Test Bank for Financial Accounting 18th Edition by Warren, Jones

ISBN: 9798214053165

Financial Accounting (18th)

ISBN 9798214053165 | Chapter 1: Introduction to Accounting and Business

Total Questions: 235

Multiple Choice (114)

Q1. *[Multiple Choice]*

Profit is the difference between

- **a)** assets and liabilities.
- **b)** incoming cash and outgoing cash.
- **c)** the assets purchased with cash contributed by the owner and the cash spent to operate the business.
- **d) the amounts received from customers for goods or services and the amounts paid forthe inputs used to provide the goods or services. ✓ correct**

Q2. *[Multiple Choice]*

Two common areas of accounting that respectively provide information to internal and external users are

- **a)** forensic accounting and financial accounting.
- **b) managerial accounting and financial accounting. ✓ correct**
- **c)** managerial accounting and environmental accounting.
- **d)** financial accounting and tax accounting systems.

Q3. *[Multiple Choice]*

Which of the following**best**describes accounting?

- **a)** Accountingrecords economic data but does not communicate the data to users according to any specific rules.
- **b) Accounting is an information system that measures, records, and reports financial information about a company that assists and supports user decision-making. ✓ correct**
- **c)** Accountingis of no use by individuals outside of the business.
- **d)** Accountingis used only for filling out tax returns and for financial statements for various types of governmental reporting requirements.

Q4. *[Multiple Choice]*

Which type of accountant typically practices as an individual or as a member of a public accounting firm?

- **a) Certified Public Accountant ✓ correct**
- **b)** Certified Payroll Professional
- **c)** Certified Internal Auditor
- **d)** Certified Management Accountant

Q5. *[Multiple Choice]*

The area of accounting that provides external users with information is

- **a)** managerial accounting.
- **b)** forensic accounting.
- **c)** cost accounting.
- **d) financial accounting. ✓ correct**

Q6. *[Multiple Choice]*

All of the following are general-purpose financial statements**except**a(n)

- **a)** balance sheet.
- **b)** income statement.
- **c)** statement of owner's equity.
- **d) cash budget. ✓ correct**

Q7. [Multiple Choice]

Which of the following is a manufacturing business?

- **a) General Motors ✓ correct**
- **b)** Facebook
- **c)** American Airlines
- **d)** Target

Q8. [Multiple Choice]

Which of the following is a service business?

- **a)** Microsoft
- **b)** Dell Computers
- **c) Facebook (Meta Platforms) ✓ correct**
- **d)** Walmart

Q9. [Multiple Choice]

Which of the following groups of companies are all examples of amerchandisingbusiness?

- **a)** Delta Air Lines, Marriott, Gap
- **b)** Gap, Amazon.com, Delta Air Lines
- **c)** GameStop, Sony, Dell
- **d) GameStop, Best Buy, Gap ✓ correct**

Q10. [Multiple Choice]

Which of the following groups are considered to be**internal users**of accounting information?

- **a)** Employees and customers
- **b)** Customers and vendors
- **c) Employees and managers ✓ correct**
- **d)** Government entities and banks

Q11. [Multiple Choice]

Which of the following would be considered an external user of accounting information?

- **a) Government entities ✓ correct**
- **b)** CEO
- **c)** Board of Directors
- **d)** Production managers

Q12. [Multiple Choice]

Which of the following is the**best**description of accounting's role in business?

- **a)** Accounting provides owners with information regarding the market value of the company.
- **b) Accounting provides information to managers to operate the business and to other users to make decisions regarding the economic condition of the company. ✓ correct**
- **c)** Accounting helps to increase the credit risk of the company.
- **d)** Accounting information is only useful to company management.

Q13. [Multiple Choice]

Managerial accountants would be responsible for providing

- **a)** tax reports to government agencies.
- **b)** profit reports to owners and management.
- **c) expansion of a product line report to management. ✓ correct**
- **d)** consumer reports to customers.

Q14. *[Multiple Choice]*
Which of the following is an accurate statement regarding accounting and fraud?

a) The Sarbanes-Oxley Act (SOX) was enacted to monitor the behavior of accounting and business. ✓ correct

b) SOX appointed the Securities and Exchange Commission as the oversight body for the accounting profession.

c) The company culture is set by the employees.

d) Senior executives can be fined but not sent to prison for any fraud committed.

Q15. *[Multiple Choice]*
In which recent fraud did a company recognize $3 billion in sales prior to when it should have been recorded?

a) Countrywide

b) Wells Fargo

c) Enron

d) Xerox Corporation ✓ correct

Q16. *[Multiple Choice]*
Which of the following are guidelines for behaving ethically?
I.
Identify the consequences of a decision and its effect on others.
II.
Consider your obligations and responsibilities to those affected by your decision.
III.
Identify an ethical decision by using your personal ethical standards of honesty and fairness.

a) I and II

b) II and III

c) I and III

d) I, II, and III ✓ correct

Q17. *[Multiple Choice]*
Which of the following would normally operate as a service business?

a) Southwest Airlines ✓ correct

b) Walmart

c) Starbucks

d) Toyota Motor Sales

Q18. *[Multiple Choice]*
Most businesses in the United States are

a) proprietorships. ✓ correct

b) partnerships.

c) corporations.

d) cooperatives.

Q19. *[Multiple Choice]*
Which of the following is the easiest and most inexpensive way to organize a business?

a) Limited liability company

b) Proprietorship ✓ correct

c) Partnership

d) Corporation

Q20. *[Multiple Choice]*

An entity that is organized according to state or federal statutes and in which ownership is divided into shares of stock is a

- **a)** proprietorship.
- **b) corporation. ✓ correct**
- **c)** partnership.
- **d)** governmental unit.

Q21. *[Multiple Choice]*

Which of the following is**true**regarding a limited liability company (LLC)?

- **a)** 70% of business organizations in the United States are LLCs.
- **b) An LLC combines the attributes of a partnership and a corporation. ✓ correct**
- **c)** LLC ownership is divided into shares called stock.
- **d)** An LLC has tax advantages but no legal liability advantages for the owners.

Q22. *[Multiple Choice]*

On May 20, White Repair Service extended an offer of $108,000 for land that had been priced for sale at $140,000. On May 30, White Repair Service accepted the seller's counteroffer of $115,000. On June 20, the land was assessed at a value of $95,000 for property tax purposes. On July 4, White Repair Service was offered $150,000 for the land by a national retail chain. At what value should the land be recorded in White Repair Service's records?

- **a)** $108,000
- **b)** $95,000
- **c)** $140,000
- **d) $115,000 ✓ correct**

Q23. *[Multiple Choice]*

Which type of business is most likely to obtain large amounts of resources by issuing stock?

- **a)** Partnership
- **b) Corporation ✓ correct**
- **c)** Proprietorship
- **d)** Government entity

Q24. *[Multiple Choice]*

Which of the following is a characteristic of a corporation?

- **a) Corporations are organized as a separate legal taxable entity. ✓ correct**
- **b)** Corporations are the most widely used form of business entity.
- **c)** Corporations are easy and inexpensive to organize.
- **d)** A corporation's resources are limited to its individual owners' resources.

Q25. *[Multiple Choice]*

Within the United States, the dominant body in the primary development of accounting principles is the

- **a)** American Institute of Certified Public Accountants (AICPA).
- **b)** American Accounting Association (AAA).
- **c) Financial Accounting Standards Board (FASB). ✓ correct**
- **d)** Institute of Management Accountants (IMA).

Q26. *[Multiple Choice]*

The business entity assumption means that

- **a)** the owner is part of the business entity.
- **b)** an entity is organized according to state or federal statutes.
- **c)** an entity is organized according to the rules set by the FASB.
- **d) the business is an economic entity separate from its owners. ✓ correct**

Q27. *[Multiple Choice]*

Which accounting principle requires expenses to be recorded in the same period as the related revenue?

- **a)** Revenue recognition principle
- **b) Matching principle ✓ correct**
- **c)** Historical cost principle
- **d)** Measurement principle

Q28. *[Multiple Choice]*

The measurement principle requires that

- **a)** business transactions be consistent with the objectives of the entity.
- **b)** the Financial Accounting Standards Board be fair and unbiased in its deliberations over new accounting standards.
- **c)** accounting principles meet the objectives of the Securities and Exchange Commission.
- **d) amounts recorded in the financial statements be objective and verifiable. ✓ correct**

Q29. *[Multiple Choice]*

Karen Meyer owns and operates Crystal Cleaning Company. Recently, Meyer withdrew $10,000 from Crystal Cleaning, and she contributed $6,000, in her name, to the American Red Cross. The contribution of the $6,000 should be recorded on the accounting records of which of the following entities?

- **a)** Crystal Cleaning and the American Red Cross
- **b) Karen Meyer's personal records and the American Red Cross ✓ correct**
- **c)** Karen Meyer's personal records and Crystal Cleaning Company
- **d)** Karen Meyer's personal records, Crystal Cleaning Company, and the American Red Cross

Q30. *[Multiple Choice]*

Which of the following is an authoritative body in the United States that has the primary responsibility for developing accounting principles?

- **a) FASB ✓ correct**
- **b)** IRS
- **c)** SEC
- **d)** AICPA

Q31. *[Multiple Choice]*

Which of the following items relates to separating the reporting of business and personal economic transactions?

- **a)** Cost principle
- **b)** Monetary unit assumption
- **c) Business entity assumption ✓ correct**
- **d)** Measurement principle

Q32. *[Multiple Choice]*

Donner Company is selling a piece of land adjacent to its business premises. An appraisal reported the market value of the land to be $220,000. Focus Company initially offered to buy the land for $177,000. The companies settled on a purchase price of $212,000. On the same day, another piece of land on the same block sold for $232,000. Under the cost principle, at what amount should the land be recorded in the accounting records of Focus Company?

- **a)** $177,000
- **b) $212,000 ✓ correct**
- **c)** $220,000
- **d)** $232,000

Q33. *[Multiple Choice]*

Many countries outside of the United States use financial accounting standards issued by the

- **a)** AICPA.
- **b)** SEC.
- **c) IASB. ✓ correct**
- **d)** FASB.

Q34. *[Multiple Choice]*

The monetary unit assumption

- **a)** is only used in the financial statements of manufacturing companies.
- **b)** is not important when applying the cost principle.
- **c)** requires that different units be used for assets and liabilities.
- **d) requires that economic data be reported in yen in Japan or dollars in the United States. ✓ correct**

Q35. *[Multiple Choice]*

Which characteristic of financial information allows users to agree on the meaning of reported items?

- **a)** Timeliness
- **b)** Reliability
- **c) Verifiability ✓ correct**
- **d)** Understandability

Q36. *[Multiple Choice]*

The initials GAAP stand for

- **a)** generalacceptedaccounting procedures.
- **b)** generally acceptedaccountingplans.
- **c) generally accepted accounting principles. ✓ correct**
- **d)** generally accepted accounting practices.

