83,000</u>

17)

CANE PROPERTY MANAGEMENT

Balance Sheet

December 31

Assets		Liabilities	
Cash	\$ 7,500	Accounts payable	\$ 3,500
Accounts receivable	5,000	Salaries payable	1,000
Office supplies	1,500	Notes payable	50,000
Land	35,000	Total liabilities	<u>\$ 54,500</u>
Building	100,000	Equity	
Office equipment	10,000	Total equity	<u>104,500</u>
Total assets	<u>\$ 159,000</u>	Total liabilities and equity	<u>\$ 159,000</u>

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18)

Howard Company		
Income Statement		
For Year Ended December 31		
Revenues		
Consulting revenue	\$ 165,000	
Rental revenue	110,000	
Total revenues		\$ 275,000
Expenses		
Salaries expense	100,000	
Rent expense	60,000	
Selling expense	40,000	
Total expenses		200,000
Net income		\$ 75,000

19)

Kennedy Consulting		
Income Statement		
For Month Ended December 31		
Revenues		
Consulting revenue		\$ 140,000
Expenses		
Salaries expense	\$ 70,000	
Rent expense	35,500	
Supplies expense	7,600	
Miscellaneous expenses	5,800	

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Total expenses	118,900
----------------	---------

Net income	<u>\$ 21,100</u>
------------	------------------

20)

Jet Styling	
Statement of Cash Flows	
For Month Ended January 31	
Cash flows from operating activities:	
Cash collected from customers	\$ 22,750
Cash paid for supplies	(1,500)
Cash paid for rent	(1,800)
Cash paid for wages	(4,000)
Net cash provided by operating activities	<u>\$ 15,450</u>
Cash flows from investing activities:	
Purchase of equipment	(9,500)
Net cash used by investing activities	(9,500)
Cash flows from financing activities:	
Payment of loan	(1,000)
Net cash provided by financing activities	<u>(1,000)</u>
Net increase in cash	<u>\$ 4,950</u>
Beginning cash balance	<u>3,200</u>
Ending cash balance	<u>\$ 8,150</u>

21)

Autozone
Income Statement
For Year Ended December 31

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Revenues

Services Revenue \$ 217,000

Expenses

Insurance expense \$ 2,000

Wages expense 75,000

Advertising expense 22,000

Maintenance expense 39,000

Total expenses 138,000

Net income \$ 79,000

22)

Date	Cash	Assets =		Liabilities +		Equity	
		Accounts Receivable	Equipment	Accounts Payable	Notes Payable	Revenues	Expenses
May 1	90,000					\$ 90,000	
May 2	(10,000)		25,000		15,000		
May 3	(3,000)						(3,000)
May 6	5,000					5,000	
May 7	(2,000)						(2,000)
May 8			2,500	2,500			
May 9		16,000				16,000	
May 15	(2,300)						(2,300)
May 17	2,400					2,400	
May 20	10,000	(10,000)					

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May	(1,500)			(1,500)			
28							
May	(2,400)					(2,400)	
31							
May	(5,300)					(5,300)	
31							
May	(450)					(450)	
31							
	80,450	6,000	27,500	1,000	15,000	113,400	(15,450)

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FILL IN THE BLANK. Write the word or phrase that best completes each statement or answers the question.

1) _____ is an information and measurement system that identifies, records and communicates an organization's business activities.

1) _____

2) A _____ is a business that is owned by only one person who has unlimited liability.

2) _____

3) _____ users of accounting information do not directly run an organization and have limited access to its accounting information.

3) _____

4) _____ is the area of accounting that focuses on the needs of external users by providing them with general-purpose financial statements.

4) _____

5) _____ are procedures to protect assets, ensure reliable accounting, promote efficiency, and uphold company policies.

5) _____

6) _____ are beliefs that separate right from wrong and are considered accepted standards of good and bad behavior.

6) _____

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7) The assumption that requires that a business be accounted for separately from other business entities and its owner(s) is the _____ assumption.

7) _____

8) The _____ assumption assumes that a business will continue operating instead of being closed or sold.

8) _____

9) The _____ assumption states that transactions and events are expressed in monetary, or money, units.

9) _____

10) The principle that requires that accounting information be based on actual cost is the _____.

10) _____

11) A disadvantage of a sole proprietorship is the fact that the owner has _____ for business debts and actions.

11) _____

12) There are three sections of the statement of cash flows _____ activities involve the long-term borrowing and repaying of cash from lenders.

12) _____

13) There are three sections of the statement of cash flows _____ activities involve buying and selling assets such as land and equipment that are held for long-term use.

