


**Pool Canvas**

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**Name** Chapter 1--Financial Accounting

**Description**

**Instructions**

[Modify](#)

[◀ Add Question Here](#)

Question 1 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following statements is true regarding economic events?

- Answer**
- The signing of a service contract is an example of an external event that is recorded in the accounting records.
  - Every event which affects an entity can be identified from a source document.
  - All internal and external events must be measured with sufficient reliability.
  - ✓ External events involve exchanges between an entity and another entity outside the company.

[◀ Add Question Here](#)

Question 2 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following underlying assumptions for the conceptual framework is the reason the dollar is used in the preparation of financial statements?

- Answer**
- Economic Entity
  - Continuity
  - Time-Period
  - ✓ Monetary Unit

[◀ Add Question Here](#)

Question 3 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following is an assumption made in the preparation of the financial statements?

- Answer** ✓
- Financial statements are prepared for a specific entity that is distinct from the entity's owners.
  - The current market value is assumed to be less relevant than the original cost paid.
  - The preparation of financial statements for a specific time period assumes that the balance sheet covers a designated period of time.
  - Financial statements are prepared assuming that inflation has a distinct effect on the monetary unit.

[◀ Add Question Here](#)

Question 4 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The time-period assumption is necessary because

- Answer** ✓
- inflation exists and causes confusing swings in financial statement amounts over time.
  - ✓ external users of financial statements want accurately-reported net income for a specific period of time.
  - financial statements users expect full disclosure of all economic events throughout the entire time period.
  - it is required by the federal government.

[◀ Add Question Here](#)

Question 5 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The going concern assumption is concerned with

- Answer** ✓
- The company's ability to continue operations long enough to carry out its existing obligations.
  - Any information that is capable of influencing the decisions of anyone using the financial statements.
  - Measuring ongoing business activities at their exchange price at the time of the initial external transaction.
  - offsetting management's natural optimism by providing a prudent approach to uncertainty in financial statement items.

[◀ Add Question Here](#)

Question 6 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** "Revenues" are best described as:

- Answer** ✓
- decreases in resources resulting from the sale of goods or the provision of services.
  - ✓ increases in resources resulting from the sale of goods or the provision of services.
  - assets used or consumed in the sale of products or services.
  - an increase in the financing activities.

[◀ Add Question Here](#)

Question 7 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following best describes the term "expenses"?

- Answer**
- The cost of assets used in the investing activities of a business.
  - The amount of interest or claim that the owners have in the business.
  - The future economic resources of a business entity.
  - ✓ A decrease in resources resulting from the sale of goods or provision of services.

[◀ Add Question Here](#)

Question 8 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which statement demonstrates the financial success or failure of the company over that specific period of time?

**Answer**

- Statement of Cash Flows
- Statement of Retained Earnings
- Balance Sheet
- Income Statement

[◀ Add Question Here](#)

Question 9 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The resources used to generate revenues during a period are called:

**Answer**

- Net Income
- Expenses
- Revenues
- Dividends

[◀ Add Question Here](#)

Question 10 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following is the correct date format for the financial statement heading?

**Answer**

- Balance Sheet for the Year Ended June 30, 2010
- Income Statement at December 31, 2010
- Income Statement for the Year Ended December 31, 2010
- Statement of Retained Earnings at December 31, 2010

[◀ Add Question Here](#)

Question 11 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following terms best describes a distribution of the net income of a corporation to its owners?

**Answer**

- Retained Earnings
- Dividends
- Liquidation of assets
- Monetary Unit

[◀ Add Question Here](#)

Question 12 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question IPOD CORP**

IPOD Corporations' end-of-year Balance Sheet consisted of the following amounts.

Cash	\$ 150,000	Accounts Receivable	\$500,000
Property, plant & equipment	700,000	Long-term debt	400,000
Capital stock	1,000,000	Accounts payable	200,000
Retained earnings	?	Inventory	350,000

Refer to IPOD Corp. What amount should IPOD report on its Balance Sheet for *Total Assets*?

**Answer**

- \$1,100,000
- \$1,550,000
- \$1,700,000
- \$1,900,000

**Correct Feedback**  $\$150,000 + \$500,000 + \$700,000 + \$350,000 = \$1,700,000$

**Incorrect Feedback**  $\$150,000 + \$500,000 + \$700,000 + \$350,000 = \$1,700,000$

[◀ Add Question Here](#)

Question 13 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question IPOD CORP**

IPOD Corporations' end-of-year Balance Sheet consisted of the following amounts.

Cash	\$ 150,000	Accounts Receivable	\$500,000
Property, plant & equipment	700,000	Long-term debt	400,000
Capital stock	1,000,000	Accounts payable	200,000
Retained earnings	?	Inventory	350,000

Refer to IPOD Corp. What is IPOD 's *Retained Earnings* balance at the end of the current year?