Q37. *[Multiple Choice]*

Assets are

- **a)** always lower than liabilities.
- **b)** equal to liabilities less owner's equity.
- **c)** the same as expenses because they are acquired with cash.
- **d) financed by the owners and/or creditors. ✓ correct**

Q38. *[Multiple Choice]*

Debts owed by a business are referred to as

- **a)** accounts receivable.
- **b)** expenses.
- **c)** owner's equity.
- **d) liabilities. ✓ correct**

Q39. *[Multiple Choice]*

The accounting equation may be expressed as

a) Assets = Expenses – Liabilities.

b) Assets + Liabilities = Owner's Equity.

c) Assets = Revenues – Liabilities.

d) Assets – Liabilities = Owner's Equity. ✓ correct

Q40. *[Multiple Choice]*

The assets and liabilities of a company are $128,000 and $84,000, respectively. Owner's equity should equal

a) $212,000.

b) $44,000. ✓ correct

c) $128,000.

d) $84,000.

Q41. *[Multiple Choice]*

If total liabilities decreased by $46,000 during a period of time and owner's equity increased by $60,000 during the same period, the amount and direction (increase or decrease) of the period's change in total assets is a

a) $106,000 increase.

b) $14,000 increase. ✓ correct

c) $14,000 decrease.

d) $106,000 decrease.

Q42. *[Multiple Choice]*

Which of the following is a business transaction?

a) Make a sales offer

b) A downward change in the company’s credit rating

c) Receive cash for services to be rendered later ✓ correct

d) Hiring a new CEO who will start in six months

Q43. *[Multiple Choice]*

A business paid $7,000 to a creditor for an amount owed. The effect of the transaction on the accounting equation was to

a) increase an asset; decrease another asset.

b) decrease an asset; decrease a liability. ✓ correct

c) increase an asset; increase a liability.

d) increase an asset; increase owner's equity.

Q44. *[Multiple Choice]*

Earning revenue

a) increases assets; increases owner's equity. ✓ correct

b) increases assets; decreases owner's equity.

c) increases one asset; decreases another asset.

d) decreases assets; increases liabilities.

Q45. *[Multiple Choice]*

The monetary valueearned for selling goods or services to customersis called

a) net profit.

b) net income.

c) capital.

d) revenue. ✓ correct

Q46. *[Multiple Choice]*

Items purchased on account for future use in the business, such as supplies, are called

- **a)** prepaid liabilities.
- **b)** revenues.
- **c) prepaid expenses. ✓ correct**
- **d)** liabilities.

Q47. *[Multiple Choice]*

The asset created by a business when it makes a sale on account is termed

- **a)** accounts payable.
- **b)** prepaid expense.
- **c)** interest revenue.
- **d) accounts receivable. ✓ correct**

Q48. *[Multiple Choice]*

The debt created by a business when it makes a purchase on account is called an

- **a) account payable. ✓ correct**
- **b)** account receivable.
- **c)** asset.
- **d)** expense payable.

Q49. *[Multiple Choice]*

If total assets decreased by $88,000 during a period of time and owner's equity increased by $71,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total liabilities is

- **a)** a $17,000 increase.
- **b)** a $88,000 decrease.
- **c)** a $159,000 increase.
- **d) a $159,000 decrease. ✓ correct**

Q50. *[Multiple Choice]*

Cash withdrawals made by the owner for personal use

- **a)** increase expenses.
- **b)** decrease expenses.
- **c)** increase cash.
- **d) decrease owner's equity. ✓ correct**

Q51. *[Multiple Choice]*

How does paying a liability in cash affect the accounting equation?

- **a)** Assets increase; liabilities decrease
- **b)** Assets increase; liabilities increase
- **c) Assets decrease; liabilities decrease ✓ correct**
- **d)** Liabilities decrease; owner's equity increases

Q52. *[Multiple Choice]*

How does receiving a bill to be paid next month for services received affect the accounting equation?

- **a)** Assets decrease; owner's equity decreases
- **b)** Assets increase; liabilities increase
- **c)** Liabilities increase; owner's equity increases
- **d) Liabilities increase; owner's' equity decreases ✓ correct**

Q53. *[Multiple Choice]*

How does the payment of rent for equipment affect the accounting equation?

- **a)** Assets increase; assets decrease
- **b) Assets decrease; owner's equity decreases ✓ correct**
- **c)** Assets decrease; liabilities increase
- **d)** Assets increase; owner's equity increases

Q54. *[Multiple Choice]*

Land, originally purchased for $40,000, is sold for $70,000 in cash. What is the effect of the sale on the accounting equation?

- **a) Assets increase by $30,000; owner's equity increases by $30,000 ✓ correct**
- **b)** Assets increase by $70,000; owner's equity increases by $70,000
- **c)** Assets increase by $70,000; liabilities decrease by $40,000; owner's equity increases by $30,000
- **d)** Assets increase by $30,000; no change in liabilities; owner's equity increases by $62,000

Q55. *[Multiple Choice]*

Which of the following accounts is a liability?

- **a) Accounts Payable ✓ correct**
- **b)** Accounts Receivable
- **c)** Wages Expense
- **d)** Service Revenue

Q56. *[Multiple Choice]*

As of the end of its accounting period, December 31, Year 1, Great Plains Company has assets of $940,000 and liabilities of $300,000. During Year 2, owners invested an additional $73,000 and made $33,000 in owner withdrawals from the business. What is the amount of net income during Year 2, assuming that as of December 31, Year 2, assets were $995,000 and liabilities were $270,000?

- **a) $45,000 ✓ correct**
- **b)** $50,000
- **c)** $106,000
- **d)** $370,000

Q57. *[Multiple Choice]*

Which of the following asset accounts is increased when a receivable is collected?

- **a)** Accounts Receivable
- **b)** Supplies
- **c)** Accounts Payable
- **d) Cash ✓ correct**

Q58. *[Multiple Choice]*

Transactions affecting owner's equity include

- **a)** owner investmentsand payment of liabilities.
- **b) owner investments,owner withdrawals, earning of revenues, and incurrence of expenses. ✓ correct**
- **c)** owner investments, earning of revenues, incurrence of expenses, and collection of accounts receivable.
- **d)** owner withdrawals, earning of revenues, incurrence of expenses, and purchase of supplies on account.

Q59. *[Multiple Choice]*

Juan Chavez is starting a computer programming business and has invested $15,000. Identify how the accounting equation will be affected by the owner's investment.

- **a)** Increase in assets (Cash) and increase in liabilities (Accounts Payable)
- **b) Increase in assets (Cash) and increase in owner'sequity (Juan Chavez, Capital) ✓ correct**
- **c)** Increase in assets (Accounts Receivable) and decrease in liabilities (Accounts Payable)
- **d)** Increase in assets (Cash) and increase in assets (Accounts Receivable)

Q60. *[Multiple Choice]*

Amir Petrov, the owner of Amir’s Repair Services, is withdrawing cash from the business for personal use. How does this transaction affect the accounting equation?

- **a)** Increase in assets (Accounts Receivable) and decrease in assets (Cash)
- **b) Decrease in assets (Cash) and decrease in owner's equity (A. Petrov, Drawing) ✓ correct**
- **c)** Decrease in assets (Cash) and decrease in liabilities (Accounts Payable)
- **d)** Increase in assets (Cash) and decrease in owner's equity (A. Petrov, Drawing)

Q61. *[Multiple Choice]*

Which of the following transactions would be omitted from the books of Bobby's Lawn Service?

- **a)** Roberta, the owner, deposits $15,000 in a bank account in the name of Bobby's Lawn Service.
- **b)** Roberta provides services to customers, earning fees of $600.
- **c)** Roberta purchased hedge trimmers for Bobby's Lawn Service, agreeing to pay the supplier next month.
- **d) Roberta pays her monthly personal credit card bill. ✓ correct**

Q62. *[Multiple Choice]*

Which of the following is a business transaction?

- **a) Purchase supplies on account ✓ correct**
- **b)** Plan advertising for upcoming sale
- **c)** Give employees a raise beginning next month
- **d)** Submit estimate for construction project

Q63. *[Multiple Choice]*

The financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or year, is called a(n)

- **a)** prior period statement.
- **b)** statement of owner's equity.
- **c) income statement. ✓ correct**
- **d)** balance sheet.

Q64. *[Multiple Choice]*

Which of the following financial statements reports information as of a specific date?

- **a)** Income statement
- **b)** Statement of owner's equity
- **c)** Statement of cash flows
- **d) Balance sheet ✓ correct**

Q65. *[Multiple Choice]*

Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. Thestatement of owner's equity (SOE), the balance sheet (B), and the income statement (I) are prepared in a certain order to obtain information needed for the next statement. In what order are these three statements prepared?

- **a) I, SOE, B ✓ correct**
- **b)** B, I, SOE
- **c)** SOE, I, B
- **d)** B, SOE, I

Q66. *[Multiple Choice]*

Liabilities are reported on the

- **a)** income statement.
- **b)** statement of owner's equity.
- **c)** statement of cash flows.
- **d) balance sheet. ✓ correct**

Q67. *[Multiple Choice]*

Cash investments made by the owner in the business are reported on the statement of cash flows in the

- **a) financing activities section. ✓ correct**
- **b)** investing activities section.
- **c)** operating activities section.
- **d)** supplemental schedule.

Q68. *[Multiple Choice]*

The ending balance of the owner's capital account appears in

- **a)** both thestatement of owner's equityand the income statement.
- **b)** only thestatement of owner's equity.
- **c) both thestatement of owner's equityand the balance sheet. ✓ correct**
- **d)** both thestatement of owner's equityand the statement of cash flows.

Q69. *[Multiple Choice]*

A financial statement user would determine if a company was profitable or not during a specific period of time by reviewing the

- **a) income statement. ✓ correct**
- **b)** balance sheet.
- **c)** statement of cash flows.
- **d)** statement of owner's equity.

Q70. *[Multiple Choice]*

If the owner wanted to know how money flowed into and out of the company, which financial statement would the owner use?

- **a)** Income statement
- **b) Statement of cash flows ✓ correct**
- **c)** Balance sheet
- **d)** Statement of owner's equity

Q71. *[Multiple Choice]*

The Assets section of the balance sheet normally presents assets in

a) alphabetical order.

b) the order of largest to smallest dollar amounts.

c) the order in which they will be converted into cash or used in operations. ✓ correct

d) the order of smallest to largest dollar amounts.

Q72. *[Multiple Choice]*

Which of the following statements regarding the ratio of liabilities to stockholders' equity is true?

a) A ratio of 1 indicates that liabilities exceedstockholders'equity.

b) This ratio indicates how quickly a business can pay its creditors.

c) The higher this ratio, the better able a business is to withstand poor business conditions and pay creditors.

d) The lower this ratio, the better able a business is to withstand poor business conditions and pay creditors. ✓ correct

Q73. *[Multiple Choice]*

A company had the following data for two recent years:

Dec. 31, Year 2Dec. 31, Year 1

Total liabilities	$128,250	$120,000
Totalstockholders'equity	95,000	$80,000

Compute the ratio of liabilities tostockholders'equity for each year. Round to two decimal places.

a) 1.50 and 1.07, respectively

b) 1.35 and 1.50, respectively ✓ correct

c) 1.07 and 1.19, respectively

d) 1.19 and 1.35, respectively

Q74. *[Multiple Choice]*

Which of the following is an example of a merchandising business?

a) Tax preparation firm

b) Law firm

c) Health club and spa

d) Automobile dealer ✓ correct

Q75. *[Multiple Choice]*

Which of the following is an example of a retail business?

a) Book publisher

b) Hospital

c) Supermarket ✓ correct

d) Modular homebuilder

Q76. *[Multiple Choice]*

Which of the following is an example of a service business?

a) Travel agency ✓ correct

b) Men’s clothing store

c) Dressmaking company

d) Modular homebuilder

Q77. *[Multiple Choice]*

Which of the following comprises 70% of business entities in the United States?

