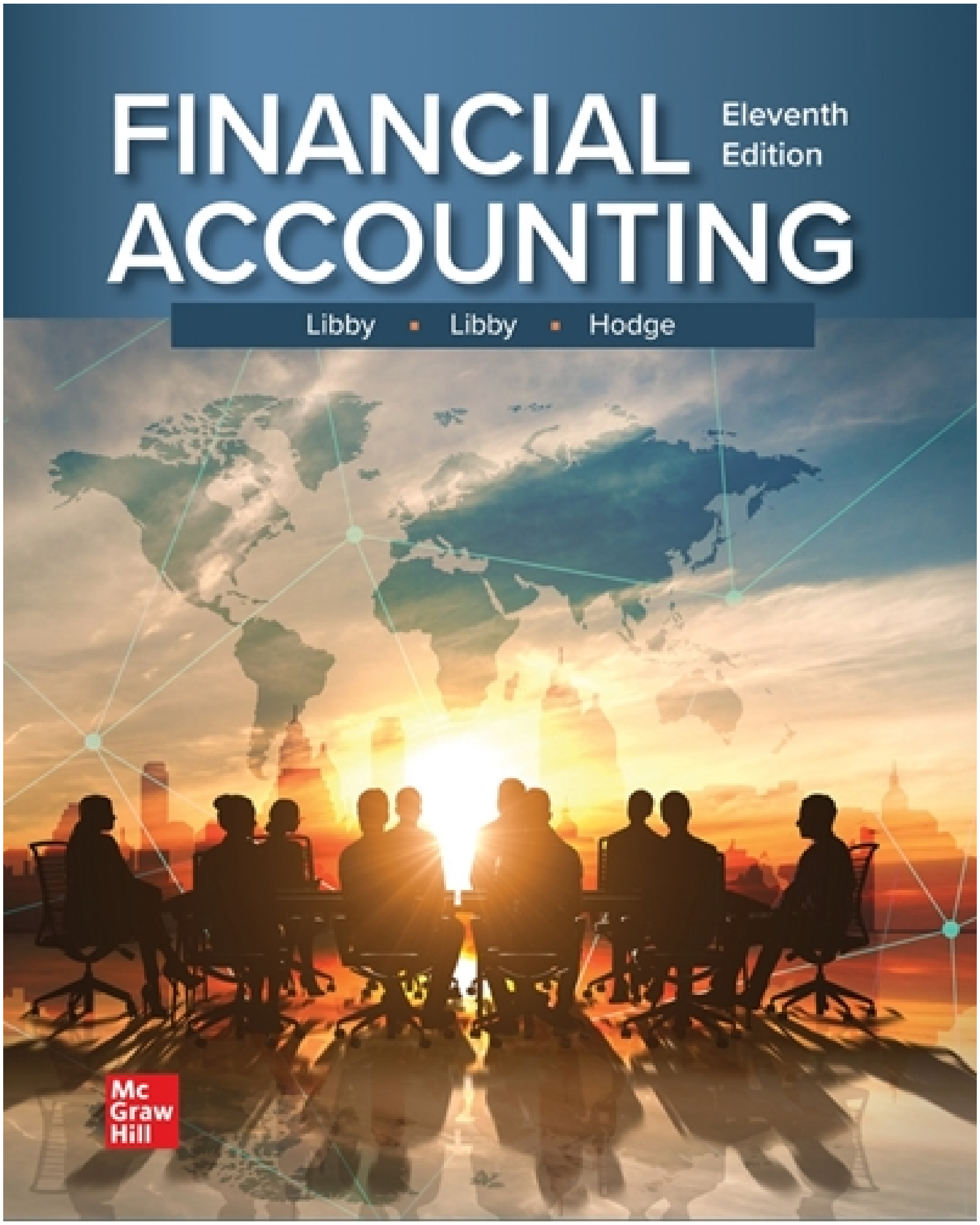
Test Bank for Financial Accounting 11th Edition by Libby



Test Bank

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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

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

1) The monetary unit assumption states that elements of the balance sheet are initially recorded at historical cost.
   - ⊙ true
   - ⊙ false

2) The going concern assumption states that each business’s activities are accounted for separately from the activities of its owners.
   - ⊙ true
   - ⊙ false

3) Assets are economic resources that have measurable value and are owned or controlled by a company.
   - ⊙ true
   - ⊙ false

4) The continuity assumption states that a business will continue to operate into the foreseeable future.
   - ⊙ true
   - ⊙ false

5) The current assets section of a balance sheet includes both inventory and prepaid expenses.
   - ⊙ true
   - ⊙ false

6) The stockholders' equity section of a balance sheet includes capital contributed by owners and also retained earnings.
   - ⊙ true
   - ⊙ false

7) Under the monetary unit assumption, accounting information should be measured and reported in terms of the national monetary unit, with an adjustment for changes in purchasing power.
   - ⊙ true
   - ⊙ false

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8) Assets are reported on the balance sheet in the order of liquidity.
   - ⊙ true
   - ⊙ false

9) Many valuable internally developed intangible assets such as trademarks and copyrights are not reported on a company's balance sheet.
   - ⊙ true
   - ⊙ false

10) Stockholders' equity reflects the financing provided by owners.
   - ⊙ true
   - ⊙ false

11) Common stock and additional paid-in capital represent the financing sources from shareholders.
   - ⊙ true
   - ⊙ false

12) Financial reporting focuses on reporting the impact of transactions on an entity's financial position.
   - ⊙ true
   - ⊙ false

13) Unearned revenue is reported on the balance sheet as a liability and represents amounts paid to an entity in exchange for future services and/or goods.
   - ⊙ true
   - ⊙ false

14) A transaction may be an exchange of assets or services by one business for assets, services, or promises to pay from a different business.
   - ⊙ true
   - ⊙ false

15) The dual effects concept implies that every transaction has at least two effects on the accounting equation.
   - ⊙ true
   - ⊙ false

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16) The accounting equation does **not** have to be in balance after the recording of each transaction.
    - ⊙ true
    - ⊙ false

17) Additional paid-in capital is reported on the balance sheet as a component of shareholders' equity.
    - ⊙ true
    - ⊙ false

18) Common stock and additional paid-in capital are both reported on the balance sheet as components of shareholders' equity.
    - ⊙ true
    - ⊙ false

19) A company's assets and stockholders' equity both increase when the company sells additional shares of stock in exchange for cash.
    - ⊙ true
    - ⊙ false

20) Purchasing supplies for cash results in an increase in total assets for the purchasing company.
    - ⊙ true
    - ⊙ false

21) The normal balance for an asset account is a debit and the normal balance for a liability account is a credit.
    - ⊙ true
    - ⊙ false

22) The recording of a journal entry precedes the posting to the general ledger.
    - ⊙ true
    - ⊙ false

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

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

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

26) The general ledger is a chronological listing of each transaction and its effects on the accounting equation.
- ⊙ true
- ⊙ false

27) The T-account is very useful for accumulating the effects of transactions on account balances and for determining individual account balances.
- ⊙ true
- ⊙ false

28) The trial balance is similar to the balance sheet in that it is a listing of assets, liabilities, and stockholders' equity and is provided to external decision makers.
- ⊙ true
- ⊙ false

29) The trial balance is a listing of account balances that are found in the general ledger.
- ⊙ true
- ⊙ false

30) An objective of preparing the trial balance is to test the equality of debits and credits.
- ⊙ true
- ⊙ false

31) Current assets include accounts receivable and prepaid expenses.
- ⊙ true
- ⊙ false

32) The current ratio is current assets divided by current liabilities.
- ⊙ true
- ⊙ false

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33) Current liabilities are defined as obligations to be paid within six months.
- ⊚ true
- ⊚ false

34) The current ratio measures the ability of a company to pay its short-term obligations with short-term assets.
- ⊚ true
- ⊚ false

35) A company with a high current ratio should never have liquidity problems.
- ⊚ true
- ⊚ false

36) When a company borrows money from a bank, the statement of cash flows will report a cash increase from an investing activity.
- ⊚ true
- ⊚ false

37) Issuing stock in exchange for cash creates an increase in cash from a financing activity.
- ⊚ true
- ⊚ false

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

38) Which of the following statements about stockholders' equity is **false?**
- A) Stockholders' equity is the shareholders' residual interest in the company resulting from the difference in assets and liabilities.
- B) Stockholders' equity accounts are increased with credits.
- C) Stockholders' equity results only from contributions of the owners.
- D) The purchase of land for cash has no effect on stockholders' equity.