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13) _____

14) There are three sections of the statement of cash flows _____ activities include payments for salaries, insurance, and rent.

14) _____

15) Financial accounting is governed by concepts and rules known as _____.

15) _____

16) _____ are the increases in equity from a company's sales of products and services to customers.

16) _____

17) A common characteristic of _____ is the expectation that they will yield future benefits.

17) _____

18) Creditors' claims on assets that reflect company obligations to provide assets, products, or services to others are called _____.

18) _____

19) The owner's claim on assets, also known as net assets, is called _____.

19) _____

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- 20) The accounting equation is _____.
- 20) _____
- 21) The term _____ refers to a liability that promises a future outflow of resources.
- 21) _____
- 22) Using the accounting equation, equity is equal to _____.
- 22) _____
- 23) _____, is the recording of transactions and events.
- 23) _____
- 24) _____ is net income divided by average total assets.
- 24) _____
- 25) Return on assets is _____ divided by average total assets.
- 25) _____
- 26) _____ users of accounting information directly manage the organization.
- 26) _____

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27) The _____ describes a company's revenues and expenses along with the resulting net income or net loss over a period of time due to earnings activities.

27) _____

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

28) Explain the role of accounting in the information age.

29) What is the balance sheet? What is its purpose?

30) Identify the users and uses of accounting information.

31) Identify several opportunities in accounting and distinguish between private accounting and public accounting.

32) Explain why ethics are an integral part of accounting.

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- 33)** Describe the two important guidelines for revenue recognition.
- 34)** Identify the four basic forms of business organizations and their key attributes.
- 35)** Identify and describe the two main groups involved in establishing generally accepted accounting principles.
- 36)** How does the going-concern assumption affect reporting asset values of a business?
- 37)** Describe the income statement and the relation between revenues, expenses, and net income or loss.

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- 38) Explain the accounting equation and define its terms.
- 39) What distinguishes liabilities from equity?
- 40) What is the purpose of return on assets as an analytical tool?
- 41) Explain the cost-benefit constraint.
- 42) Describe the three types of activities reported on the statement of cash flows.
- 43) List and briefly discuss the three factors of the fraud triangle.

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

44) Match the following terms with the appropriate definition.

- a. Financial accounting
- b. Ethics
- c. Recordkeeping
- d. Internal users
- e. Accounting
- f. Certified Public Accountant (CPA)
- g. Fraud triangle
- h. Managerial accounting
- i. External users

___ 1. An information and measurement system that identifies, records, and communicates an organization's business activities.

___ 2. The part of accounting that involves recording transactions and events.

___ 3. Persons using accounting information who do not directly run the organization and have limited access to its accounting information.

___ 4. Persons using accounting information who directly manage the organization.

___ 5. The area of accounting that serves the decision-making needs of internal users.

___ 6. The area of accounting focused on serving external users by providing them with general-purpose financial statements.

___ 7. Accounting specialists that have met educational and experience requirements, passed an examination and exhibit ethical characteristics to achieve a professional certification.

___ 8. Beliefs that distinguish right from wrong, considered accepted standards of good and bad behavior.

___ 9. A model that shows three factors that push a person to commit fraud.

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45) Match each of the following terms with the most appropriate definition.

- a. Return on assets
- b. Assets
- c. Expenses
- d. Liabilities
- e. Payable
- f. Accounting equation
- g. Generally accepted accounting principles (GAAP)

- ____ 1. Concepts and rules that govern financial accounting.
- ____ 2. A financial ratio computed as net income divided by average total assets.
- ____ 3. Creditor's claims on a company's assets.
- ____ 4. Decreases in equity from costs of providing products or services to customers.
- ____ 5. A liability that promises a future outflow of resources.
- ____ 6. Resources a company owns or controls that are expected to yield future benefit.
- ____ 7. Expresses the relation of assets, liabilities and equity in a company.

46) The following is a list of selected users of accounting information. Match the appropriate user to the following decisions they make with accounting information.

- a. Suppliers
- b. Lenders
- c. Shareholders
- d. Purchasing managers
- e. Regulators

- ____ 1. Need to know what, when, and how much to purchase.
- ____ 2. Use information to analyze a customer before extending credit.
- ____ 3. Have legal authority over certain activities of an organization.
- ____ 4. Assess whether an organization is likely to repay its loans with interest.
- ____ 5. Decide whether to buy, hold, or sell a company's stock.

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47) Match the following definitions with terms 1 through 10. Place the letter that identifies the best definition in the blank space next to the term.