- **a) Proprietorships ✓ correct**
- **b)** Partnerships
- **c)** Corporations
- **d)** Limited liability companies (LLCs)

Q78. *[Multiple Choice]*

Which of the following generates 90% of business revenues in the United States?

- **a)** Proprietorships
- **b)** Partnerships
- **c) Corporations ✓ correct**
- **d)** Limited liability companies (LLCs)

Q79. *[Multiple Choice]*

Which of the following is true of the partnership form of business?

- **a) Owned by two or more individuals ✓ correct**
- **b)** Organized as a separate legal taxable entity
- **c)** Easy and cheap to organize
- **d)** Used by large businesses

Q80. *[Multiple Choice]*

Which of the following is true of the limited liability company (LLC) form of business?

- **a)** The LLC is often used as an alternative to a proprietorship.
- **b)** 70% of business entities in the United States are organized as an LLC.
- **c) The LLC offers tax and legal liability advantages for owners. ✓ correct**
- **d)** The LLC combines the attributes of a partnership and a proprietorship.

Q81. *[Multiple Choice]*

The receipt of cash for services provided has what effect on the accounting equation?

- **a)** Increases assets; increases liabilities
- **b)** Increases liabilities; decreases owner's equity
- **c) Increases assets; increases owner's equity ✓ correct**
- **d)** Decreases assets; decreases liabilities

Q82. *[Multiple Choice]*

The payment of cash to a creditor on account has what effect on the accounting equation?

- **a)** Increases assets; increases liabilities
- **b)** Increases liabilities; decreases owner's equity
- **c)** Increases assets; decreases assets
- **d) Decreases assets; decreases liabilities ✓ correct**

Q83. *[Multiple Choice]*

The receipt of cash from a credit customer on account has what effect on the accounting equation?

- **a)** Increases assets; increases liabilities
- **b)** Increases liabilities; decreases owner's equity
- **c) Increases assets; decreases assets ✓ correct**
- **d)** Decreases assets; decreases liabilities

Q84. *[Multiple Choice]*

Owner withdrawals have what effect on the accounting equation?

- **a)** Increases assets; increases liabilities
- **b)** Increases liabilities; decreases owner's equity
- **c)** Increases stockholders' equity; decreases owner's equity
- **d) Decreases assets; decreases owner's equity ✓ correct**

Q85. *[Multiple Choice]*

A purchase of supplies on credit has what effect on the accounting equation?

- **a) Increases assets; increases liabilities ✓ correct**
- **b)** Increases liabilities; decreases owner's equity
- **c)** Increases assets; increases owner's equity
- **d)** Decreases assets; decreases liabilities

Q86. *[Multiple Choice]*

Borrowing money from the bank has what effect on the accounting equation?

- **a)** Increases assets; decreases assets
- **b)** Increases liabilities; decreases owner's equity
- **c)** Decreases assets; decreases owner's equity
- **d) Increases assets; increases liabilities ✓ correct**

Q87. *[Multiple Choice]*

The purchase of equipment for cash has what effect on the accounting equation?

- **a) Increases assets; decreases assets ✓ correct**
- **b)** Increases liabilities; decreases owner's equity
- **c)** Decreases assets; decreases owner's equity
- **d)** Decreases assets; decreases liabilities

Q88. *[Multiple Choice]*

The using up of supplies on hand has what effect on the accounting equation?

- **a)** Increases assets; increases liabilities
- **b)** Increases liabilities; decreases owner's equity
- **c) Decreases assets; decreases owner's equity ✓ correct**
- **d)** Decreases assets; decreases liabilities

Q89. *[Multiple Choice]*

Which of the following statements should be prepared first?

- **a) Income statement ✓ correct**
- **b)** Balance sheet
- **c)** Statement of owner's equity
- **d)** Statement of cash flows

Q90. *[Multiple Choice]*

Which of the following statements should be prepared second?

- **a)** Income statement
- **b)** Balance sheet
- **c) Statement of owner's equity ✓ correct**
- **d)** Statement of cash flows

Q91. *[Multiple Choice]*
Which of the following statements is a formal presentation of the accounting equation?

- **a)** Income statement
- **b) Balance sheet ✓ correct**
- **c)** Statement of owner's equity
- **d)** Statement of cash flows

Q92. *[Multiple Choice]*
Financial reports that allow users to identify the similarities and differences among reported items are said to demonstrate

- **a)** timeliness.
- **b)** understandability.
- **c) comparability. ✓ correct**
- **d)** verifiability.

Q93. *[Multiple Choice]*
Financial reports that are available to help users in decision making show

- **a) timeliness. ✓ correct**
- **b)** understandability.
- **c)** comparability.
- **d)** verifiability.

Q94. *[Multiple Choice]*
Relevant and faithful representation of accounting data is enhanced when financial reports are clear and concise. Such reports demonstrate

- **a)** timeliness.
- **b) understandability. ✓ correct**
- **c)** comparability.
- **d)** verifiability.

Q95. *[Multiple Choice]*
Financial reports are said to be verifiable when

- **a)** they are available in time to influence users' decisions.
- **b)** they are formatted clearly and concisely.
- **c)** they demonstrate the similarities and differences among reported items.
- **d) the data can be confirmed by a third party. ✓ correct**

Q96. *[Multiple Choice]*
A fiscal year for a business

- **a) ordinarily begins on the first day of a month and ends on the last day of the following twelfth month. ✓ correct**
- **b)** is determined by the federal government.
- **c)** always begins on January 1 and ends on December 31 of the same year.
- **d)** should end at the height of the business's annual operating cycle.

Q97. *[Multiple Choice]*
The natural business year is a

- **a) fiscal year that ends when business activities are at their lowest point. ✓ correct**
- **b)** calendar year that ends when business activities are at their lowest point.
- **c)** fiscal year that ends when business activities are at their highest point.
- **d)** calendar year that ends when business activities are at their highest point.

Q98. *[Multiple Choice]*

Resources owned by a business are known as

- **a)** debts.
- **b)** liabilities.
- **c) assets. ✓ correct**
- **d)** equity.

Q99. *[Multiple Choice]*

The rights of owners in a business are referred to as

- **a)** proprietor's equity.
- **b) owner's equity. ✓ correct**
- **c)** drawings.
- **d)** equity in assets.

Q100. *[Multiple Choice]*

The assets and owner's equity of a business are $159,000 and $95,000, respectively. Liabilities should equal

- **a) $64,000. ✓ correct**
- **b)** $46,000.
- **c)** $254,000.
- **d)** $95,000.

Q101. *[Multiple Choice]*

The liabilities and owner's equity of a business are $132,000 and $244,000, respectively. Assets should equal

- **a)** $188,000.
- **b)** $132,000.
- **c) $376,000. ✓ correct**
- **d)** $112,000.

Q102. *[Multiple Choice]*

Owner's equity at the beginning of the year for Atlas Services was $390,000, while its liabilities totaled $230,000. During the year, its assets increased by $75,000, and its liabilities decreased by $50,000. What is the amount of owner's equity at the end of the year for Atlas Services?

- **a)** $107,000
- **b)** $98,000
- **c)** $415,000
- **d) $515,000 ✓ correct**

Q103. *[Multiple Choice]*

At the beginning of the year, Winton Company’s assets were $180,000, and its owner’s equity was $82,000. During the year, assets increased by $25,000, and liabilities increased by $9,000. What is the amount of owner's equity at the end of the year?

- **a)** $107,000
- **b) $98,000 ✓ correct**
- **c)** $114,000
- **d)** $116,000

Q104. *[Multiple Choice]*

The assets and liabilities of Bennett Designs at December 31, the end of the current year, and its revenue and expenses for the year are as follows:

Accounts payable
$ 42,000

Miscellaneous expense
$ 1,030

Accounts receivable
10,340

Office expense
1,240

Cash
21,420

Supplies
1,670

Fees earned
73,450

Wages expense
23,550

Land
47,000

Building
157,630

What were the total assets on December 31?

- **a) $238,060 ✓ correct**
- **b)** $236,390
- **c)** $309,840
- **d)** $33,430

Q105. *[Multiple Choice]*

Redfox Pest Control Service had revenues of $425,000 and expenses of $338,000 for the current year, ended June 30. At the beginning of the year, Randall Foxx, Capital, had a balance of $180,000. During the year, Randall invested an additional $25,000 in the business and made withdrawals of $16,750 for personal use. What is the balance of Randall Foxx, Capitalat the end of the year?

- **a)** $292,000
- **b)** $267,250
- **c)** $205,250
- **d) $275,250 ✓ correct**

Q106. *[Multiple Choice]*

Revenues for the year totaled $162,000 and expenses totaled $174,000. The owner invested an additional $15,000 in the business and withdrew $6,000 cash for personal use during the year. What was the net income or net loss for the year?

- **a)** $12,000 net income
- **b) $(12,000) net loss ✓ correct**
- **c)** $(18,000) net loss
- **d)** $(6,000) net loss

Q107. *[Multiple Choice]*

Purchasing equipment for use in business operations is

- **a)** an operating activity.
- **b) an investing activity. ✓ correct**
- **c)** a financing activity.
- **d)** both an investing and an operating activity.

Q108. *[Multiple Choice]*

Obtaining funds to start and operate a business is

- **a)** an operating activity.
- **b)** an investing activity.
- **c) a financing activity. ✓ correct**
- **d)** both an investing and a financing activity.

Q109. *[Multiple Choice]*

If the assets of a business total $300,000 and the liabilities total $160,000 the total of owner’s equity is

- **a)** $0.
- **b)** $160,000.
- **c) $140,000. ✓ correct**
- **d)** $460,000.

Q110. *[Multiple Choice]*

Juan Rosas is the owner of Juan’s Doggy Day Care. At the end of its accounting period, December 31, Juan’s Doggy Day Care has liabilities of $30,000 and owner’s equity of $140,000. Using the accounting equation, determine the amount of assets as of December 31.

- **a)** $30,000
- **b)** $110,000
- **c) $170,000 ✓ correct**
- **d)** $140,000

Q111. *[Multiple Choice]*

On August 1 of the current year, the assets and liabilities of Tom Hines, CPA, are as follows: Cash, $5,000; Accounts Receivable, $2,000; Supplies, $1,000; Equipment, $15,000; Accounts Payable, $1,000 and Note Payable of $2,000. What is the amount of owner's equity as of August 1 of the current year?

- **a)** $11,000
- **b) $20,000 ✓ correct**
- **c)** $22,000
- **d)** $23,000

Q112. *[Multiple Choice]*

At the end of Year 1, a company had total liabilities of $75,800 and total stockholders' equity of $210,000. At the end of Year 2, the company had total liabilities of $90,000 and total stockholders' equity of $225,000. Compute the ratio of liabilities to stockholders' equity for each year. Round to two decimal places.