39) Assets, liabilities, and stockholders' equity are all found within which of the following financial statements?
- A) Balance sheet
- B) Income statement
- C) The investing activities section of the Statement of Cash Flows
- D) Statement of stockholders' equity

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40) Accounts payable would be reported within which of the following financial statements?
   A) Statement of cash flows
   B) Income statement
   C) Balance sheet
   D) Statement of stockholders' equity

41) Which of the following assumptions implies that a business can continue to remain in operation into the foreseeable future?
   A) Historical cost principle
   B) Monetary unit assumption
   C) Continuity assumption
   D) Separate-entity assumption

42) Which of the following best describes assets?
   A) Resources that represent the residual value of the company
   B) Resources that have measurable value and are expected to benefit the company
   C) Resources that are expected to be settled in the future by providing services
   D) Resources that are reported on each of the four financial statements and are considered elements of the income statement

43) Which of the following assumptions implies that the assets and liabilities of the business are accounted for separately from the assets and liabilities of the owners?
   A) Monetary unit assumption
   B) Continuity assumption
   C) Historical cost principle
   D) Separate entity assumption

44) Which of the following results from a company paying its investors to repurchase a portion of its previously issued common stock?
   A) Contributed capital
   B) Owners’ stock
   C) Treasury stock
   D) Unearned capital

45) ___________ represents a measurable obligation resulting from a past transaction which is expected to be settled in the future by transferring assets or providing services.
   A) A credit account
   B) Unearned capital
   C) Treasury stock
   D) A liability

46) Which of the following statements is **incorrect** concerning balance sheets prepared under IFRS and GAAP?

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

47) Chad Jones is the sole owner and manager of Jones Glass Repair Shop. Jones purchased a truck, to be used in the business, for its market value of $35,000. Which of the following fundamentals requires Jones to record the truck at the price paid to buy it?

A) Separate-entity assumption
B) Revenue principle
C) Monetary unit assumption
D) Historical cost principle

48) In what order are current assets listed on a balance sheet?

A) By dollar amount (largest first)
B) By date of acquisition (earliest first)
C) By liquidity
D) By relevance to the operation of the business

49) In what order would the following assets be listed on a balance sheet?

A) Cash, Short-term Investments, Accounts Receivable, Inventory
B) Cash, Intangible Assets, Accounts Receivable, Property and Equipment
C) Cash, Accounts Receivable, Property and Equipment, Inventory
D) Cash, Inventory, Intangible Assets, Accounts Receivable

50) Where would changes in stockholders' equity resulting from financing provided by operations be reported?

A) Within a long-term asset account
B) Within the additional paid-in capital account
C) Within a liability account
D) Within the retained earnings account

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51) Which of the following events will cause retained earnings to increase?
   A) Dividends declared by the Board of Directors
   B) Net income reported for the period
   C) Net loss reported for the period
   D) Issuance of stock in exchange for cash

52) Which of the following correctly describes retained earnings?
   A) It is the cumulative earnings of a company.
   B) It represents the investments by stockholders in a company.
   C) It equals total assets minus total liabilities.
   D) It is the cumulative earnings of a company less dividends declared.

53) Which of the following statements is **false**?
   A) Absent evidence to the contrary, a company is expected to continue operating for the foreseeable future.
   B) Earned capital is the portion of profits reinvested in the business.
   C) On the balance sheet, Common stock represents the total par value of stock issued by the company to investors.
   D) Accounting information should be reported in the national monetary unit with adjustment for inflation.

54) How are liabilities listed on the balance sheet?
   A) In order of magnitude (largest to smallest)
   B) In order of liquidity
   C) In order of maturity
   D) Alphabetically within current liabilities and by magnitude with noncurrent liabilities

55) Which of the following are used to indicate amounts investors pay to a company to purchase its stock?
   A) Common Stock and Treasury Stock
   B) Common Stock and Additional Paid-in Capital
   C) Earned Capital and Additional Paid-in Capital
   D) Retained Earnings and Treasury Stock

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

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

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

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

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

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

62) Which of the following reflects the impact of a transaction where $270,000 cash was invested by stockholders in exchange for stock?
- A) Assets and retained earnings each increased $270,000.
- B) Stockholders' equity and revenues each increased $270,000.
- C) Assets and revenues each increased $270,000.
- D) Stockholders' equity and assets each increased $270,000.

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63) Which of the following reflects the impact of a transaction where $200,000 cash was invested by stockholders in exchange for stock?

A) Assets and retained earnings each increased $200,000.
B) Assets and revenues each increased $200,000.
C) Stockholders' equity and revenues each increased $200,000.
D) Stockholders' equity and assets each increased $200,000.

64) A corporation purchased factory equipment using cash. Which of the following statements regarding this purchase is correct?

A) The cost of the factory equipment is an expense at the time of purchase.
B) The total assets will not change.
C) The total liabilities will increase.
D) The current stockholders' equity will decrease.

65) Which of the following direct effects on the accounting equation is **not** possible as a result of a single business transaction which impacts only two accounts?

A) An increase in a liability and a decrease in an asset
B) An increase in stockholders' equity and an increase in an asset
C) An increase in an asset and a decrease in an asset
D) A decrease in stockholders' equity and a decrease in an asset

66) Which of the following direct effects on the accounting equation is **not** possible as a result of a single business transaction which impacts only two accounts?

A) An increase in an asset and a decrease in another asset
B) An increase in an asset and an increase in stockholders' equity
C) A decrease in stockholders' equity and an increase in an asset
D) An increase in a liability and an increase in an asset

67) A company's January 1, 2022 balance sheet reported total assets of $151,000 and total liabilities of $60,500. During January 2022, the company completed the following transactions: (A) paid a note payable using $10,500 cash (no interest was paid); (B) collected a $9,500 accounts receivable; (C) paid a $5,100 accounts payable; and (D) purchased a truck for $5,100 cash and by signing a $20,500 note payable from a bank. The company's January 31, 2022 balance sheet would report which of the following?

Assets	Liabilities	Stockholders' Equity
$161,000	$75,900	$85,100
Assets	**Liabilities**	**Stockholders' Equity**
$171,500	$101,700	$69,800
Assets	**Liabilities**	**Stockholders' Equity**
$151,000	$60,500	$90,500
Assets	**Liabilities**	**Stockholders' Equity**
$155,900	$65,400	$90,500

68) A company's January 1, 2022 balance sheet reported total assets of $150,000 and total liabilities of $60,000. During January 2022, the company completed the following transactions: (A) paid a note payable using $10,000 cash (no interest was paid); (B) collected a $9,000 accounts receivable; (C) paid a $5,000 accounts payable; and (D) purchased a truck for $5,000 cash and by signing a $20,000 note payable from a bank. The company's January 31, 2022 balance sheet would report which of the following?

Assets	Liabilities	Stockholders' Equity
$150,000	$60,000	$90,000
Assets	**Liabilities**	**Stockholders' Equity**
$155,000	$65,000	$90,000
Assets	**Liabilities**	**Stockholders' Equity**
$160,000	$75,000	$85,000
Assets	**Liabilities**	**Stockholders' Equity**
$170,000	$100,000	$70,000

69) Which of the following is a result of equipment purchased with cash?

A) Total assets decrease
B) Current assets do not change
C) Current assets increase
D) Stockholders' equity does not change

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70) A company's January 1, 2022 balance sheet reported total assets of $122,000 and total liabilities of $38,000. During January 2022, the following transactions occurred: (A) the company issued stock and collected cash totaling $32,000; (B) the company paid an account payable of $6,200; (C) the company purchased supplies for $1,200 with cash; (D) the company purchased land for $58,000, paying $12,000 with cash and signing a note payable for the balance. What is total stockholders' equity after the transactions above?

A) $32,000
B) $197,800
C) $116,000
D) $84,000

71) A company's January 1, 2022 balance sheet reported total assets of $120,000 and total liabilities of $40,000. During January 2022, the following transactions occurred: (A) the company issued stock and collected cash totaling $30,000; (B) the company paid an account payable of $6,000; (C) the company purchased supplies for $1,000 with cash; (D) the company purchased land for $60,000, paying $10,000 with cash and signing a note payable for the balance. What is total stockholders' equity after the transactions above?

A) $30,000
B) $110,000
C) $80,000
D) $194,000

72) Which of the following describes the impact on the balance sheet of purchasing supplies for cash?

A) Current assets will decrease.
B) Current assets will increase.
C) Stockholders' equity will decrease.
D) Total assets remain the same.

73) Which of the following describes the impact on the balance sheet of paying a current liability using cash?

A) Current assets will decrease.
B) Current liabilities will increase.
C) Stockholders' equity will decrease.
D) Total assets will remain the same.

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74) Which of the following describes the impact on the balance sheet when cash is received from the collection of an account receivable?

A) Current assets will not change.
B) Current assets will increase.
C) Stockholders' equity will increase.
D) Total assets will increase.

75) Blankenship Company has $91,000 in total assets, $30,500 in total liabilities, and a $18,600 credit balance in retained earnings. What is the balance in the contributed capital accounts?

A) $79,100
B) $41,900
C) $60,500
D) $49,100

76) Blankenship Company has $160,000 in total assets, $72,000 in total liabilities, and a $24,000 credit balance in retained earnings. What is the balance in the contributed capital accounts?

A) $112,000
B) $88,000
C) $96,000
D) $64,000

77) The dual effects concept states that:

A) both the income statement and balance sheet are impacted by every transaction.
B) every transaction has an impact on assets and stockholders' equity.
C) there are only two accounts involved in every transaction.
D) every transaction has at least two effects on the accounting equation.

78) Which of the following is **not** considered to be a recordable transaction?

A) Signing a contract to have an outside cleaning service clean offices nightly
B) Paying employees their wages
C) Selling stock to investors
D) Buying equipment and agreeing to pay a note payable and interest at the end of a year

79) Which of the following transactions will cause both the left and right side of the accounting equation to decrease?