- ____ 1. Generally accepted accounting principles
- ____ 2. Time period assumption
- ____ 3. Revenue recognition principle
- ____ 4. Balance sheet
- ____ 5. Income statement
- ____ 6. Measurement (Cost) principle
- ____ 7. Securities and Exchange Commission
- ____ 8. FASB
- ____ 9. Full disclosure principle
- ____ 10. Statement of cash flows

- a. Prescribes that assets and services to be recorded initially on a cash or equal-to-cash basis.
- b. Describes a company's revenues and expenses and computes net income or loss over a period of time.
- c. Is given the task of setting generally accepted accounting principles from the Securities and Exchange Commission.
- d. Presumes that the life of a company can be divided into periods for reporting purposes.
- e. The concepts and rules that govern financial accounting.
- f. The accounting principle that revenue is recognized when goods or services are provided to customers and at the amount expected to be received from the customer.
- g. A report that identifies cash inflows (receipts) and cash outflows (payments) over a period of time.
- h. Prescribes that a company report the details behind financial statements that would impact user decisions.
- i. The governmental agency that oversees the proper use of GAAP by companies that sell stock and debt to the public.
- j. A report that describes a company's financial position at a point in time.

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48) Match the following definitions with the terms 1 through 9. Place the letter that identifies the best definition in the blank space next to the term.

- ____ 1. Statement of cash flows
- ____ 2. Events
- ____ 3. Monetary unit assumption
- ____ 4. Business entity assumption
- ____ 5. Revenue recognition principle
- ____ 6. Accounting equation
- ____ 7. Income statement
- ____ 8. Expenses
- ____ 9. Liabilities

- a. The relation between a company's assets, liabilities, and equity.
- b. Happenings that effect the accounting equation and are reliably measured.
- c. The assumption that transactions and events are expressed in monetary, or money, units.
- d. Describes a company's revenues and expenses and computes net income or loss over a period of time.
- e. A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities.
- f. Creditor's claims on assets.
- g. The cost of providing products and services to customers.
- h. The assumption that requires a business to be accounted for separately from other business entities and from its owners.
- i. Revenue is recorded when goods and services are provided to customers and at the amount expected to be received from customers.

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49) Identify each of the following items 1 through 8 as belonging to category a, b, or c.

- a. Assets
- b. Liabilities
- c. Equity

- _____ 1. Cash
- _____ 2. Supplies
- _____ 3. Wages payable
- _____ 4. Equipment
- _____ 5. Accounts receivable
- _____ 6. Taxes payable
- _____ 7. Accounts payable
- _____ 8. Notes payable

50) Identify each of the following users as either an (A) External user or (B) Internal user of accounting information.

- _____ 1. Voters.
- _____ 2. Customers.
- _____ 3. Purchasing managers.
- _____ 4. Lenders (Creditors).
- _____ 5. Research and development managers.
- _____ 6. Marketing managers.
- _____ 7. Nonmanagerial and nonexecutive employees.
- _____ 8. Labor unions.

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51) Classify the following activities in the appropriate section of the statement of cash flows.

- a. Operating activity
- b. Investing activity
- c. Financing activity

- ____ 1. Cash received from clients.
- ____ 2. Cash paid for machinery.
- ____ 3. Cash paid for insurance expense.
- ____ 4. Cash paid for equipment.
- ____ 5. Cash paid for wages expense.

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Answer Key

Test name: CH01B

- 1) Accounting
- 2) Sole proprietorship
- 3) External
- 4) Financial accounting
- 5) Internal controls
- 6) Ethics
- 7) business entity
- 8) going-concern
- 9) monetary unit
- 10) Measurement (Cost) principle
- 11) unlimited liability
- 12) Financing
- 13) Investing
- 14) Operating
- 15) Generally accepted accounting principles or GAAP
- 16) Revenues
- 17) assets
- 18) liabilities
- 19) equity
- 20) $\text{Assets} = \text{Liabilities} + \text{Equity}$
- 21) payable
- 22) assets minus liabilities
- 23) Record-keeping or Book keeping
- 24) Return on assets
- 25) net income

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26) Internal

27) income statement

28) Accounting is an information and measurement system. It identifies, records, and communicates relevant, reliable and comparable information about business activities. Accounting also includes the crucial process of analysis and interpretation. It is part of our everyday lives, through such activities as banking, paying taxes, and receiving payroll checks. Technology plays a major role in accounting by reducing the time effort and cost of recordkeeping while improving clerical accuracy.

29) The balance sheet is one of the four required financial statements a company prepares periodically. It describes a company's financial position by listing the types and amounts of assets, liabilities, and equity of a business at a specified point in time. The statement's purpose is to provide information that helps users assess the financial condition of the business.