- **a)** 2.78 and 2.5, respectively
- **b)** 0.66 and 0.36, respectively
- **c) 0.36 and 0.40, respectively ✓ correct**
- **d)** 2.33 and 2.3, respectively

Q113. *[Multiple Choice]*

Manny's Repair Service had revenues of $680,000 and expenses of $427,000 for the current year. At the beginning of the year, Manny King, Capital, had a balance of $290,000. During the year, Manny invested an additional $37,000 in the business and made withdrawals of $19,000 for personal use. What is the balance of Manny King, Capital at the end of the year?

- **a)** $543,000
- **b)** $580,000
- **c)** $271,000
- **d) $561,000 ✓ correct**

Q114. *[Multiple Choice]*

Under which accounting assumption are reports on a company's economic activities reported on a regular basis for a specific period of time?

- **a)** Monetary unit
- **b) Time period ✓ correct**
- **c)** Business entity
- **d)** Going concern

True/False (52)

Q115. *[True/False]*

A corporation is a business that is legally separate and distinct from its owners.

- **a) true ✓ correct**
- **b)** false

Correct answer: True

Q116. *[True/False]*

The role of accounting is to provide many different users with financial information to make economic decisions.

- **a) true ✓ correct**
- **b)** false

Correct answer: True

Q117. *[True/False]*

Investing activities are those activities by which the company obtains funds to start and operate the business.

a) true

b) false ✓ correct

Correct answer: False

Q118. *[True/False]*

Managerial accounting information is used by external and internal users equally.

a) true

b) false ✓ correct

Correct answer: False

Q119. *[True/False]*

Senior executives can be criminally prosecuted for the wrongdoings they commit on behalf of the companies where they work.

a) true ✓ correct

b) false

Correct answer: True

Q120. *[True/False]*

Financial accounting provides information to all users, while the main focus for managerial accounting is to provide information to management.

a) true ✓ correct

b) false

Correct answer: True

Q121. *[True/False]*

Proper ethical conduct implies that you only consider what's in your best interest.

a) true

b) false ✓ correct

Correct answer: False

Q122. *[True/False]*

Some major fraudulent acts committed by senior executives started as what they considered to be small ethical lapses that grew out of control.

a) true ✓ correct

b) false

Correct answer: True

Q123. *[True/False]*

A business is an organization in which basic resources or inputs, like materials and labor, are assembled and processed to provide outputs in the form of goods or services to customers.

a) true ✓ correct

b) false

Correct answer: True

Q124. *[True/False]*

Operating activities are those activities by which a company generates revenues from customers.

a) true ✓ correct
b) false

Correct answer: True

Q125. *[True/False]*

An example of a general-purpose financial statement would be a report about projected price increases related to transportation costs.

a) true
b) false ✓ correct

Correct answer: False

Q126. *[True/False]*

The Sarbanes-Oxley Act established standards for corporate responsibility and disclosure.

a) true ✓ correct
b) false

Correct answer: True

Q127. *[True/False]*

The main objective for all businesses is to maximize unrealized profits.

a) true
b) false ✓ correct

Correct answer: False

Q128. *[True/False]*

The primary role of accounting is to determine the amount of taxes a business will be required to pay to taxing entities.

a) true
b) false ✓ correct

Correct answer: False

Q129. *[True/False]*

The basic difference between manufacturing andmerchandisingcompanies is the completion level of the products they purchase for resale to customers.

a) true ✓ correct
b) false

Correct answer: True

Q130. *[True/False]*

Proprietorships have one owner and provide only services to their customers.

a) true
b) false ✓ correct

Correct answer: False

Q131. *[True/False]*

About 90% of the businesses in the United States are organized as corporations.

a) true
b) false ✓ correct

Correct answer: False

Q132. *[True/False]*

An example of an external user of accounting information is the federal government.

a) true ✓ correct

b) false

Correct answer: True

Q133. *[True/False]*

The Financial Accounting Standards Board (FASB) is the authoritative body that has primary responsibility for developing accounting principles.

a) true ✓ correct

b) false

Correct answer: True

Q134. *[True/False]*

The matching principle is the basis for entering the purchase price into the accounting records.

a) true

b) false ✓ correct

Correct answer: False

Q135. *[True/False]*

The monetary unit assumption requires that economic data be recorded in dollars for companies in the United States.

a) true ✓ correct

b) false

Correct answer: True

Q136. *[True/False]*

If a building is appraised for $85,000, offered for sale at $90,000, and the buyer pays $80,000 cash for it, the buyer would record the building at $85,000.

a) true

b) false ✓ correct

Correct answer: False

Q137. *[True/False]*

The financial statements of a proprietorship should include the owner's personal assets and liabilities.

a) true

b) false ✓ correct

Correct answer: False

Q138. *[True/False]*

No significant differences exist between the accounting standards issued by the FASB and the IASB.

a) true

b) false ✓ correct

Correct answer: False

Q139. *[True/False]*

Generally accepted accounting principles regulate how and what financial information is reported by businesses.

a) true ✓ correct

b) false

Correct answer: True

Q140. *[True/False]*
The accounting equation can be expressed as Assets + Liabilities = Owner's Equity.

a) true
b) false ✓ correct

Correct answer: False

Q141. *[True/False]*
The rights or claims to the assets of a business may be subdivided into rights of creditors and rights of owners.

a) true ✓ correct
b) false

Correct answer: True

Q142. *[True/False]*
The owner's rights to the assets rank ahead of the creditors' rights to the assets.

a) true
b) false ✓ correct

Correct answer: False

Q143. *[True/False]*
If the liabilities owed by a business total $300,000 and owner's equity is equal to $300,000, then the assets also total $300,000.

a) true
b) false ✓ correct

Correct answer: False

Q144. *[True/False]*
If total assets decreased by $30,000 during a specific period and owner's equity decreased by $35,000 during the same period, the period's change in total liabilities was a $65,000 increase.

a) true
b) false ✓ correct

Correct answer: False

Q145. *[True/False]*
If total assets increased by $190,000 during a specific period and liabilities decreased by $10,000 during the same period, the period's change in total owner's equity was a $200,000 increase.

a) true ✓ correct
b) false

Correct answer: True

Q146. *[True/False]*
If net income for a company was $65,000, $30,000 in owner withdrawals were made, and the owners invested an additional $40,000 in cash, the owners' equity increased by $35,000.

a) true
b) false ✓ correct

Correct answer: False

Q147. *[True/False]*

An account receivable is typically classified as a revenue.

a) true

b) false ✓ correct

Correct answer: False

Q148. *[True/False]*

Accounts payable is a liability created by a purchase on account.

a) true ✓ correct

b) false

Correct answer: True

Q149. *[True/False]*

Paying an account payable increases liabilities and decreases assets.

a) true

b) false ✓ correct

Correct answer: False

Q150. *[True/False]*

Receiving payments on an account receivable increases both equity and assets.

a) true

b) false ✓ correct

Correct answer: False

Q151. *[True/False]*

Withdrawals paid to owners decrease assets and increase equity.

a) true

b) false ✓ correct

Correct answer: False

Q152. *[True/False]*

Purchasing supplies on account increases liabilities and increases assets.

a) true ✓ correct

b) false

Correct answer: True

Q153. *[True/False]*

Receiving a bill or otherwise being notified that an amount is owed is**not**recorded until the amount is paid.

a) true

b) false ✓ correct

Correct answer: False

Q154. *[True/False]*

Revenue is earned only when money is received.

a) true

b) false ✓ correct

Correct answer: False

Q155. [True/False]
Assets that are used up during the process of earning revenue are called expenses.

a) true ✓ correct
b) false

Correct answer: True

Q156. [True/False]
The excess of revenue over the expenses incurred in earning the revenue is called capital.

a) true
b) false ✓ correct

Correct answer: False

Q157. [True/False]
The primary financial statements of a proprietorship are the income statement, the statement of owners' equity, the cash budget, and the balance sheet.

a) true
b) false ✓ correct

Correct answer: False

Q158. [True/False]
An income statement is a summary of the revenues and expenses of a business as of a specific date.

a) true
b) false ✓ correct

Correct answer: False

Q159. [True/False]
A statement of owners' equity reports the changes in owner's equity for a period of time.

a) true ✓ correct
b) false

Correct answer: True

Q160. [True/False]
The statement of cash flows consists of three sections: cash flows from operating activities, cash flows from income activities, and cash flows from equity activities.

a) true
b) false ✓ correct

Correct answer: False

Q161. [True/False]
The balance sheet represents the accounting equation.

a) true ✓ correct
b) false

Correct answer: True

Q162. [True/False]
Net income and net profit do**not**mean the same thing.

a) true
b) false ✓ correct

Correct answer: False

Q163. *[True/False]*

Any 12-month accounting period adopted by a company is known as its fiscal year.

a) true ✓ correct

b) false

Correct answer: True

Q164. *[True/False]*

A fiscal year that ends when business activities have reached their lowest point is called the natural business year.

a) true ✓ correct

b) false

Correct answer: True

Q165. *[True/False]*

All businesses must use the calendar year (January 1 through December 31) as their fiscal year.

a) true

b) false ✓ correct

Correct answer: False

Q166. *[True/False]*

The majority of businesses end their fiscal year on December 31.

a) true ✓ correct

b) false

Correct answer: True

Short Response (69)

Q167. *[Short Response]*

Discuss internal and external users of accounting information. What areas of accounting provide them with information? Give an example of the type of report each type of user might use.

Suggested answer: *Internal users of accounting information include managers and employees. These users are directly involved in managing and operating the business. The area of accounting that provides internal users with information is called managerial accounting or management accounting. Managerial accounting reports often include sensitive information, for example about customers, prices, or plans to expand the business.*

External users of accounting information include investors, customers, creditors, banks, and government entities. These users are not directly involved in managing or operating the business. The area of accounting that provides external users with information is called financial accounting. General-purpose financial statements are one type of financial accounting report that is distributed to external users.

Q168. *[Short Response]*

Companies such as Enron, Countrywide, and Xerox Corporation have been caught in the midst of ethical lapses that led to fines, firings, and criminal and/or civil prosecution. List and briefly describe two factors that are responsible for what went wrong in these companies.

Suggested answer: *The two factors are: (1) failure of individual character and (2) company culture of greed and ethical indifference. Managers and accountants often face pressures from supervisors to meet company and investor expectations. In many of these frauds, managers and accountants justified small ethical violations to avoid such pressures. However, these small violations became big violations as the company's financial problems became worse. The behavior and attitude of senior management set a firm's culture. In these frauds, the senior managers created a culture of greed and indifference to the truth.*

Q169. *[Short Response]*

List the four steps in the process by which accounting provides information to users.

Suggested answer: *1. Identify user information needs.*
2. Measure and record economic events.
3. Report financial information.
4. Assist and support decision-making.

Q170. *[Short Response]*

Identify each of the following as either internal or external users of accounting information.