A) Collecting cash from a customer who owed us money
B) Paying a supplier for inventory we previously purchased on account
C) Borrowing money from a bank
D) Purchasing equipment using cash

80) When a company buys equipment for $156,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?

A) Total liabilities decrease $52,000.
B) Total assets increase $156,000.
C) Total assets increase $104,000.
D) Total liabilities increase $156,000.

81) When a company buys equipment for $150,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?

A) Total assets increase $150,000.
B) Total liabilities increase $150,000.
C) Total liabilities decrease $50,000.
D) Total assets increase $100,000.

82) Which of the following describes the impact on the balance sheet when a company uses cash to purchase the stock of another company?

A) Total assets increase.
B) Stockholders' equity increases.
C) Stockholders' equity decreases.
D) Total assets remain the same.

83) Which of the following transactions will **not** change a company's total stockholders' equity?

A) Reporting of net income
B) Issuing stock to stockholders in exchange for cash
C) The declaration of a cash dividend
D) The purchase of a factory building

84) Alpha Company issued 5,200 shares of $10 par value common stock to stockholders, in exchange for $62,400 cash. Which of the following correctly describes the impact of this transaction on Alpha’s financial statements?

A) Common stock is reported at $62,400 in stockholders’ equity.
B) Stockholders have invested $114,400 as stockholders' equity.
C) Additional paid-in capital of $10,400 is reported in stockholders' equity.
D) A $62,400 investment is reported as a long-term investment.

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

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

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

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

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

Account Title	Debit	Credit
Cash	xxx	
Retained earnings		xxx

Account Title	Debit	Credit
Cash	xxx	
Additional paid-in capital		xxx

Account Title	Debit	Credit
Cash	xxx	
Common Stock		xxx

Account Title	Debit	Credit
Cash	xxx	
Common Stock		xxx
Additional paid-in capital		xxx

90) Which of the following statements is **false**?

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

91) Trane Company purchases a delivery van by paying $12,500 cash and by signing a $32,500 note payable. Which of the following correctly describes the recording of the delivery van purchase?

A) The delivery van account is debited for $45,000.
B) Cash is debited for $12,500.
C) Notes payable is debited for $32,500.
D) The delivery van account is debited for $32,500.

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92) Trane company purchases a delivery van by paying $7,500 cash and by signing a $37,500 note payable. Which of the following correctly describes the recording of the delivery van purchase?

A) The delivery van account is debited for $37,500.
B) Notes payable is debited for $37,500.
C) The delivery van account is debited for $45,000.
D) Cash is debited for $7,500.

93) Cadet Company paid an accounts payable of $2,300. This transaction should be recorded on the payment date as follows:

Account Title	Debit	Credit
Notes payable	2,300	
Cash		2,300

Account Title	Debit	Credit
Cash	2,300	
Accounts payable		2,300

Account Title	Debit	Credit
Cash	2,300	
Cost of goods sold		2,300

Account Title	Debit	Credit
Accounts payable	2,300	
Cash		2,300

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

Account Title	Debit	Credit
Accounts payable	1,000	
Cash		1,000

Account Title	Debit	Credit
Cash	1,000	
Accounts payable		1,000

Account Title	Debit	Credit
Notes Payable	1,000	
Cash		1,000

Account Title	Debit	Credit
Cash	1,000	
Cost of goods sold		1,000

95) Centex, Incorporated issued 58,000 shares of its $1 par value common stock for $25 per share. The journal entry to record the stock issue would include which of the following?

A) A credit to common stock for $58,000
B) A credit to cash for $1,450,000
C) A credit to additional paid-in capital for $58,000
D) A credit to additional paid-in capital for $1,450,000

96) Centex, Incorporated issued 50,000 shares of its $1 par value common stock for $20 per share. The journal entry to record the stock issue would include which of the following?

A) A credit to cash for $1,000,000
B) A credit to additional paid-in capital for $1,000,000
C) A credit to additional paid-in capital for $50,000
D) A credit to common stock for $50,000

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97) Which of the following correctly describes the recording of a dividend declaration by a company's board of directors?

A) A debit to retained earnings and a credit to cash
B) A debit to additional paid-in capital and a credit to dividends payable
C) A debit to cash and a credit to retained earnings
D) A debit to retained earnings and a credit to dividends payable

98) Eagle Crest Company has provided the following information for its recent year of operation:
The common stock account balance at the beginning of the year was $18,000 and the year-end balance was $19,000.
The additional paid-in capital account balance increased $3,400 during the year.
The retained earnings balance at the beginning of the year was $70,000 and the year-end balance was $88,000.
Net income was $35,000.
How much were Eagle Crest's dividend declarations during its recent year of operation?

A) $35,000
B) $17,000
C) $53,000
D) The dividend declarations cannot be determined from the information provided

99) Eagle Crest Company has provided the following information for its recent year of operation:
The common stock account balance at the beginning of the year was $60,000 and the year-end balance was $75,000.
The additional paid-in capital account balance increased $7,500 during the year.
The retained earnings balance at the beginning of the year was $225,000 and the year-end balance was $273,000.
Net income was $78,000.
How much were Eagle Crest's dividend declarations during its recent year of operation?

A) $30,000
B) $126,000
C) $78,000
D) The dividend declarations cannot be determined from the information provided

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100) Eagle Crest Company has provided the following information for its recent year of operation:

The common stock account balance at the beginning of the year was $12,000 and the year-end balance was $16,000.

The additional paid-in capital account balance increased $3,700 during the year.

The retained earnings balance at the beginning of the year was $70,000 and the year-end balance was $91,000.

Net income was $38,000.

How much did Eagle Crest sell its common stock for during the year?

A) $3,700
B) $7,700
C) $4,000
D) $16,000

101) Eagle Crest Company has provided the following information for its recent year of operation:

The common stock account balance at the beginning of the year was $60,000 and the year-end balance was $75,000.

The additional paid-in capital account balance increased $7,500 during the year.

The retained earnings balance at the beginning of the year was $225,000 and the year-end balance was $273,000.

Net income was $78,000.

How much did Eagle Crest sell its common stock for during the year?

A) $15,000
B) $7,500
C) $22,500
D) $82,500

102) Which of the following statements is correct?

A) Assets normally have a credit balance and are increased with debits.
B) Assets normally have a debit balance and are increased with credits.
C) Liability accounts normally have debit balances and are increased with debits.
D) Stockholders' equity accounts normally have credit balances and are increased with credits.

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103) Which of the following journal entries is correct when a business entity purchases land costing $41,000 by signing a one-year note payable?

Account Title	Debit	Credit
Cash	41,000	
Notes payable		41,000

Account Title	Debit	Credit
Notes payable	41,000	
Land		41,000

Account Title	Debit	Credit
Land	41,000	
Notes payable		41,000

Account Title	Debit	Credit
Land	41,000	
Accounts payable		41,000

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

Account Title	Debit	Credit
Cash	30,000	
Notes Payable		30,000

Account Title	Debit	Credit
Land	30,000	
Accounts payable		30,000

Account Title	Debit	Credit
Land	30,000	
Notes Payable		30,000

Account Title	Debit	Credit
Notes Payable	30,000	
Land		30,000

Financial Accounting Edition 11 by Libby

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

Account Title	Debit	Credit
Cash	xxx	
Common Stock		xxx
Retained earnings		xxx

Account Title	Debit	Credit
Cash	xxx	
Common Stock		xxx
Additional paid-in capital		xxx

Account Title	Debit	Credit
Cash	xxx	
Investments		xxx

Account Title	Debit	Credit
Common stock	xxx	
Cash		xxx

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

Account Title	Debit	Credit
Building	xxx	
Cash		xxx
Notes Payable		xxx

Account Title	Debit	Credit
Building	xxx	
Cash		xxx

Account Title	Debit	Credit
Cash	xxx	
Notes Payable		xxx
Building		xxx

Account Title	Debit	Credit
Building	xxx	
Cash	xxx	
Notes Payable		xxx

Financial Accounting Edition 11 by Libby

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

Account Title	Debit	Credit
Cash	xxx	
Advertising expense		xxx

Account Title	Debit	Credit
Advertising expense	xxx	
Cash		xxx

Account Title	Debit	Credit
Cash	xxx	
Prepaid advertising expense		xxx

Account Title	Debit	Credit
Prepaid advertising expense	xxx	
Cash		xxx

Financial Accounting Edition 11 by Libby

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

Account Title	Debit	Credit
Accounts Payable	xxx	
Cash		xxx

Account Title	Debit	Credit
Accounts Receivable	xxx	
Cash		xxx

Account Title	Debit	Credit
Cash	xxx	
Accounts Payable		xxx

Account Title	Debit	Credit
Cash	xxx	
Notes Payable		xxx

109) Which of the following transactions would result in an increase in the current ratio?

A) Collection of cash from an account receivable
B) Selling shares of stock to stockholders in exchange for cash
C) Purchasing a building with cash
D) Declaration of a cash dividend by the board of directors

110) Which of the following transactions would result in a decrease in the current ratio?

A) Collection of cash from an account receivable
B) Selling shares of stock to stockholders in exchange for cash
C) Purchasing a delivery vehicle by signing a long-term note payable
D) Purchasing land by paying cash

111) Which of the following account balances would**not** be included in the calculation of the current ratio?