30) There are two general types of users of accounting information. Internal users are managers and officers of businesses. They require information about business activities in order to make decisions about planning, monitoring, and control. External users rely on financial statements to make business decisions. These users include lenders, and shareholders. Lenders need information for measuring the risk and return of loans. Shareholders need information for assessing the risk and return in owning shares.

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31) The four broad areas of accounting are financial accounting, managerial accounting, taxation and other accounting related employment. The majority of the employment opportunities are in private accounting where employees work for businesses. Private sector jobs would include general accounting, taxation, budgeting, and cost accounting activities. Public accounting offers opportunities to perform work such as auditing, tax services, and consulting.

32) The purpose of accounting is to provide useful information for decision makers. For information to be useful, it must be trusted. This requires ethical behavior by accountants and managers in all phases of gathering, analyzing and reporting financial information so that good decisions are made.

33) The two important guidelines for revenue recognition include: Revenue is recognized (1) when goods or services are provided to customers and (2) at the amount expected to be received from the customer. Assets received from selling products and services do not need to be in cash. Revenue recognized is measured by cash received plus the cash equivalent of other assets received.

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34) The four basic forms of business organizations are sole proprietorships, partnerships, corporations, and limited liability companies (LLC). Sole proprietorships are businesses owned by one person. They are separate entities for accounting purposes, but are not separate from the owner legally or for tax purposes. Partnerships are businesses owned by two or more people who are jointly liable for tax and other obligations. Corporations are businesses legally separate from their owners, making them responsible for their own acts and own debts. They conduct business with the rights, duties and responsibilities of a person. Limited liability companies owned by one or more 'members'. LLCs are legally separate from their owners, the owners have limited liability and do not pay taxes.

35) The Financial Accounting Standards Board (FASB) is the private-sector group that has been delegated the task to set both the broad and specific principles of GAAP. The Securities and Exchange Commission (SEC) is a government agency that has the legal authority to set GAAP and oversees proper use of GAAP by companies that issue stock and debt to the public.

36) The going-concern assumption means that financial statements reflect an assumption that the business continues in operation instead of being closed or sold. Assets are therefore reported at cost rather than at liquidation value.

37) The income statement describes a company's revenues and expenses along with the resulting net income or loss over a period of time due to earnings activities. Revenues are the increases in equity from sales of products and services to customers. Expenses are the costs of providing products and services to customers. When revenues exceed expenses, net income occurs. When expenses exceed revenues, a net loss occurs.

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38) The accounting equation is stated as: $\text{Assets} = \text{Liabilities} + \text{Equity}$. Assets are resources owned or controlled by a business that are expected to provide future benefit. Creditors' claims on assets are called liabilities. The owner's claim on assets is called equity. The accounting equation shows that the resources (assets) of the business equal the source of funds to acquire and the claims against those resources.

39) Liabilities are creditors' claims on assets. They reflect obligations to transfer assets or provide products or services to others in a future outflow of resources. Equity is the owner's claim to assets. Equity is also called net assets or residual interest.

40) Return on assets is useful in evaluating management, analyzing and forecasting profits, and planning activities. It shows the effectiveness of using assets to earn profit.

41) The cost-benefit constraint says that information disclosed by an entity must have benefits to the user that are greater than the costs of providing it.

42) The three types of activities reported on the statement of cash flows are (1) operating, which involve using cash to research, develop, purchase, produce, distribute, and market products and services as well as receiving cash from selling products and services; (2) financing, which are the cash inflows and cash outflows related to long-term borrowing and repaying of cash from lenders and (3) investing, which represent the cash inflows and outflows from the purchase and sale of long-term assets.

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43) The three factors included in the fraud triangle are Opportunity, Pressure, and Rationalization. Opportunity occurs when a person is able to commit fraud with a low risk of getting caught. Pressure occurs when a person has an incentive to commit fraud. Rationalization occurs when an individual justifies fraud or does not see its criminal nature.

44) 1. E; 2. C; 3. I; 4. D; 5. H; 6. A; 7. F; 8. B; 9. G

45) 1. G; 2. A; 3. D; 4. C; 5. E; 6. B; 7. F

46) 1. D; 2. A; 3. E; 4. B; 5. C

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

48) 1. E; 2. B; 3. C; 4. H; 5. I; 6. A; 7. D; 8. G; 9. F

49) 1. A ; 2. A ; 3. B ; 4. A ; 5. A ; 6. B ; 7. B ; 8. B

50) 1. A; 2. A; 3. B; 4. A; 5. B; 6. B; 7. A; 8. A

51) 1. A; 2. B; 3. A; 4. B; 5. A