A.
Payroll manager
B.
Bank
C.
President's secretary
D.
Internal Revenue Service
E.
Raw material vendors
F.
Social Security Administration
G.
Health insurance provider
H.
Managerial accountant

Suggested answer: ■
A.
Internal
B.
External
C.
Internal
D.
External
E.
External
F.
External
G.
External
H.
Internal

Q171. *[Short Response]*

For each of the following companies, identify whether it is a service,merchandising, or manufacturing business:

A.
Kohl's
B.
Time Warner Cable
C.
General Motors
D.
Regal Cinemas
E.
Applebee’s
F.
Ford Motor Company
G.
Best Buy
H.
Banana Republic
I.
H&R Block

Suggested answer: ■
A.
Merchandising
B.
Service
C.
Manufacturing
D.
Service
E.
Service
F.
Manufacturing
G.Merchandising
H.
Merchandising
I.
Service

Q172. *[Short Response]*

What is the major difference between the objective of financial accounting and the objective of managerial accounting?

Suggested answer: *The objective of financial accounting is to provide relevant and timely information for the decision-making needs of users outside of the business. The objective of managerial accounting is to provide relevant and timely information for managers’ and employees’ decision-making needs.*

Q173. *[Short Response]*

On July 6, Candle Company offered to pay $100,000 for land that had a selling price of $135,000. On July 10, Candle accepted a counteroffer of $120,000. On July 15, the land was assessed at a value of $125,000 for property tax purposes. On November 20, Candle Company was offered $155,000 for the land by another company. At what value should the land be recorded in Candle Company's records?

Suggested answer: *$120,000*

Q174. *[Short Response]*

Mayville Company is selling a piece of land adjacent to its business. An appraisal reported the market value of the land to be $120,000. Forest Company initially offered to buy the land for $107,000. The companies settled on a purchase price of $115,000. On the same day, another piece of land on the same block sold for $122,000. Under the cost principle, what amount will be used to record this transaction in the accounting records?

Suggested answer: *$115,000*

Q175. *[Short Response]*

Explain the meaning of the business entity assumption.

Suggested answer: *The business entity assumption limits the economic data in financial reports to that directly related to the activities of the business. In other words, the business isviewed as an entity separate from its owners, creditors, or other businesses.*

Q176. *[Short Response]*

Darnell Company purchased $88,000 of computer equipment from Joseph Company. Darnell Company paid for the equipment using cash that had been obtained from the initial investment by Donnie Darnell.

Which entity or entities (Darnell Company, Joseph Company, and Donnie Darnell) should record the transaction involving the computer equipment in their accounting records?

Suggested answer: *Darnell Company and Joseph Company*

Q177. *[Short Response]*

Discuss the characteristics of a limited liability company (LLC).

Suggested answer: *A limited liability company (LLC) combines the attributes of a partnership and a corporation. It is often used as an alternative to a partnership because it has tax and legal liability advantages for owners.*

Q178. *[Short Response]*

Explain the meaning of:
(a) the measurement principle

(b) the monetary unit assumption

Suggested answer: *(a) The measurement principle determines the amount that will be recorded and reported. The measurement principle requires that amounts be objective and verifiable. An amount is objective if it is based upon independent, unbiased evidence. An amount is verifiable if it can be confirmed by a third party.*

(b) The monetary unit assumption requires that financial reports be expressed in a single monetary unit, or currency. For example, economic data in the United States must be recorded in U.S. dollars. This provides a common measurement of the effects of economic events and transactions on an entity.

Q179. *[Short Response]*

Bob Johnson is the sole owner of Johnson's Carpet Cleaning Service. Bob purchased a personal automobile for $10,000 cash plus he took out a loan for $20,000 in his name. Describe how this transaction is related to the business entity assumption.

Suggested answer: *Under the business entity assumption, economic data are limited to the direct activities of the business. The business is viewed as separate from its owner. Therefore, when Bob buys a personal automobile, it is not listed on the books of Johnson's Carpet Cleaning, unless Bob uses it in the business. In this case, the loan is a personal debt and not a liability of the company, and the cash is from Bob's personal account and not the company's account.*

Q180. *[Short Response]*

Maggie Chen is the owner of Maggie's Spa. At the end of its accounting period, December 31, Maggie's Spa has assets of $620,000 and liabilities of $450,000. Using the accounting equation, determine the following amounts:

(a)Owner's equity as of December 31 of the current year

(b)Owner's equity as of December 31 at the end of the next year, assuming that assets increased by $40,000 and liabilities increased by $15,000 during the year

Suggested answer: *(a)Owner's Equity = $620,000 - $450,000 = $170,000*

(b)Owner's Equity = ($620,000 + $40,000) – ($450,000 + $15,000) = $195,000

Q181. *[Short Response]*

Kramer Service has liabilities equal to one-fourth of its total assets. Kramer's owner's equity is $45,000. Using the accounting equation, what is the amount of liabilities for Kramer?

Suggested answer: *Assets = Liabilities + Owner's Equity*
4X = X + $45,000
3X = $45,000
X = $15,000 in liabilities

Q182. *[Short Response]*

Determine the missing amount for each of the following:

AssetsLiabilities
Owner's Equity

(a)$65,000
$80,000

$60,000(b)
$42,000

$170,000$65,000
(c)

Suggested answer: *(a)$65,000 + $80,000 =$145,000*
(b)Liabilities = $60,000 – $42,000 = $18,000
(c)Owner's Equity = $170,000 – $65,000 = $105,000

Q183. *[Short Response]*

Determine the missing amount “X” for each of the following:

AssetsLiabilitiesOwner's Equity
(a)$78,500$37,600X
(b) X$53,280$145,000
(c)$49,500X$34,000

Suggested answer: *(a) $40,900 ($78,500–$37,600)*

(b) $198,280 ($53,280 + $145,000)

(c) $15,500 ($49,500–$34,000)

Q184. *[Short Response]*

Use the accounting equation to answer each of the following independent questions:

(a) At the beginning of the year, Norton's Travel Service had assets of $75,000, and owner's equity of $38,000. During the year, assets increased by $18,000, and liabilities increased by $4,000. What was the owner's equity at the end of the year?

(b) At the beginning of the year, Turpin Industries had liabilities of $44,000 and owner's equity of $66,000. If assets increased by $10,000 and liabilities decreased by $5,000, what was the owner's equity at the end of the year?

Suggested answer: *(a) $75,000–$38,000 = $37,000 beginning-of-year liabilities*
($75,000 + $18,000)–($37,000 + $4,000) = $52,000 end-of-year owner's equity

(b) $44,000 + $66,000 = $110,000 beginning-of-year assets
($110,000 + $10,000)–($44,000–$5,000) = $81,000 end-of-year owner's equity

Q185. *[Short Response]*

On July 1 of the current year, the assets and liabilities of John Wong, DVM, are as follows: Cash, $27,000; Accounts Receivable, $12,300; Supplies, $3,100; Land, $35,000; Accounts Payable, $13,900. What is the amount of owner's equity as of July 1 of the current year?

Suggested answer: *$63,500*
($27,000 Cash + $12,300 Accounts Receivable + $3,100 Supplies + $35,000 Land–$13,900 Accounts Payable = $63,500)

Q186. *[Short Response]*

At the end of its accounting period, December 31, of Year 1, Hsu's Financial Services has assets of $575,000 and owner's equity of $335,000. Using the accounting equation and considering each case independently, determine the following amounts:

(a) Hsu's liabilities as of December 31, of Year 1.
(b) Hsu's liabilities as of December 31, of Year 2, assuming that assets increased by $56,000 andowner's equity
decreased by $32,000.
(c) Net income or net loss during Year 2, assuming that as of December 31, Year 2, assets were $592,000, liabilities
were $450,000, and there were no additional investments or withdrawals.

Suggested answer: *(a) $575,000–$335,000 = $240,000*
(b) ($575,000 + $56,000)–($335,000–$32,000) = $328,000
(c) $592,000–$450,000 = $142,000 owner's equity Year 2
$335,000–$142,000 = $193,000 net loss

Q187. *[Short Response]*

Indicate whether each of the following accounts represents an asset, liability, or owner's equity:

(a)Accounts Payable
(b)Wages Expense
(c)Chris Clark, Capital

(d)Accounts Receivable
(e)Chris Clark, Drawing
(f)Land

Suggested answer: *(a)liability*
(b)owner's equity

(c)owner's equity

(d)asset
(e)owner's equity
(f)asset

Q188. *[Short Response]*

On December 31 of the current year, Martin Consultants has assets of $430,000 and liabilities of $205,000. Using the accounting equation and considering each case independently, determine the following:

(a) Owner's equity as of December 31.
(b) Owner's equity as of December 31 of the next year, assuming that assets increased by $12,000 and liabilities increased by $15,000.
(c) Owner's equity as of December 31 of the next year, assuming that assets decreased by $8,000 and liabilities increased by $14,000.

Suggested answer: *(a) $430,000–$205,000 = $225,000*

(b) ($430,000 + $12,000)–($205,000 + $15,000) = $222,000

(c) ($430,000–$8,000)–($205,000 + $14,000) = $203,000

Q189. *[Short Response]*

Scott Industries

The accountant for Scott Industries prepared the following list of account balances from the company's records for the year ended December 31. Use this information to answer the questions that follow.

Fees Earned$165,000
Cash$30,000

Accounts Receivable16,000
Selling Expenses44,000

Equipment64,000
Sally Scott, Capital
47,000

Accounts Payable12,000
Interest Revenue3,000

Wages Expense40,000
Income Taxes Expense
18,000

Income Taxes Payable5,000
Rent Expense
20,000

Determine the total assets at the end of the current year for Scott Industries.

Suggested answer: *$110,000*
($30,000 Cash + $16,000 Accounts Receivable + $64,000 Equipment = $110,000)

Q190. *[Short Response]*

Scott Industries

The accountant for Scott Industries prepared the following list of account balances from the company's records for the year ended December 31. Use this information to answer the questions that follow.

Fees Earned$165,000
Cash$30,000

Accounts Receivable16,000
Selling Expenses44,000

Equipment64,000
Sally Scott, Capital
47,000

Accounts Payable12,000
Interest Revenue3,000

Wages Expense40,000
Income Taxes Expense
18,000

Income Taxes Payable5,000
Rent Expense
20,000

Determine the total liabilities at the end of the current year for Scott Industries.

Suggested answer: *$17,000*
($12,000 Accounts Payable + $5,000 Income Taxes Payable = $17,000)

Q191. *[Short Response]*

Scott Industries

The accountant for Scott Industries prepared the following list of account balances from the company's records for the year ended December 31. Use this information to answer the questions that follow.

Fees Earned$165,000
Cash$30,000

Accounts Receivable16,000
Selling Expenses44,000

Equipment64,000
Sally Scott, Capital
47,000

Accounts Payable12,000
Interest Revenue3,000

Wages Expense40,000
Income Taxes Expense
18,000

Income Taxes Payable5,000
Rent Expense
20,000

Based on this information, is Scott Industries profitable? Explain your answer.

Suggested answer: *($165,000 Fees Earned + $3,000 Interest Revenue)–($40,000 Wages Expense + $44,000 Selling Expenses + $18,000 Income Taxes Expense + $20,000 Rent Expense) = $46,000 Net Income*

Scott Industries had net income for the period of $46,000. Since revenues exceeded expenses for the period, the company would be considered profitable.

Q192. [Short Response]

Meyers Company made the following selected transactions during July:

1.The owner, Jane Meyers, invested cash in the business, $70,000.