A) Accounts receivable
B) Short-term investments
C) Equipment
D) Supplies

Financial Accounting Edition 11 by Libby

112) Which of the following statements does **not** properly describe the current ratio?

A) It measures the ability of a firm to pay its debts in the short run.

B) It is current assets divided by current liabilities.

C) It is a measure of a firm's short-run liquidity.

D) It measures a firm's ability to pay its long-term debts as they mature.

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

Cash $38,400;

Short-term investments $4,400;

Accounts receivable $50,000;

Supplies $6,400;

Long-term notes receivable $2,400;

Equipment $98,000;

Factory Building $184,000;

Intangible assets $6,400;

Accounts payable $29,600;

Accrued liabilities payable $3,800;

Short-term notes payable $14,800;

Long-term notes payable $94,000;

Common stock $184,000;

Retained earnings $63,800.

What are Pioneer's total current assets?

A) $49,200

B) $51,600

C) $99,200

D) $42,800

Financial Accounting Edition 11 by Libby

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

Cash $38,000;

Short-term investments $4,000;

Accounts receivable $48,000;

Supplies $6,000;

Long-term notes receivable $2,000;

Equipment $96,000;

Factory Building $180,000;

Intangible assets $6,000;

Accounts payable $30,000;

Accrued liabilities payable $4,000;

Short-term notes payable $14,000;

Long-term notes payable $92,000;

Common stock $180,000;

Retained earnings $60,000.

What are Pioneer's total current assets?

A) $48,000

B) $96,000

C) $90,000

D) $42,000

Financial Accounting Edition 11 by Libby

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

Cash $39,700;
Short-term investments $5,700;
Accounts receivable $7,700;
Supplies $56,500;
Long-term notes receivable $3,700;
Equipment $104,500;
Factory Building $197,000;
Intangible assets $7,700;
Accounts payable $28,300;
Accrued liabilities payable $3,150;
Short-term notes payable $17,400;
Long-term notes payable $100,500;
Common stock $197,000;
Retained earnings $76,150.
What are Pioneer's total current liabilities?

A) $31,450
B) $45,700
C) $149,350
D) $48,850

Financial Accounting Edition 11 by Libby

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

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

What are Pioneer's total current liabilities?

A) $44,000
B) $34,000
C) $48,000
D) $140,000

Financial Accounting Edition 11 by Libby

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

Cash $39,000;
Short-term investments $5,000;
Accounts receivable $7,000;
Supplies $53,000;
Long-term notes receivable $3,000;
Equipment $101,000;
Factory Building $190,000;
Intangible assets $7,000;
Accounts payable $29,000;
Accrued liabilities payable $3,500;
Short-term notes payable $16,000;
Long-term notes payable $97,000;
Common stock $190,000;
Retained earnings $69,500.

What is Pioneer's current ratio?

A) 3.20
B) 2.14
C) 2.31
D) 1.05

Financial Accounting Edition 11 by Libby

118) The Pioneer Company has provided the following account balances:
Cash $38,000;
Short-term investments $4,000;
Accounts receivable $48,000;
Supplies $6,000;
Long-term notes receivable $2,000;
Equipment $96,000;
Factory Building $180,000;
Intangible assets $6,000;
Accounts payable $30,000;
Accrued liabilities payable $4,000;
Short-term notes payable $14,000;
Long-term notes payable $92,000;
Common stock $180,000;
Retained earnings $60,000.
What is Pioneer's current ratio?

A) 2.00
B) 2.17
C) 2.71
D) 1.00

119) At the beginning of April, Warren Corporation's assets totaled $249,000 and liabilities totaled $69,000. During April the following summarized transactions occurred:
Additional shares of stock were sold for $24,500 cash.
A building costing $104,000 was purchased using $14,500 cash and by signing an $89,500 long-term note payable.
Short-term investments costing $9,900 were purchased using cash.
$10,900 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.
How much are Warren's total assets at the end of April?

A) $387,400
B) $258,900
C) $259,000
D) $363,000

Financial Accounting Edition 11 by Libby

120) At the beginning of April, Warren Corporation's assets totaled $240,000 and liabilities totaled $60,000. During April the following summarized transactions occurred:
Additional shares of stock were sold for $20,000 cash.
A building costing $95,000 was purchased using $10,000 cash and by signing an $85,000 long-term note payable.
Short-term investments costing $9,000 were purchased using cash.
$10,000 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.
How much are Warren's total assets at the end of April?

A) $335,000
B) $249,000
C) $345,000
D) $250,000

121) At the beginning of April, Warren Corporation's assets totaled $258,000 and liabilities totaled $78,000. During April the following summarized transactions occurred:
Additional shares of stock were sold for $29,000 cash.
A building costing $113,000 was purchased using $19,000 cash and by signing an $94,000 long-term note payable.
Short-term investments costing $10,800 were purchased using cash.
$11,800 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.
How much are Warren's total liabilities at the end of April?

A) $160,200
B) $172,000
C) $191,000
D) $202,800

Financial Accounting Edition 11 by Libby

122) At the beginning of April, Warren Corporation's assets totaled $240,000 and liabilities totaled $60,000. During April the following summarized transactions occurred:
Additional shares of stock were sold for $20,000 cash.
A building costing $95,000 was purchased using $10,000 cash and by signing an $85,000 long-term note payable.
Short-term investments costing $9,000 were purchased using cash.
$10,000 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.
How much are Warren's total liabilities at the end of April?

A) $145,000
B) $155,000
C) $165,000
D) $135,000

123) Tiger Company's total stockholders' equity at the beginning of the year was $185,000. During the year Tiger reported the following:
Net income of $89,000.
Dividend declarations totaling $18,000.
Issued stock to stockholders in exchange for $47,000 cash.
Borrowed $12,000 from a stockholder.
What is Tiger's total stockholders' equity at the end of the year?

A) $303,000
B) $297,000
C) $321,000
D) $315,000

124) Tiger Company's total stockholders' equity at the beginning of the year was $175,000. During the year Tiger reported the following:
Net income of $79,000.
Dividend declarations totaling $17,000.
Issued stock to stockholders in exchange for $42,000 cash.
Borrowed $20,000 from a stockholder.v
What is Tiger's total stockholders' equity at the end of the year?

A) $296,000
B) $279,000
C) $290,000
D) $273,000

Financial Accounting Edition 11 by Libby

125) Surprise Company's total stockholders' equity at the beginning of the year was $275,000. During the year Surprise reported the following:
Net loss of $41,250.
Stock issued in exchange for land totaling $110,000.
Collections of accounts receivable $55,000.
Dividends declared and paid totaling $2,750.
What is Surprise's total stockholders' equity at the end of the year?

A) $396,000
B) $231,000
C) $478,500
D) $341,000

126) Surprise Company's total stockholders' equity at the beginning of the year was $320,000. During the year Surprise reported the following:
Net loss of $48,000.
Stock issued in exchange for land totaling $128,000.
Collections of accounts receivable $64,000.
Dividends declared and paid totaling $3,200.
What is Surprise's total stockholders' equity at the end of the year?

A) $556,800
B) $460,800
C) $396,800
D) $268,800

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

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

Financial Accounting Edition 11 by Libby

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

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

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

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

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

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

Financial Accounting Edition 11 by Libby

135) Which of the following would be classified as financing cash flows on a statement of cash flows?

1. Paying cash dividends.
2. Lending cash to others.
3. Issuing stock for cash.
4. Purchasing long-term assets for cash.

A) 1, 2, 3
B) 2, 3, 4
C) 1, 3
D) 2, 4

136) Which of the following would be classified as investing cash flows on a statement of cash flows?

1. Acquiring a building by signing a long-term mortgage payable.
2. Lending cash to others.
3. Issuing stock for cash.
4. Purchasing long-term assets for cash.
5. Selling stock investments for cash.

A) 1, 4, 5
B) 1, 2, 4
C) 1, 3, 5
D) 2, 4, 5

137) Which of the following statements is**false**?

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

Financial Accounting Edition 11 by Libby

138) Regina Company's January 1, 2022 balance sheet reported total assets of $100,400 and total liabilities of $36,000. During January 2022, the following transactions occurred: (A) the company issued stock and collected cash totaling $28,000; (B) the company paid an account payable of $5,200; (C) the company purchased supplies for $840 with cash; (D) the company purchased land for $52,000, paying $8,400 with cash and signing a note payable for the balance. What is total stockholders' equity after the transactions above?

A) $64,400
B) $28,000
C) $92,400
D) $163,920

139) Regina Company's January 1, 2022 balance sheet reported total assets of $96,000 and total liabilities of $32,000. During January 2022, the following transactions occurred: (A) the company issued stock and collected cash totaling $24,000; (B) the company paid an account payable of $4,800; (C) the company purchased supplies for $800 with cash; (D) the company purchased land for $48,000, paying $8,000 with cash and signing a note payable for the balance. What is total stockholders' equity after the transactions above?

A) $24,000
B) $88,000
C) $64,000
D) $155,200

140) Dakota Industries has $97,800 in total assets, $43,800 in total liabilities, and a $15,000 credit balance in retained earnings. What is the balance in the contributed capital accounts?

A) $54,000
B) $69,000
C) $39,000
D) $58,800

141) Dakota Industries has $96,000 in total assets, $43,200 in total liabilities, and a $14,400 credit balance in retained earnings. What is the balance in the contributed capital accounts?

A) $67,200
B) $52,800
C) $57,600
D) $38,400

142) Ironwood Company purchased equipment for $214,800 and paid for one third in cash; the other two thirds is financed by a note payable. Which of the following are the effects on Ironwood's accounting equation?

A) Total assets increase $143,200.
B) Total liabilities decrease $71,600.
C) Total assets increase $214,800.
D) Total liabilities increase $214,800.

143) Ironwood Company purchased equipment for $210,000 and paid for one third in cash; the other two thirds is financed by a note payable. Which of the following are the effects on Ironwood's accounting equation?

A) Total assets increase $210,000.
B) Total liabilities increase $210,000.
C) Total liabilities decrease $70,000.
D) Total assets increase $140,000.

144) Melrose Corporation has provided the following account balances:

Cash	$ 95,500
Short-term investments	$ 10,500
Accounts receivable	$ 120,500
Supplies	$ 15,500
Long-term notes receivable	$ 5,500
Equipment	$ 240,500
Factory Building	$ 450,500
Intangible assets	$ 15,500
Accounts payable	$ 76,000
Accrued liabilities payable	$ 11,000
Short-term notes payable	$ 35,500
Long-term notes payable	$ 232,000
Common stock	$ 452,500
Retained earnings	$ 147,000

What are Melrose's total current assets?

A) $242,000
B) $120,500
C) $106,000
D) $226,500

Financial Accounting Edition 11 by Libby

145) Melrose Corporation has provided the following account balances:

Cash	$ 95,000
Short-term investments	$ 10,000
Accounts receivable	$ 120,000
Supplies	$ 15,000
Long-term notes receivable	$ 5,000
Equipment	$ 240,000
Factory Building	$ 450,000
Intangible assets	$ 15,000
Accounts payable	$ 75,000
Accrued liabilities payable	$ 10,000
Short-term notes payable	$ 35,000
Long-term notes payable	$ 230,000
Common stock	$ 450,000
Retained earnings	$ 150,000

What are Melrose's total current assets?

A) $120,000
B) $240,000
C) $225,000
D) $105,000

Financial Accounting Edition 11 by Libby

146) Melrose Corporation has provided the following account balances:

Cash	$ 96,300
Short-term investments	$ 11,300
Accounts receivable	$ 121,300
Supplies	$ 16,300
Long-term notes receivable	$ 6,300
Equipment	$ 241,300
Factory Building	$ 451,300
Intangible assets	$ 16,300
Accounts payable	$ 77,600
Accrued liabilities payable	$ 12,600
Short-term notes payable	$ 36,300
Long-term notes payable	$ 235,200
Common stock	$ 456,500
Retained earnings	$ 142,200

What are Melrose's total current liabilities?

A) $126,500
B) $90,200
C) $113,900
D) $361,700

Financial Accounting Edition 11 by Libby

147) Melrose Corporation has provided the following account balances:

Cash	$ 95,000
Short-term investments	$ 10,000
Accounts receivable	$ 120,000
Supplies	$ 15,000
Long-term notes receivable	$ 5,000
Equipment	$ 240,000
Factory Building	$ 450,000
Intangible assets	$ 15,000
Accounts payable	$ 75,000
Accrued liabilities payable	$ 10,000
Short-term notes payable	$ 35,000
Long-term notes payable	$ 230,000
Common stock	$ 450,000
Retained earnings	$ 150,000

What are Melrose's total current liabilities?

A) $110,000

B) $85,000

C) $120,000

D) $350,000

Financial Accounting Edition 11 by Libby

148) Melrose Corporation has provided the following account balances:

Cash	$ 95,100
Short-term investments	$ 10,100
Accounts receivable	$ 120,100
Supplies	$ 15,100
Long-term notes receivable	$ 5,100
Equipment	$ 240,100
Factory Building	$ 450,100
Intangible assets	$ 15,100
Accounts payable	$ 75,200
Accrued liabilities payable	$ 10,200
Short-term notes payable	$ 35,100
Long-term notes payable	$ 230,400
Common stock	$ 450,500
Retained earnings	$ 149,400

What is Melrose's current ratio?

A) 2.00

B) 2.16

C) 2.70

D) 1.00

149) Melrose Corporation has provided the following account balances:

Cash	$ 95,000
Short-term investments	$ 10,000
Accounts receivable	$ 120,000
Supplies	$ 15,000
Long-term notes receivable	$ 5,000
Equipment	$ 240,000
Factory Building	$ 450,000
Intangible assets	$ 15,000
Accounts payable	$ 75,000
Accrued liabilities payable	$ 10,000
Short-term notes payable	$ 35,000
Long-term notes payable	$ 230,000
Common stock	$ 450,000
Retained earnings	$ 150,000

What is Melrose's current ratio?

A) 2.00
B) 2.17
C) 2.71
D) 1.00

150) At the beginning of October, Ingram Company's assets totaled $289,900 and liabilities totaled $73,900. During October the following summarized transactions occurred:
Additional shares of stock were sold for $25,900 cash.
A building costing $117,800 was purchased using $13,900 cash and by signing $103,900 long-term note payable.
Short-term investments costing $12,700 were purchased using cash.
$13,900 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.
How much are Ingram's total assets at the end of October?

A) $419,700
B) $302,600
C) $405,800
D) $303,800

Financial Accounting Edition 11 by Libby

151) At the beginning of October, Ingram Company’s assets totaled $288,000 and liabilities totaled $72,000. During October the following summarized transactions occurred:
Additional shares of stock were sold for $24,000 cash.
A building costing $114,000 was purchased using $12,000 cash and by signing a $102,000 long-term note payable.
Short-term investments costing $10,800 were purchased using cash.
$12,000 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.
How much are Ingram's total assets at the end of October?

A) $402,000
B) $298,800
C) $414,000
D) $300,000

152) At the beginning of October, Ingram Company’s assets totaled $289,800 and liabilities totaled $73,800. During October the following summarized transactions occurred:
Additional shares of stock were sold for $25,800 cash.
A building costing $117,600 was purchased using $13,800 cash and by signing a $103,800 long-term note payable.
Short-term investments costing $12,600 were purchased using cash.
$13,800 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.
How much are Ingram's total liabilities at the end of October?

A) $205,200
B) $177,600
C) $191,400
D) $163,800

Financial Accounting Edition 11 by Libby

153) At the beginning of October, Ingram Company’s assets totaled $288,000 and liabilities totaled $72,000. During October the following summarized transactions occurred:
Additional shares of stock were sold for $24,000 cash.
A building costing $114,000 was purchased using $12,000 cash and by signing a $102,000 long-term note payable.
Short-term investments costing $10,800 were purchased using cash.
$12,000 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.
How much are Ingram's total liabilities at the end of October?

A) $174,000
B) $186,000
C) $198,000
D) $162,000

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

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

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

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

Financial Accounting Edition 11 by Libby

157) Complete the following schedule for Red Eye Company.

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

Financial Accounting Edition 11 by Libby

158) Complete the following schedule for Blue Eye Company.

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

159) For each of the following accounts, indicate whether the account is an asset (A), liability (L), or stockholders' equity (SE) **and** whether the account has a normal debit (Dr) or normal credit (Cr) balance.

1. Retained Earnings
2. Supplies
3. Additional paid-in capital
4. Accounts payable
5. Accounts receivable
6. Property and equipment
7. Wages payable
8. Prepaid expenses

Financial Accounting Edition 11 by Libby

160) For each of the accounts listed below, indicate whether the typical or normal balance is a debit or credit.

A. Supplies
B. Notes payable
C. Retained earnings
D. Equipment
E. Prepaid insurance expense
F. Accounts receivable
G. Land
H. Additional paid-in capital
I. Accounts payable
J. Unearned revenue

161) Popover Company was formed on January 1, 2022. The three initial owners each invested $200,000 cash and each received 10,000 shares of $1 par value common stock. Below are selected transactions that were completed during January, 2022.

1. Issue shares of common stock to the owners.
2. Borrowed $160,000 on a one-year note payable.
3. Purchased land by signing a $140,000 note payable.
4. Paid $20,000 of accounts payable.
5. Purchased two service vehicles for cash at a cost of $48,000 each.
6. Purchased $4,000 of supplies on credit.

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

Financial Accounting Edition 11 by Libby

162) The accounts with identification letters for River Run Industries are listed below.

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

During 2022, the company completed the transactions given below. You are to indicate the appropriate journal entry for each transaction by giving the account letter and amount. Some entries may need three letters. The first transaction is provided as an example.

Transaction	Debit		Credit	
	Letter	Amount	Letter	Amount
1. Borrowed $25,000 and signed a note.	A	$ 25,000	G	$ 25,000
2. Purchased equipment for $25,000. Paid $5,000 cash, signed $20,000 note payable.				
3. Collected $7,500 of accounts receivable.				
4. Paid $16,000 of accounts payable.				
5. Issued 5,000 shares of $10 par value common stock in exchange for $80,000 cash.				
6. Purchased $2,500 office supplies on credit.				
7. Paid for the office supplies in (6).				