2.Paid the rent for July, $2,000.

3.Billed customers for services on account, $6,600.

4.Received cash from customers on account, $2,500.

5.Jane Meyers withdrew cash for personal use, $2,600.

6.Purchased supplies on account $860.

Indicate the effect of each transaction on the accounting equation by:

(a)Account type—(A)assets, (L)liabilities, (OE)owner's equity, (R)revenue, and (E)expense

(b)Name of account

(c)Amount of the transaction

(d)Direction of change (increase or decrease) in the account affected

Hint: Each transaction has two entries.

Entry

Entry

Account Type

(a)

Name of Account

(b)

Amount

(c)

Increase or Decrease

(d)

Account Type

(a)

Name of Account

(b)

Amount

(c)

Increase or Decrease

(d)

1

2

3

4

5

6

Suggested answer: ■
Entry
Entry

Account Type

(a)
Name
of Account

(b)

Amount

(c)
Increase or Decrease
(d)
Account Type

(a)
Name
of Account

(b)

Amount

(c)
Increase or Decrease
(d)

1ACash$70,000
IncreaseOEJane Meyers, Capital
$70,000
Increase
2ACash$2,000
DecreaseERent Expense
$2,000
Increase
3AAccounts Receivable$6,600
IncreaseRFees Earned$6,600
Increase
4ACash$2,500
IncreaseAAccounts Receivable$2,500
Decrease
5ACash$2,600
DecreaseOEJane Meyers, Drawing$2,600
Increase
6ASupplies$860
IncreaseLAccounts
Payable
$860

Increase

Q193. *[Short Response]*

Collins Landscape Services purchased various landscaping supplies on account to be used for landscape designs for its customers. How will this business transaction affect the accounting equation?

Suggested answer: *Increase assets (Supplies) and increase liabilities (Accounts Payable)*

Q194. *[Short Response]*

Ramirez Company paid its electric bill in the amount of $60. How will this transaction affect the accounting equation?

Suggested answer: *Decrease assets (Cash) and decrease owner's equity (Utilities Expense)*

Q195. *[Short Response]*

Indicate how the following transactions affect the accounting equation.

(a) Purchase of supplies on account.
(b) Purchase of supplies for cash.
(c) Withdrawal of cash by owner for personal use.
(d) Revenues received in cash.
(e) Sale made on account.

Suggested answer: *(a) Assets increase; liabilities increase*
(b) No net effect (asset decreases; asset increases)
(c) Assets decrease; owner's equity decreases
(d) Assets increase; owner's equity increases
(e) Assets increase; owner's equity increases

Q196. *[Short Response]*

(a) A vacant lot acquired for $83,000 cash is sold for $127,000 in cash. What is the effect of the sale on the total amount of the seller's (1) assets, (2) liabilities, and (3) owner's equity?

(b) Assume that the seller owes $52,000 on a loan for the land. After receiving the $127,000 cash in (a), the seller pays the $52,000 owed. What is the effect of the payment on the total amount of the seller's (1) assets,
(2) liabilities, and (3) owner's equity?

Suggested answer: *(a) (1) Total assets increased $44,000*
(2) No change in liabilities
(3) Owner's equity increased $44,000

(b) (1) Total assets decreased $52,000
(2) Total liabilities decreased $52,000
(3) No change in owner's equity

Q197. *[Short Response]*

Austin Land Company sold land for $85,000 in cash. The land was originally purchased for $65,000. At the time of the sale, $40,000 was still owed to Regions Bank. After the sale, Austin Land Company paid off the loan. Explain the effect of (a) the sale and (b) the payoff of the loan on the accounting equation.

Suggested answer: *(a)*
Total assets increase by $20,000 (Cash increases by $45,000; Land decreases by $65,000).
No change in liabilities.
Owner's equity increases by $20,000 (Sales price - Cost of land).
(b)
Total assets decrease by $40,000 (Cash paid).
Total liabilities decrease by $40,000 (Loan payoff to Regions Bank).
No change in owner's equity.

Q198. *[Short Response]*

There are four transactions that affect owners' equity.

(a) What are the two types of transactions that increase owner's equity?
(b) What are the two types of transactions that decreaseowner'sequity?

Suggested answer: *(a) Investments by the owner and revenues earned.*
(b) Withdrawals by the owner and expenses incurred.

Q199. *[Short Response]*

The assets and liabilities of Maya's Accounting Services at March 31, the end of the current fiscal year, and its revenue and expenses for the year follow. Maya Goldsmith, Capital, had a balance of $180,000 at April 1, the beginning of the current year. During the year, the owner invested an additional $25,000. Use this information to answer the questions that follow.

Accounts payable$ 2,000
Miscellaneous expense$ 1,030

Accounts receivable10,340
Office expense1,240

Cash21,420
Supplies1,670

Fees earned73,450
Wages expense23,550

Land47,000
Maya Goldsmith, Drawing16,570

Building157,630

Identify each of the following as resulting in an (1) increase to owners' equity or a (2) decrease to owners' equity:

(a)Fees earned
(b)Wages expense incurred
(c)Cash withdrawn by Maya Goldsmith for personal use.
(d)Additional investment in business made by Maya Goldsmith.

(e)Supplies expense recognized

Suggested answer: *(a)1*
(b)2
(c)2
(d)1
(e)2

Q200. *[Short Response]*

The assets and liabilities of Maya's Accounting Services at March 31, the end of the current fiscal year, and its revenue and expenses for the year follow. Maya Goldsmith, Capital, had a balance of $180,000 at April 1, the beginning of the current year. During the year, the owner invested an additional $25,000. Use this information to answer the questions that follow.

Accounts payable$ 2,000
Miscellaneous expense$ 1,030

Accounts receivable10,340
Office expense1,240

Cash21,420
Supplies1,670

Fees earned73,450
Wages expense23,550

Land47,000
Maya Goldsmith, Drawing16,570

Building157,630

Prepare an income statement for the current year ended March 31.

Suggested answer: ■
Maya's Accounting Services
Income Statement
For the Year Ended March 31

Fees earned$73,450

Expenses:
Wages expense$23,550

Office expense1,240

Miscellaneous expense1,030

Total expenses
(25,820)

Net income$47,630

Q201. *[Short Response]*

The assets and liabilities of Maya's Accounting Services at March 31, the end of the current fiscal year, and its revenue and expenses for the year follow. Maya Goldsmith, Capital, had a balance of $180,000 at April 1, the beginning of the current year. During the year, the owner invested an additional $25,000. Use this information to answer the questions that follow.

Accounts payable$ 2,000
Miscellaneous expense$ 1,030

Accounts receivable10,340
Office expense1,240

Cash21,420
Supplies1,670

Fees earned73,450
Wages expense23,550

Land47,000
Maya Goldsmith, Drawing16,570

Building157,630

Prepare astatement of owner's equityfor the current year ended March 31.

Suggested answer: *Maya's Accounting Services*
Statement of Owner's Equity
For the Year Ended March 31

Maya Goldsmith, capital April 1	*180,000*
Additional investment by owner	*25,000*
Net income for the year	*47,630*
Withdrawals	*(16,570)*

Maya Goldsmith, capital, March 31$236,060

** $73,450–$23,550–$1,240–$1,030*

Q202. *[Short Response]*

The assets and liabilities of Maya's Accounting Services at March 31, the end of the current fiscal year, and its revenue and expenses for the year follow. Maya Goldsmith, Capital, had a balance of $180,000 at April 1, the beginning of the current year. During the year, the owner invested an additional $25,000. Use this information to answer the questions that follow.

Accounts payable$ 2,000
Miscellaneous expense$ 1,030

Accounts receivable10,340
Office expense1,240

Cash21,420
Supplies1,670

Fees earned73,450
Wages expense23,550

Land47,000
Maya Goldsmith, Drawing16,570

Building157,630

Prepare a balance sheet for the current year ended March 31.

Suggested answer:
Maya's Accounting Services
Balance Sheet
March 31

Assets

Cash
$ 21,420

Accounts receivable
10,340

Supplies
1,670

Land
47,000

Building
157,630

Total assets
$ 238,060

Liabilities

Accounts payable
$ 2,000

Owner's Equity

Maya Goldsmith, capital236,060
Total liabilities and owner's equity$238,060

** $180,000 + $25,000 + $73,450–$23,550–$1,240–$1,030–$16,570*

Q203. *[Short Response]*

The assets and liabilities of Maya's Accounting Services at March 31, the end of the current fiscal year, and its revenue and expenses for the year follow. Maya Goldsmith, Capital, had a balance of $180,000 at April 1, the beginning of the current year. During the year, the owner invested an additional $25,000. Use this information to answer the questions that follow.

Accounts payable$ 2,000
Miscellaneous expense$ 1,030

Accounts receivable10,340
Office expense1,240

Cash21,420
Supplies1,670

Fees earned73,450
Wages expense23,550

Land47,000
Maya Goldsmith, Drawing16,570

Building157,630

Use the following information to determine the net income or net loss:

Beginning owner's equity	$58,000
Ending owner'sequity	30,000
Owner withdrawals	25,000

Suggested answer: *Ending owner's equity$ 30,000*
Beginning owner's equity(58,000)
Decrease in owner'sequity$ (28,000)
Withdrawals25,000
Net loss$ (3,000)

Q204. *[Short Response]*

A summary of cash flows for Linda's Design Services for the year ended December 31 follows:

Cash receipts:
Cash received from customers$83,990

Cash received from owner's investment25,000

Cash payments:
Cash paid for expenses$27,000

Cash paid for land47,000

Cash paid for supplies410

Cash paid for owner withdrawals5,000

Cash balance as of January 1
$40,600

Prepare a statement of cash flows for Linda's Design Services for the year ended December 31.

Suggested answer: ■
Linda's Design Services
Statement of Cash Flows
For the Year Ended December 31

Cash flows from (used for) operating activities:
Cash received from customers
$83,990

Cash paid for expenses and supplies
(27,410)

Net cash flows from operating activities
$ 56,580

Cash flows from (used for) investing activities:
Cash paid for land
(47,000)
Cash flows from (used for) financing activities:

Cash received from owner's investment
$25,000

Cash paid for owner withdrawals
(5,000)

Net cash flows from financing activities
20,000
Net increase in cash
$29,580

Cash balance, January 1
40,600
Cash balance, December 31
$70,180

Q205. *[Short Response]*

What information does the income statement give to business users?

Suggested answer: *The income statement reports the revenues and expenses for a period of time. The result is either a net income or a net loss.*

Q206. *[Short Response]*

What are the three sections of the statement of cash flows?

Suggested answer: *Cash flows from (used for) operating activities*
Cash flows from (used for) investing activities
Cash flows from (used for) financing activities

Q207. *[Short Response]*

For each of the following items, indicate the financial statement on which they can be found. (Hint: Some of the items can be found on more than one financial statement.)

A. Balance sheet
B. Income statement
C. Statement of cash flows
D. Statement of owner'sequity

#Item
1.Withdrawals
2.Revenues
3.Supplies
4.Land
5.Accounts payable
6.Accounts receivable
7.Operating activities
8.Wages expense
9.Net income
10.Cash

Suggested answer: #AnswerItem

1.C, D
Withdrawals
2.BRevenues
3.ASupplies
4.ALand
5.AAccounts payable
6.AAccounts receivable
7.COperating activities
8.BWages expense
9.B,D

Net income

10.A, CCash

Q208. *[Short Response]*

Name and describe the four primary financial statements for a proprietorship.