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163) Describe the general journal and the general ledger.

164) On January 1, 2022, Dr. Beth Hill started a new professional corporation, Beth Hill, P. C., to practice medicine with an initial investment of $100,000 in exchange for 20,000 shares of $2 par value common stock. On June 30, 2022, the accounting records showed the following amounts:

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

Required:

1. Calculate the amounts for common stock and additional paid-in capital.
2. Prepare a balance sheet as of June 30, 2022.

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

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

166) The Alex Company, a consulting firm, recorded the following selected business transactions during May, 2022. Indicate whether each transaction would increase, decrease, or have no effect on the total assets of the company.

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

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167) Classify the following balance sheet accounts as current assets, noncurrent assets, current liabilities, noncurrent liabilities, or stockholders' equity.

1. Building
2. Retained earnings
3. Notes payable due in 3 months
4. Land
5. Prepaid expenses
6. Supplies inventory
7. Common stock
8. Notes payable due in 5 years
9. Income taxes payable
10. Accounts receivable

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

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

Required: Write a brief explanation for each of the above transactions.

169) Explain how current assets and current liabilities are reported on the balance sheet.

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

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

Cash $76,000;
Short-term investments $8,000;
Accounts receivable $96,000;
Supplies $12,000;
Long-term notes receivable $4,000;
Equipment $192,000;
Factory Building $360,000;
Intangible assets $12,000;
Accounts payable $90,000;
Accrued liabilities payable $12,000;
Short-term notes payable $42,000;
Long-term notes payable $184,000.
Required: What is Lake's current ratio?

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

Cash $152,000;

Short-term investments $18,000;
Accounts receivable $36,000;
Inventory $116,000;
Long-term notes receivable $44,000;
Equipment $174,000;
Factory Building $270,000;
Intangible assets $33,000;
Accounts payable $130,000;
Accrued liabilities payable $19,000;
Short-term notes payable $84,000;
Long-term notes payable $169,000.
Required: What is Superior's stockholders' equity?

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173) The Smith Corporation has provided the following information:
Cash dividend payments were $25,000.
Long-term investments were sold for $79,000 cash.
A building costing $198,000 was purchased using $19,800 cash, and the balance was financed with a mortgage note payable.
Stock was issued to stockholders in exchange for $110,000 cash.
A $44,000 loan was made to a local inventory supplier; the loan will be repaid in twelve months.
Equipment used in operations was sold for $37,000.
Repaid a long-term note payable for $92,000 cash.
Cash received from short-term bank loans totaled $71,000.
Land costing $57,000 was purchased in exchange for a long-term note payable.
Required: Determine Smith's cash flows to be reported on the statement of cash flows for 1. investing activities, and 2. financing activities.

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

175) On December 31, 2022, the accounting records for Mountain Trail Corporation showed the following amounts:

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

Required:

1. Prepare a balance sheet using GAAP as of December 31, 2022.
2. Prepare a balance sheet using IFRS as of December 31, 2022.

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Answer Key

Test name: Chapter 02

1) FALSE
The monetary unit assumption states each business entity accounts for and reports its financial results in terms of the national monetary unit, without any adjustment for changes in purchasing power.

2) FALSE
The separate entity assumption states that each business's activities are accounted for separately from the activities of its owners.

3) TRUE
Assets are owned or controlled by a company, have measurable value, and are expected to benefit the company by producing cash inflows or reducing cash outflows in the future.

4) TRUE
5) TRUE
6) TRUE
7) FALSE

The monetary unit assumption guides financial reporting so that the national monetary unit is the reporting unit for financial statements and will not be adjusted for changes in purchasing power.

8) TRUE
9) TRUE
Many intangible assets that are not purchased but that are developed inside a company are not reported on the balance sheet.

10) TRUE
11) TRUE
Common stock and additional paid-in capital are contributed capital components representing the financing sources from owners.

12) TRUE
Accounting focuses on certain events that have an economic impact on the entity. Those events that are recorded as part of the accounting process are called transactions.

13) TRUE

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Accounts with "unearned" in the title are always liabilities representing amounts paid to the company in the past, by others, with the promise of goods and/or services in the future.

14) TRUE
15) TRUE
Every accounting transaction has at least two effects on the accounting equation; this concept is known as dual effects.

16) FALSE
One of the underlying principles of an accounting transaction is that the accounting equation must remain in balance after recording every transaction.

17) TRUE
Shareholders' equity includes common stock, additional paid-in capital, and retained earnings.

18) TRUE
Shareholders' equity includes common stock, additional paid-in capital, and retained earnings.

19) TRUE
Receiving cash increases assets; selling stock increases stockholders' equity. Both sides of the balance sheet equation are increased with this transaction.

20) FALSE
This transaction has zero effect on the total asset amount. The asset Supplies is increased and the asset Cash is decreased by the same amount.

21) TRUE
The normal balance refers to what is usual or what increases an account. Assets have debit balances and liabilities have credit balances.

22) TRUE
The accounting cycle during the period starts with analyzing a transaction, recording journal entries in the general journal, and finally posting the amounts to the general ledger.

23) TRUE
The normal account balance for an asset is a debit balance; accounts are increased on the same side as their position in the accounting equation. Assets are on the left side of the accounting equation and therefore assets are increased on the left. A left-side entry is a debit.

24) TRUE
25) TRUE

26) FALSE
Transactions are first recorded in the general journal, which is a chronological listing of each transaction. Accounts in the general ledger are updated by posting the effects listed in the general journal. The general ledger is a record of effects to and balances of each account.

27) TRUE
The T-account is a very useful tool for summarizing the transaction effects, determining the balances for individual accounts, and drawing inferences about a company's activities.

28) FALSE
29) TRUE
30) TRUE
31) TRUE
Current assets are those to be used or turned into cash within the upcoming year.

32) TRUE
33) FALSE
Current liabilities are those obligations to be paid within the next twelve months.

34) TRUE
35) FALSE

A company with its current assets tied up in slow-moving inventory may have a high current ratio but still have liquidity problems.

36) FALSE
Borrowing cash from a bank leads to a cash inflow from a financing activity.

37) TRUE
38) C
Retained earnings from business operations are also a component of stockholders' equity.

39) A
The balance sheet contains three parts: 1) Assets, 2) Liabilities, and 3) Stockholders' Equity.

40) C
An accounts payable is a liability reported on the balance sheet.

41) C
The continuity assumption, also known as the going-concern assumption, states that a business will continue operating long enough to meet its contractual commitments and plans.

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42) B
Assets are economic resources that have measurable value and are expected to benefit the company by producing cash inflows or reducing cash outflows in the future.

43) D
The separate entity assumption states that each business's activities must be accounted for separately from the activities of its owners, all other persons, and other entities.

44) C
The Treasury Stock account reduces stockholders’ equity and represents the amount a company pays its investors when it repurchases its previously issued common stock.

45) D
Liabilities are measurable obligations that result from a company's past transactions and will be settled by transferring assets or providing services.

46) C
Under IFRS assets are usually listed in increasing order of liquidity, while under GAAP assets are usually listed in decreasing order of liquidity.

47) D

The historical cost principle requires assets to be recorded at the cash-equivalent cost on the date of the transaction.

48) C
Assets are listed on the balance sheet in order of liquidity with the most liquid assets listed first.

49) A
Assets are listed in order of liquidity. Cash is always first, and Property and Equipment is listed as a non-current asset. Accounts Receivable is more liquid than Inventory.

50) D
Stockholders' equity has two parts; financing from contributed capital and business operations. Retained earnings are the result of business operations, and therefore changes in stockholders' equity from operations are reported in retained earnings.

51) B
Beginning Retained Earnings + Net Income − Dividends = Ending Retained Earnings.

52) D

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Retained earnings are the cumulative earnings not distributed to the owners. That is the cumulative net income less dividends declared.

53) D
Accounting information should be reported in the national monetary unit**without** adjustment for inflation.

54) C
Liabilities are listed on the balance sheet in order of maturity (how soon the obligation will be paid).

55) B
Financing provided by owners is recorded in the accounts Common Stock and Additional Paid-in Capital.

56) C
Land is part of property and equipment and is listed as a part of long-term assets.

57) B
Current liabilities are obligations expected to be paid within the next year and expected to consume current assets.

58) D
A business transaction includes measurable internal events such as the use of assets in operations.

59) C
Expenses listed as "prepaid" are included in the chart of accounts as assets.

60) B
Unearned revenue relates to payments that have been received in the past for future goods or services.

61) D
Using up prepaid expenses is an internal event.

62) D
Receiving $270,000 cash in exchange for stock increases assets (cash) and stockholders' equity (issuing stock).

63) D

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Receiving $200,000 cash in exchange for stock increases assets (cash) and stockholders' equity (issuing stock).

64) B
The purchase of equipment is not expensed and, therefore, has no effect on the income statement. Instead, one asset (cash) is exchanged for another asset (equipment), which means that total assets will not change.

65) A
With one transaction impacting only two accounts, the accounting equation would not be in balance if there was an increase in a liability and a decrease in an asset because both items are recorded as credits.