Suggested answer: *1. Income statement: A summary of the revenue and expensesfor a specific period of time, such as a month or a year.*

2. Statement of owner's equity: A summary of the changes in owner's equity that have occurredduring a specific period of time,such as a month or a year.

3. Balance sheet: A list of the assets, liabilities, and owner’s equityas of a specific date, usually at the close of the last day of a month or a year.

4. Statement of cash flows: A summary of the cash receipts and cash payments for aspecific period of time, such as a month or a year.

Q209. *[Short Response]*
A summary of cash flows for Evelyn's Event Planning for the year ended December 31 follows:

Cash receipts:
Cash received from customers$57,360

Cash received from bank loan15,000

Cash payments:
Cash paid for operating expenses$12,120

Cash paid for equipment18,070

Cash paid for party supplies9,480

Cash paid for owner withdrawals12,000

Cash balance as of January 1
$15,580

Prepare a statement of cash flows for Evelyn's Event Planning for the year ended December 31.

Suggested answer: ■
Evelyn's Event Planning
Statement of Cash Flows
For the Year Ended December 31

Cash flows from (used for) operating activities:
Cash received from customers
$57,360

Cash paid for expenses and supplies
(21,600)

Net cash flows from operating activities
$35,760

Cash flows from (used for) investing activities:
Cash paid for equipment
(18,070)

Cash flow from (used for) financing activities:
Cash received from bank loan
$15,000

Cash paid for owner's withdrawals
(12,000)

Net cash flows from financing activities
3,000
Net increase in cash$20,690
Cash balance, January 115,580

Cash balance, December 31$36,270

Q210. *[Short Response]*

The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed. The balance of Rocky Reed, Capital was $68,000 at January 1. Rocky invested an additional $10,000 in the business during the year. Net income for the year was $45,625.

Accounts payable$ 4,375
Spa operating expense$23,760

Accounts receivable8,490
Office expense2,470

Cash13,980
Spa supplies9,230

Fees earned???
Wages expense26,580

Spa furniture and equipment56,000
Rocky Reed, drawing38,170

Computers2,130

Prepare an income statement for Rocky's Day Spa for the current year ended December 31.

Suggested answer: ■
Rocky's Day Spa
Income Statement
For the Year Ended December 31

Fees earned$98,435*

Expenses:
Wages expense
$26,580

Spa operating expense
23,760

Office expense
2,470

Total expenses
(52,810)

Net income$45,625

**Note: Net income + total expenses = Fees earned*

Q211. *[Short Response]*

The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed. The balance of Rocky Reed, Capital was $68,000 at January 1. Rocky invested an additional $10,000 in the business during the year. Net income for the year was $45,625.

Accounts payable$ 4,375
Spa operating expense$23,760

Accounts receivable8,490
Office expense2,470

Cash???
Spa supplies9,230

Fees earned98,435
Wages expense26,580

Spa furniture and equipment56,000
Rocky Reed, drawing38,170

Computers2,130

Prepare a balance sheet for Rocky's Day Spa for the year ended December 31.

Suggested answer: *Rocky's Day Spa*
Balance Sheet
December 31

Assets

Cash
$13,980

Accounts receivable
8,490

Spa supplies
9,230

Computers
2,130

Spa furniture andequipment
56,000

Total assets
$89,830

Liabilities

Accounts payable
$ 4,375

***Owners' Equity*■**

*Rocky Reed, capital*85,455*

Total liabilities and owner'equity
$89,830

** $68,000 + $10,000 + $45,625–$38,170*

Q212. *[Short Response]*

The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed. The balance in Rocky Reed, Capital was $68,000 at January 1. Rocky invested an additional $10,000 in the business during the year. Net income for the year was $45,625.

Accounts payable$ 4,375
Spa operating expense$23,760

Accounts receivable8,490
Office expense2,470

Cash13,980
Spa supplies9,230

Fees earned98,435
Wages expense26,580

Spa furniture and equipment56,000
Rocky Reed, drawing38,170

Computers2,130

Prepare a statement of owner's equity for Rocky's Day Spa for the current year ended December 31.

Suggested answer: *Rocky's Day Spa*
Statement of Owner's Equity
For the Year Ended December 31

Rocky Reed, capital, January 1	*$68,000*
Additional investment by owner	*10,000*
Net income for the year	*45,625*
Withdrawals	*(38,170)*

Rocky Reed, capital, December 31$85,455

Q213. *[Short Response]*

Explain the interrelationship between the balance sheet and the statement of cash flows.

> ***Suggested answer:*** *The cash reported on the balance sheet is also reported as the end-of-period cash on the statement of cash flows.*

Q214. *[Short Response]*

From the following list of accounts taken from Lamar's accounting records, identify those that would appear on the income statement:

(a)Rent Expense
(b)Land
(c)Lamar Hill, Capital
(d)Fees Earned
(e)Lamar, Hill, Drawing
(f)Wages Expense
(g)Investments

> ***Suggested answer:*** *(a), (d), (f)*

Q215. *[Short Response]*

Identify which of the following accounts would appear on a balance sheet:

(a)Cash
(b)Fees Earned
(c)Natalie West, Capital
(d)Wages Payable
(e)Rent Expense
(f)Supplies
(g)Land

> ***Suggested answer:*** *(a), (c), (d), (f), (g)*

Q216. *[Short Response]*

Indicate whether each of the following activities would be reported on the statement of cash flows as an operating activity, an investing activity, or a financing activity:

(a)Cash paid for building
(b)Cash paid to suppliers
(c)Cash paid for owner withdrawals
(d)Cash received from customers
(e)Cash received from owner investments
(f)Cash received from the sale of a building
(g)Cash borrowed from a bank

> ***Suggested answer:*** *(a)Investing*
> *(b)Operating*
> *(c)Financing*
> *(d)Operating*
> *(e)Financing*
> *(f)Investing*
> *(g)Financing*

Q217. *[Short Response]*

For each of the following, determine the amount of net income or net loss for the year:

(a)Revenues for the year totaled $71,300 and expenses totaled $35,500. The owner invested an additional $15,000 in the business during the year.
(b)Revenues for the year totaled $220,500 and expenses totaled $175,000. The owner withdrew $40,000 for personal use during the year.
(c)Revenues for the year totaled $149,000 and expenses totaled $172,000. The owner invested an additional $12,000 in the business and withdrew $16,000 cash for personal use during the year.
(d)Revenues for the year totaled $198,150 and expenses totaled $174,200.The owner withdrew $35,000 cash for personal use during the year.

Suggested answer: *(a)$35,800 net income ($71,300–$35,500)*
(b)$45,500 net income ($220,500–$175,000)
(c)$(23,000) net loss ($149,000–$172,000)
(d)$23,950 net income ($198,150–$174,200)

Q218. *[Short Response]*

The total assets and total liabilities of Greta’s Flower Shop at the beginning and end of the current fiscal year are as follows:

Jan. 1
Dec. 31

Total assets$280,000
$475,000

Total liabilities205,000
130,000

(a)Determine the amount of net income earned during the year.No additional investments or withdrawals were made.
(b)Determine the amount of net income earned during the year. The assets and liabilities at the beginning and end of the year are unchanged from the amounts initially presented. However, the owner withdrew $53,000 in cash during the year and made no additional investments in the business.
(c)Determine the amount of net income earned during the year. The assets and liabilities at the beginning and end of the year are unchanged from the amounts initially presented. However, the owner invested an additional $35,000 cash in the business during the year and no owner withdrawals were made.
(d)Determine the amount of net income earned during the year. The assets and liabilities at the beginning and end of the year are unchanged from the amounts initially presented. However, theowner invested an additional$12,000 in August and made 12 monthly withdrawals of $1,500 each during the year.

Suggested answer: *(a)Owner's equity at end of year ($475,000–$130,000)$345,000*

Owner's equity at beginning of year ($280,000–$205,000)■
75,000

Net income$270,000

(b)Increase in owner's equity as in (a)$270,000

Add withdrawals53,000

Net income$323,000

(c)Increase in owner's equity as in (a)$270,000

Deduct additional investment(35,000)

Net income$235,000

(d)Increase in owner's equity as in (a)$270,000

Add withdrawals ($1,500×12)
18,000

Deduct additional investment(12,000)

Net income$276,000

Q219. *[Short Response]*

Selected transaction data of a business for September are summarized as follows:

Service sales charged to customers on account during September$33,000

Cash received from cash customers for services performed in September28,000

Cash received from customers on account during September:
Services performed and charged to customers prior to September13,000

Services performed and charged to customers during September18,000

Expenses incurred prior to September and paid during September6,500

Expenses incurred and paid in September36,250

Expenses incurred in September but not paid in September5,000

Expenses for supplies used and insurance (not included above)
applicable to September
2,000

Determine the following amounts for September: (a) total revenue, (b) total expenses, and (c) net income.

Suggested answer: *(a)$61,000 ($33,000 + $28,000)*
(b)$43,250 ($36,250 + $5,000 + $2,000)
(c)$17,750 ($61,000–$43,250)

Q220. *[Short Response]*

On March 1, the balance of Richard Carter, Capital was $150,000. During March, the owner withdrew $31,000 cash for personal use. The amounts of the various assets, liabilities, revenues, and expenses as of March 31 are as follows:

Accounts payable$10,250

Accounts receivable45,950

Cash23,840

Fees earned64,950

Insurance expense1,275

Land88,400

Miscellaneous expense1,210

Rent expense9,000

Salary expense20,300

Supplies900

Supplies expense525

Utilities expense2,800

Prepare (a) an income statement for March, (b) a statement of owner's equity for March, and (c) a balance sheet for Richard's Catering Company as of March 31.

Suggested answer: *(a)*
Richard's Catering Company
Income Statement
For the Month Ended March 31

Fees earned
$64,950

Operating expenses:
Salary expense$20,300

Rent expense9,000

Utilities expense2,800

Insurance expense1,275

Supplies expense525

Miscellaneous expense1,210

Total expenses
(35,110)

Net income
$29,840

(b)
Richard's Catering Company
Statement of Owner's Equity
For the Month Ended March 31

Richard Carter, capital, March 1	*$150,000*
Net income for March	*29,840*
Withdrawals	*(31,000)*
Richard Carter, capital, March 31	*$148,840*

(c)

Richard's Catering Company
Balance Sheet
March 31

Assets

Cash
$ 23,840

Accounts receivable
45,950

Supplies
900

Land
88,400

Total assets
$159,090

Liabilities

Accounts payable
$ 10,250

Owner's Equity

Richard Carter, capital148,840

Total liabilities and owner's equity$159,090

Q221. *[Short Response]*

Using the following accounts and their amounts, prepare an income statement for Bright Futures Company for the month ended August 31. The owner, Miyoshi Umeki, made no additional investments in the business during the year.

Telephone Expense$ 1,150

Cash3,000

Accounts Payable1,540

Miyoshi Umeki, Drawing800

Fees Earned15,700

Rent Expense1,400

Supplies140

Accounts Receivable1,500

Computer Equipment17,600

Miyoshi Umeki, Capital(August 1)
14,320
Wages Expense4,800
Utilities Expense750

Office Expense420

Suggested answer: ■
Bright Futures Company
Income Statement
For the Month Ended August 31

Fees earned
$15,700

Expenses:

Wages expense
$4,800

Rent expense
1,400

Telephone expense
1,150

Utilities expense
750

Office expense
420

Total expenses
(8,520)

Net income
$7,180

Q222. *[Short Response]*

Using the following accounts and their amounts, prepare a statement of owner's equity for Bright Futures Company for the month ended August 31. The owner, Miyoshi Umeki, made no additional investments in the business during the year.

Telephone expense$ 1,150

Cash3,000

Accounts Payable1,540

Miyoshi, Umeki, Drawing800

Fees Earned15,700

Rent Expense1,400

Supplies140

Accounts Receivable1,500

Computer Equipment17,600

Miyoshi Umeki, Capital (August 1)14,320
Wages Expense
4,800

Utilities Expense750
Office Expense420

Suggested answer: *Bright Futures Company*
Statement of Owner's Equity
For the Month Ended August 31

Miyoshi Umeki, Capital, August 1 $14,320
*Net income for August * (7,180)*
Withdrawals(800)
MiyoshiUmeki, capital, August 31$20,700

** $15,700–$1,150–$1,400–$4,800–$750–$420*

Q223. *[Short Response]*

Using the following accounts and their amounts, prepare a balance sheet for Bright Futures Company as of August 31. The owner, Miyoshi Umeki, made no additional investments in the business during the year.

Telephone Expense$ 1,150

Cash3,000

Accounts Payable1,540

Miyoshi Umeki, Drawing800

Fees Earned15,700

Rent Expense1,400

Supplies140

Accounts Receivable1,500

Computer Equipment17,600

Miyoshi Umeki, capital (August 1)14,320
Wages Expense
4,800

Utilities Expense750

Office Expense420

Suggested answer:
Bright Futures Company
Balance Sheet
August 31

Assets

Cash$ 3,000

Accounts receivable1,500

Supplies140

Computer equipment17,600

Total assets
$22,240

Liabilities
Accounts payable$ 1,540

Owner's Equity

*Miyoshi Umeki, capital *20,700*

Total liabilities and owner's equity
$22,240

** $14,320 + $15,700 – $1,150 – $1,400 – $4,800 – $750 – $420 – $800*

Q224. *[Short Response]*

The account balances of Awesome Travel Services at December 31 are listed. There were no additional investments or withdrawals by the owner during the year.

Accounts Payable$12,000
Debra Hagedorn, capital (Jan. 1)
$10,000

Accounts Receivable14,000
Supplies1,000

Cash18,000
Income Taxes Expense1,300

Computer Equipment21,000Utilities Expense
8,000
Fees Earned78,000
Wages Expense25,000

Rent Expense10,000
Supplies Expense1,700

Prepare an income statement for the year ended December 31, a statement of owner's equity for the year ended December 31, and a balance sheet as of December 31.

Suggested answer: *Awesome Travel Services*
Income Statement
For the Year Ended December 31

Fees earned

$78,000

Operating expenses:

Wages expense
$25,000

Rent expense
10,000

Utilities expense
8,000

Supplies expense
1,700

Income taxes expense
1,300

Total expenses

(46,000)

Net income

$32,000

Awesome Travel Services
Statement of Owner's Equity
For the Year Ended December 31

Debra Hagedorn, capital, January 1 $10,000
Net income32,000
Debra Hagedorn, capital, December 31$42,000

Awesome Travel Services
Balance Sheet
December 31

Assets

Cash
$18,000

Accounts receivable
14,000

Supplies
1,000

Computer equipment
21,000

Total assets
$54,000

Liabilities

Accounts payable
$12,000

Owner's Equity

Debra Hagedorn, capital$42,000

Total liabilities and owner's equity
$54,000

Q225. *[Short Response]*
Schultz Tax Services, a tax preparation business, had the following transactions during the month of June:

1. Received cash for providing accounting services, $3,000.
2. Billed customers on account for providing services, $7,000.
3. Paid advertising expense, $800.
4. Received cash from customers on account, $3,800.
5. Withdrew cash for owner’s personal use,$1,500.
6. Received telephone bill, $220.
7. Paid telephone bill, $220.

Based on the information provided, compute the balance of Cash at June 30. Use the following format:

Cash, June 1	$25,000
Plus cash receipts for June	____________
Minus cash payments for June	____________
Cash, June 30	____________

Suggested answer: ■
Cash, June 1$25,000
Plus cash receipts for June (1)6,800
Minus cash payments for June (2)2,520
Cash, June 30$29,280

(1)$3,000 + $3,800 = $6,800
(2)$800 + $1,500 + $220 = $2,520

Q226. *[Short Response]*

A company had the following data:

	Dec. 31, Year 2	Dec. 31, Year 1
Total liabilities	$98,500	$80,000
Totalstockholders'equity	128,250	120,000

(a) Compute the ratio of liabilities tostockholders'equity for each year. Round answers to two decimal places.
(b) Has the creditors’ risk increased or decreased from December 31, Year 1, to December 31, Year 2?

Suggested answer: *(a)*

	Dec. 31, Year 2	*Dec. 31, Year 1*
Total liabilities	*$98,500*	*$80,000*
Totalstockholders'equity	*÷128,250*	*÷120,000*
Ratio of liabilities tostockholders'equity	*0.77*	*0.67*

(b) Increased

Q227. *[Short Response]*

Company G has a ratio of liabilities to stockholders’ equity of 0.12 and 0.28 for Year 1 and Year 2, respectively. In contrast, Company M has a ratio of liabilities to stockholders’ equity of 0.30 and 0.35 for the same period.

Based on this information, which company's creditors are more at risk and why? Should the creditors of either company fear the risk of nonpayment?

Suggested answer: *Company M’s creditors are more at risk than are Company G’s creditors. The lower the ratio of liabilities to owner’s equity, the better able the company is to withstand poor business conditions and pay its obligations to creditors. Without additional information, it appears that the creditors of either company are well protected against the risk of nonpayment because the ratios are relatively low for both. However, the fact that both ratios are increasing over the period should be monitored for downturns in business conditions.*

Q228. *[Short Response]*

The following data were taken from Miller Company’s balance sheet:

	Dec. 31, Year 2	Dec. 31, Year 1
Total liabilities	$75,000	$60,000
Totalstockholders'equity	125,000	120,000

(a)Compute the ratio of liabilities to stockholders' equity. Round answers to two decimal places.
(b) Has the creditors’ risk increased or decreased from December 31, Year 1, to December 31, Year 2?

Suggested answer: *(a) 12/31/Year 2: $75,000 ÷ $125,000 = 0.60*
12/31/Year 1: $60,000 ÷ $120,000 = 0.50

(b) Increased

Q229. *[Short Response]*

Jen Lavis is the owner of Jen's Legal Services. At the end of its accounting period, December 31, Jen's Legal Services has assets of $540,000 and liabilities of $260,000. Using the accounting equation, determine the following amounts:

(a) Owner's equity as of December 31 of the current year
(b) Owner's equity as of December 31 at the end of the next year, assuming that assets increased by $40,000 and liabilities increased by $30,000 during the year

Suggested answer: *(a)Owner's equity = ($540,000 – $260,000) = $280,000*
(b)Owner's equity = ($540,000 + $40,000) – ($260,000 + $30,000) = $290,000

Q230. *[Short Response]*

Determine the missing amount for each of the following:

Assets
Liabilities
Owner's Equity

(a)
$155,000
$270,000

$410,000
(b)
$344,000

$65,000
$5,000
(c)

Suggested answer: *(a)$155,000 + $270,000 = $425,000*
(b)$410,000 – $344,000 = $66,000
(c)$65,000 – $5,000 = $60,000

Q231. *[Short Response]*

On July 1 of the current year, the assets and liabilities of Mary Weroski, CPA, are as follows: Cash, $45,000; Accounts Receivable, $13,000; Office Supplies, $3,000; Equipment, $15,000; Accounts Payable, $10,000. What is the amount of owner's equity as of July 1 of the current year?

Suggested answer: *$66,000*
($45,000 Cash + $13,000 Accounts Receivable + $3,000 Office Supplies + $15,000 Equipment–$10,000 Accounts Payable = $66,000)

Q232. *[Short Response]*
Mayfield Garden Center

The accountant for Mayfield Garden Center prepared the following list of account balances from the company's records for the year ended December 31. Use this information to answer the questions that follow.

Accounts Receivable
$35,000

Fees Earned
$246,000

Cash
91,000

Selling Expenses
39,000

Office Equipment
64,000

Peter Mayfield, Capital
57,000

Accounts Payable
15,000

Note Payable
4,000

Wages Expense
48,000

Income Taxes Expense
20,000

Supplies
7,000

Rent Expense
18,000

Determine the total assets at the end of the current year for Mayfield Garden Center.

Suggested answer: *$197,000*
($91,000 Cash + $35,000 Accounts Receivable + $64,000 Office Equipment + $7,000 Supplies = $197,000)

Q233. *[Short Response]*
Mayfield Garden Center

The accountant for Mayfield Garden Center prepared the following list of account balances from the company's records for the year ended December 31. Use this information to answer the questions that follow.

Accounts Receivable
$35,000

Fees Earned
$246,000

Cash
91,000

Selling Expenses
39,000

Office Equipment
64,000

Peter Mayfield, Capital
57,000

Accounts Payable
15,000

Note Payable
4,000

Wages Expense
48,000

Income Taxes Expense
20,000

Supplies
7,000

Rent Expense
18,000

Determine the net income (loss) for Mayfield Garden Center.

Suggested answer: *$246,000 Fees Earned–($48,000 Wages Expense + $39,000 Selling Expenses + $20,000 Income Taxes Expense + $18,000 Rent Expense) = $121,000 Net Income*

Q234. *[Short Response]*

Use the following information to determine the net income or net loss:

Beginning owner's equity	$125,000
Ending owner's equity	195,000
Owner withdrawals	25,000

Suggested answer: *Ending owner's equity*
$195,000

Beginning owner's equity
(125,000)

Increase in owner's equity
$70,000

Withdrawals
25,000

Net income
$95,000

Q235. *[Short Response]*

Using the following accounts and their amounts, prepare an income statement for Rocky's Gym for the month ended July 31. The owner, Rocky Green, made no additional investments in the business during the year.

Supplies Expense
$ 1,800

Cash
11,000

Accounts Payable
4,500

Rocky Green, Drawing
3,000

Fees Earned
27,000

Rent Expense
2,000

Supplies
4,000

Accounts Receivable
8,000

Computer Equipment
20,000

Rocky Green, Capital(August 1)
23,000

Wages Expense
4,500

Note Payable
1,000

Office Expense
1,200

Suggested answer: *Rocky's Gym*
Income Statement
For the Month Ended July 31
Fees earned$27,000
Expenses:
Wages expense
$4,500

Rent expense
2,000
Supplies expense
1,800
Office expense
1,200
Total Expenses
(9,500)
Net Income$17,500