66) C
With one transaction impacting only two accounts, a single transaction that results in a decrease in stockholders' equity and an increase in an asset is not possible; both items are recorded as debits and thus the accounting equation would not be in balance.

67) D
Assets = $155,900 = $151,000 − $10,500 − $5,100 − $5,100 + $25,600
Liabilities = $65,400 = $60,500 − $10,500 − $5,100 + $20,500
Stockholders' equity = $90,500 = Assets ($155,900) − Liabilities ($65,400)

68) B
Assets = $155,000 = $150,000 − $10,000 − $5,000 − $5,000 + $25,000
Liabilities = $65,000 = $60,000 − $10,000 − $5,000 + $20,000
Stockholders' equity = $90,000 = Assets ($155,000) − Liabilities ($65,000)

69) D
A purchase of equipment with cash decreases current assets (Cash) and increases the noncurrent asset Equipment; there is no change in stockholders' equity.

70) C
Beginning equity = $122,000 − $38,000 = $84,000.
Only transaction (A) affects stockholders' equity.
Therefore, stockholders' equity = $84,000 + $32,000 = $116,000.

71) B

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Beginning equity = \$120,000 − \$40,000 = \$80,000.
Only transaction (A) affects stockholders' equity.
Therefore, stockholders' equity = \$80,000 + \$30,000 = \$110,000.

72) D
Total assets are unchanged because cash is decreased by the same amount for which supplies are increased.

73) A
Paying a current liability with cash decreases the cash account thus decreasing current assets.

74) A
Current assets do not change because cash is increased by the same amount the accounts receivable decreases. Both cash and accounts receivable are current assets.

75) B
Stockholders’ equity (\$60,500) = Assets (\$91,000) − Liabilities (\$30,500). Stockholders’ equity (\$60,500) = Contributed capital of common stock and additional paid-in capital (\$41,900) + Retained earnings (\$18,600).

76) D
Stockholders' equity (\$88,000) = Assets (\$160,000) − Liabilities (\$72,000). Stockholders' equity (\$88,000) = Contributed capital of common stock and additional paid-in capital (\$64,000) + Retained earnings (\$24,000).

77) D
Every accounting transaction has at least two effects on the accounting equation. This concept is known as dual effects.

78) A
Signing a contract is an exchange of promises. The recordable event is when assets and/or liabilities are exchanged.

79) B
Paying a supplier for inventory purchased on account reduces assets and reduces accounts payable.

80) C
Equipment increases \$156,000 and cash decreases \$52,000 for a net asset increase of \$104,000.

81) D

Equipment increases $150,000 and cash decreases $50,000 for a net asset increase of $100,000.

82) D
Cash decreases by the same amount that the investment in the other company increases.

83) D
The purchase of a factory building, an item of property, whether paid for in cash or financed with a liability, does not affect the income statement and therefore will not affect total stockholders' equity.

84) C
Common stock = $52,000 = 5,200 shares × $10 par value. Additional paid-in capital = the excess of the $62,400 selling price above the stock’s par value. Additional paid-in capital = $10,400 = $62,400 – $52,000 and is a component of stockholders’ equity.

85) D
Common stock = $10,000 = 1,000 shares × $10 par value. Additional paid-in capital = the excess of the $15,000 selling price above the stock's par value. Additional paid-in capital = $5,000 = $15,000 – $10,000 and is a component of stockholders' equity.

86) B
Liability accounts are increased by credits.

87) C
This transaction results in an increase in cash with a debit; common stock is a stockholders' equity account and is increased with a credit.

88) A
Cash is received and increased with a debit; the loan from the bank is recognized with a credit to notes payable.

89) D
Common stock and additional paid-in capital are both credited when common stock is sold for more than par value.

90) D
Par value has no relationship to the market value of common stock. The par value represents the minimum amount a stockholder must contribute.

91) A

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The cost of the asset is recorded at cash paid plus all noncash considerations. The delivery van account is debited for $45,000. ($12,500 + $32,500 = $45,000).

92) C
The cost of the asset is recorded at cash paid plus all noncash considerations. The delivery van account is debited for $45,000. ($7,500 + $37,500 = $45,000).

93) D
Accounts Payable is reduced with a debit, and cash is reduced with a credit.

94) A
Accounts Payable is reduced with a debit, and cash is reduced with a credit.

95) A
Common stock is credited for the par value of the shares issued.

96) D
Common stock is credited for the par value of the shares issued.

97) D
Dividends declared decrease retained earnings and increase a liability for dividends payable. A debit decreases retained earnings, and a credit to dividends payable increases the liability.

98) B
Ending retained earnings ($88,000) = Beginning retained earnings ($70,000) + Net income ($35,000) − Dividends declared ($17,000).

99) A
Ending retained earnings ($273,000) = Beginning retained earnings ($225,000) + Net income ($78,000) − Dividends declared ($30,000).

100) B
The increase in the common stock account ($4,000) plus the increase in additional paid-in capital ($3,700) equals the selling price of the common stock ($7,700).

101) C
The increase in the common stock account ($15,000) plus the increase in additional paid-in capital ($7,500) equals the selling price of the common stock ($22,500).

102) D

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An account balance increases on the same side as the normal balance. Stockholders' equity accounts have a normal credit balance and are increased with credits.

103) C
The transaction results in the company receiving an asset, land, and incurring a liability, notes payable. This results in a debit to land to increase the land account, and a credit to notes payable to recognize and record the liability.

104) C
The transaction results in the company receiving an asset, land, and incurring a liability, notes payable. This results in a debit to land to increase the land account, and a credit to notes payable to recognize and record the liability.

105) B
Cash is received in the transaction; the cash account is increased with a debit. Stock is being issued in exchange for the cash so a credit to common stock and additional paid-in capital is required.

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

107) D
Advertising is purchased in advance of use and therefore is recorded in an asset account. The prepaid advertising expense account needs to be increased with a debit; cash is decreased and recorded with a credit to cash.

108) A
Both the accounts payable and cash accounts need to be decreased as a result of this transaction. This is recorded with a debit to accounts payable and a credit to cash.

109) B
The current ratio is current assets divided by current liabilities. When issuing common stock, the increase in stockholders' equity does not impact current assets or current liabilities, but the receipt of cash in this transaction increases current assets. Therefore, the increase in the numerator of the ratio will increase the ratio.

110) D

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The current ratio is current assets divided by current liabilities. A cash payment reduces current assets and decreases the current ratio. Since land is a noncurrent asset, it does not affect the current ratio.

111) C
The current ratio is current assets divided by current liabilities. Equipment is a noncurrent asset.

112) D
The current ratio is a measure of short-term liquidity. It does not measure a firm's ability to pay its long-term debt.

113) C
Current assets = $99,200 = $38,400 + $4,400 + $50,000 + $6,400.

114) B
Current assets = $96,000 = $38,000 + $4,000 + $48,000 + $6,000.

115) D
Current liabilities = $48,850 = $28,300 + $3,150 + $17,400.

116) C

Current liabilities = $48,000 = $30,000 + $4,000 + $14,000.

117) B
Current assets = $104,000 = $39,000 + $5,000 + $7,000 + $53,000. Current liabilities = $48,500 = $29,000 + $3,500 + $16,000. Current ratio = 2.14 = $104,000 ÷ $48,500.

118) A
Current assets = $96,000 = $38,000 + $4,000 + $48,000 + $6,000. Current liabilities = $48,000 = $30,000 + $4,000 + $14,000. Current ratio = 2 = $96,000 ÷ $48,000.

119) D
Total assets = $363,000 = $249,000 + $24,500 + $104,000 – $14,500 (building payment).

120) C
Total assets = $345,000 = $240,000 + $20,000 + $95,000 − $10,000 (building payment).

121) B
Total liabilities = $172,000 = $78,000 + $94,000.

122) A

Total liabilities = $145,000 = $60,000 + $85,000.

123) A
Total stockholders' equity = $303,000 = $185,000 + $89,000 − $18,000 + $47,000. Borrowing money affects cash and liabilities regardless of who is the lender.

124) B
Total stockholders' equity = $279,000 = $175,000 + $79,000 − $17,000 + $42,000. Borrowing money affects cash and liabilities regardless of who is the lender.

125) D
$275,000 − $41,250 + $110,000 − $2,750 = $341,000 total stockholders' equity at the end of the year; collections of accounts receivable only affects cash and accounts receivable, but not equity.

126) C
$320,000 − $48,000 + $128,000 − $3,200 = $396,800 total stockholders' equity at the end of the year; collections of accounts receivable only affects cash and accounts receivable, but not equity.

127) A
Financing cash flow activities include borrowing and repaying debt, issuing and repurchasing stock, and paying dividends.

128) A
Financing cash flow activities include borrowing and repaying debt, issuing and repurchasing stock, and paying dividends.

129) A
Investing cash flow activities include buying and selling noncurrent assets and investments.

130) B
The note is noncurrent because it is due in two years. The cash flow is created from borrowing money and is categorized as a financing cash flow.

131) B
Selling additional shares of stock increases common stock and additional paid-in capital. Financing cash flow activities include issuing common stock.

132) A
Buildings are classified as noncurrent assets. Investing cash flows are created with the purchase or sale of noncurrent assets.

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133) D
A ten-month note receivable is classified as a current asset. Investing cash flows include lending cash to others.

134) A
Declaring a dividend creates a dividend payable. Paying the dividend reduces this current liability account. Paying dividends are classified as financing cash flows.

135) C
Financing cash flow activities include paying dividends and issuing stock.

136) D
Investing cash flows include lending cash to others and purchasing and selling noncurrent assets and investments. Acquiring a building by signing a long-term mortgage payable does not generate a cash flow.

137) C
Financing cash flow activities includes all bank loans, whether short-term or long-term.

138) C
Beginning equity = \$100,400 − \$36,000 = \$64,400.

Only transaction (A) affects stockholders' equity.
Therefore, stockholders' equity = \$64,400 + \$28,000 = \$92,400.

139) B
Beginning equity = \$96,000 − \$32,000 = \$64,000.
Only transaction (A) affects stockholders' equity.
Therefore, stockholders' equity = \$64,000 + \$24,000 = \$88,000.

140) C
Stockholders' equity (\$54,000) = Assets (\$97,800) − Liabilities (\$43,800). Stockholders' equity (\$54,000) = Contributed capital of common stock and additional paid-in capital (\$39,000) + Retained earnings (\$15,000).

141) D
Stockholders' equity (\$52,800) = Assets (\$96,000) − Liabilities (\$43,200). Stockholders' equity (\$52,800) = Contributed capital of common stock and additional paid-in capital (\$38,400) + Retained earnings (\$14,400).

142) A

Equipment increases $214,800 and cash decreases $71,600 for a net asset increase of $143,200.

143) D
Equipment increases $210,000 and cash decreases $70,000 for a net asset increase of $140,000.

144) A
Current assets = $242,000 = $95,500 + $10,500 + $120,500 + $15,500.

145) B
Current assets = $240,000 = $95,000 + $10,000 + $120,000 + $15,000.

146) A
Current liabilities = $126,500 = $77,600 + $12,600 + $36,300.

147) C
Current liabilities = $120,000 = $75,000 + $10,000 + $35,000.

148) A
Current assets = $240,400 = $95,100 + $10,100 + $120,100 + $15,100. Current liabilities = $120,500 = $75,200 + $10,200 + $35,100. Current ratio = 2.00 = $240,400 ÷ $120,500.

149) A
Current assets = $240,000 = $95,000 + $10,000 + $120,000 + $15,000. Current liabilities = $120,000 = $75,000 + $10,000 + $35,000. Current ratio = 2 = $240,000 ÷ $120,000.

150) A
Total assets = $419,700 = $289,900 + $25,900 + $117,800 − $13,900 (building payment).

151) C
Total assets = $414,000 = $288,000 + $24,000 + $114,000 − $12,000 (building payment).

152) B
Total liabilities = $177,600 = $73,800 + $103,800.

153) A
Total liabilities = $174,000 = $72,000 + $102,000.

154) Essay

The continuity assumption is also known as the going-concern assumption. It is important for balance sheet reporting because of valuation issues. If a business is expected to operate into the foreseeable future, amounts presented on the balance sheet for assets and liabilities are based on the historical cost principle. If the continuity assumption is not followed, assets and liabilities might be reported at liquidation values as if they are going out of business.

155) Essay
The separate entity assumption is important for balance sheet reporting because a business should present only its own assets and liabilities on the balance sheet. A business is a separate accounting entity from its owners. Therefore, the owners' assets and liabilities would appear on their own (personal) financial statements.

156) Essay
The historical cost principle is important for balance sheet reporting because of valuation issues. The cash-equivalent cost is verifiable. If it were not for the historical cost principle, assets and liabilities could be reported at more subjective values. This could lead to manipulation of balance sheet amounts.

157) Essay

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

158) Essay

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

159) Essay

3. Stockholders's Equity, Credit
4. Assets, Debit
5. Stockholders's Equity, Credit
6. Liabilities, Credit
7. Assets, Debit
8. Assets, Debit
9. Liabilities, Credit
10. Assets, Debit

160) Essay

B. Debit.
C. Credit.
D. Credit.
E. Debit.
F. Debit.
G. Debit.
H. Debit.
I. Credit.
J. Credit.
K. Credit.
L. Asset has debit balance.
M. Liability has credit balance.
N. Stockholders' equity has credit balance.
O. Asset has debit balance.
P. Asset has debit balance.
Q. Asset has debit balance.
R. Asset has debit balance.
S. Stockholders' equity has credit balance.
T. Liability has credit balance.
U. Liability has credit balance.

161) Essay

	General Journal	Debit	Debit
1.	Cash ($200,000 × 3)	600,000	
	Common stock		30,000
	Additional paid-in capital		570,000

Investment by owners. Par value = (10,000 × $1) × 3 investors

	General Journal	Debit	Debit
2.	Cash	160,000	
	Note payable		160,000

Borrowed $160,000 on a one-year note.

	General Journal	Debit	Debit
3.	Land	140,000	
	Note payable		140,000

Purchased land by signing a $140,000 note payable.

	General Journal	Debit	Debit
4.	Accounts payable	20,000	
	Cash		20,000

Paid $20,000 of accounts payable

	General Journal	Debit	Debit
5.	Equipment	20,000	
	Cash		20,000

Purchased two service vehicles for $48,000 each.

	General Journal	Debit	Debit
6.	Supplies	4,000	
	Cash		4,000

Purchased $4,000 of supplies on credit.

162) Essay

Financial Accounting Edition 11 by Libby

Transaction	Debit		Credit	
	Letter	Amount	Letter	Amount
1. Borrowed $25,000 and signed a note.	A	$ 25,000	G	$ 25,000
2. Purchased equipment for $25,000. Paid $5,000 cash, signed $20,000 note payable.	D	25,000	A	5,000
			G	20,000
3. Collected $7,500 of accounts receivable.	A	7,500	B	7,500
4. Paid $16,000 of accounts payable.	F	16,000	A	16,000
5. Issued 5,000 shares of $10 par value common stock in exchange for $80,000 cash.	A	80,000	H	50,000
			I	30,000
6. Purchased $2,500 office supplies on credit.	C	2,500	F	2,500
7. Paid for the office supplies in (6).	F	2,500	A	2,500

163) Essay

Transactions are first recorded in the general journal, which is a chronological listing, in a debit-credit format, of each transaction and its effects. After transactions are journalized, the amounts are posted to the general ledger. The general ledger contains accounts for each financial statement element so that balances can be determined.

164) Essay

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

Beth Hill, P. C.
Balance Sheet
At June 30, 2022

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

165) Essay

Financial Accounting Edition 11 by Libby

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

166) Essay

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

167) Essay

9. Noncurrent assets
10. Stockholders' equity
11. Current Liabilities
12. Noncurrent assets
13. Current assets
14. Current assets
15. Stockholders' equity
16. Noncurrent liabilities
17. Current liabilities
18. Current assets

168) Essay

19. Stockholders invested cash into the corporation in exchange for stock that was issued for more than par value.
20. Supplies were purchased from a supplier on account.
21. Cash was used to pay an account payable.
22. Buildings were purchased using cash and by signing a mortgage note payable for the balance.
23. The board of directors declared a cash dividend.
24. Cash was borrowed in exchange for signing a note payable.

169) Essay

Current assets are listed on the balance sheet in order of liquidity, or how soon the asset is expected to be turned into cash or used. Current liabilities are listed on the balance sheet in order of maturity or how soon the obligation will be paid.

170) Essay

The current ratio is current assets divided by current liabilities; it measures a business entity's short-run liquidity, which is the ability of a business entity to pay its short-term obligations using current assets.

171) Essay

Current assets = $192,000 = $76,000 + $8,000 + $96,000 + $12,000. Current liabilities = $144,000 = $90,000 + $12,000 + $42,000. Current ratio = 1.33 = $192,000 ÷ $144,000.

172) Essay

Assets = Debit balances. Total assets = $843,000 = $152,000 + $18,000 + $36,000 + $116,000 + $44,000 + $174,000 + $270,000 + $33,000.

Liabilities and stockholders' equity = Credit balances.

Total liabilities = $402,000 = $130,000 + $19,000 + $84,000 + $169,000.

Stockholders' equity = $843,000 debits − $402,000 credits = **$441,000**.

173) Essay

25. Investing activities cash flows = $52,200 = $79,000 − $19,800 − $44,000 + $37,000.
26. Financing activities cash flows = $64,000 = −$25,000 + $110,000 − $92,000 + $71,000.

174) Essay

Financial Accounting Edition 11 by Libby

The investing activities section of the statement of cash flows reports cash flows associated with buying and selling noncurrent assets and investments. Specific examples include buying and selling property and equipment for cash, purchasing and selling long-term investments for cash, lending cash to others, and receiving principal payments from loans made.
The financing activities section of statement of cash flows reports cash flows associated with borrowing and repaying debt, issuing and repurchasing stock, and paying dividends.
Specific examples include borrowing and repaying bank loans, issuing and repurchasing stock using cash, and paying cash dividends to stockholders.

175) Essay

Financial Accounting Edition 11 by Libby

1.

Mountain Trail Corporation
Balance Sheet
At December 31, 2022

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

2.

Mountain Trail Corporation

Balance Sheet
At December 31, 2022

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