**Answer**

- \$ 100,000
- \$1,100,000
- \$1,600,000
- \$1,700,000

**Correct Feedback**  $\text{Assets} = \$150,000 + \$700,000 + \$500,000 + \$350,000 = \$1,700,000$   
 $\text{Liabilities} = \$400,000 + \$200,000 = \$600,000$   
 $\text{Equity} = \$1,700,000 - \$600,000 = \$1,100,000$   
 $\text{Retained Earnings} = \$1,100,000 - \$1,000,000 = \$100,000$

**Incorrect Feedback**  $\text{Assets} = \$150,000 + \$700,000 + \$500,000 + \$350,000 = \$1,700,000$   
 $\text{Liabilities} = \$400,000 + \$200,000 = \$600,000$   
 $\text{Equity} = \$1,700,000 - \$600,000 = \$1,100,000$   
 $\text{Retained Earnings} = \$1,100,000 - \$1,000,000 = \$100,000$

[◀ Add Question Here](#)

Question 14 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question Peck Company**

The Peck Company reported the following items on its financial statements for the year ending December 31, 2010.

Sales	\$1,560,000	Cost of Sales	\$1,400,000
Selling, general and		Other Expense	30,000

administrative expense	40,000	
Dividends	10,000	Income Tax Expense 25,000

Refer to Peck Company. The Income Statement for Peck will report *Net Income* for the current year in the amount of

- Answer**
- \$ 45,000
  - \$ 65,000
  - \$ 85,000
  - \$465,000

**Correct Feedback**  $\$1,560,000 - \$1,400,000 - \$40,000 - \$30,000 - \$25,000 = \$65,000$   
**Incorrect Feedback**  $\$1,560,000 - \$1,400,000 - \$40,000 - \$30,000 - \$25,000 = \$65,000$

[Add Question Here](#)

**Question 15 Multiple Choice 0 points**

[Modify](#) [Remove](#)

**Question Peck Company**

The Peck Company reported the following items on its financial statements for the year ending December 31, 2010.

Sales	\$1,560,000	Cost of Sales	\$1,400,000
Selling, general and administrative expense	40,000	Other Expense	30,000
Dividends	10,000	Income Tax Expense	25,000

Refer to Peck Company. How much will be reported as *Retained Earnings* on its Balance Sheet at December 31, 2010, if this is the first year of operations?

- Answer**
- \$45,000
  - \$55,000
  - \$85,000
  - Not enough information is provided.

**Correct Feedback** Net Income:  $\$1,560,000 - \$1,400,000 - \$40,000 - \$30,000 - \$25,000 = \$65,000$   
 Retained Earnings:  $\$65,000 - \$10,000 = \$55,000$

**Incorrect Feedback** Net Income:  $\$1,560,000 - \$1,400,000 - \$40,000 - \$30,000 - \$25,000 = \$65,000$   
 Retained Earnings:  $\$65,000 - \$10,000 = \$55,000$

[Add Question Here](#)

**Question 16 Multiple Choice 0 points**

[Modify](#) [Remove](#)

**Question Ponzi Corporation**

Ponzi Corporation reported the following information for the year ended December 31, 2010.

Net income	\$100,000
Dividends	6,000
Retained earnings at December 31, 2010	\$120,000

Refer to Ponzi Corporation. What was the balance of Retained Earnings at January 1, 2010?

- Answer**
- \$ 21,000
  - \$ 26,000
  - \$106,000
  - \$214,000

**Correct Feedback**  $\$120,000 + \$6,000 - \$100,000 = \$26,000$

**Incorrect Feedback**  $\$120,000 + \$6,000 - \$100,000 = \$26,000$

[Add Question Here](#)

**Question 17 Multiple Choice 0 points**

[Modify](#) [Remove](#)

**Question Ponzi Corporation**

Ponzi Corporation reported the following information for the year ended December 31, 2010.

Net income	\$100,000
Dividends	6,000
Retained earnings at December 31, 2010	\$120,000

Refer to Ponzi Corporation. What was the economic effect of the payment of Ponzi's dividends?

- Answer**
- The dividend reduced net income for 2010.
  - The dividend should be added to net income if the company's accounting equation is in balance.
  - The dividend reduced total retained earnings.
  - The dividends must be paid whenever Ponzi Corp. reports net income.

[Add Question Here](#)

**Question 18 Multiple Choice 0 points**

[Modify](#) [Remove](#)

**Question** You are a potential creditor and are concerned that a particular company you are ready to give a loan to might have too much debt. Which financial statement would provide you information needed in order to evaluate your concern?

- Answer**
- Balance Sheet
  - Income Statement
  - Statement of Retained Earnings
  - Statement of Public Accounting

[Add Question Here](#)

**Question 19 Multiple Choice 0 points**

[Modify](#) [Remove](#)

**Question** Which financial statement would you refer to in order to determine how many resources (assets) the company owned?

- Answer**
- Balance Sheet
  - Statement of Retained Earnings
  - Income Statement
  - Statement of Public Accounting

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 20 **Multiple Choice** **0 points**

**Question** Businesses engage in which of the following three main activity categories?

- Answer**
- Financing, Investing, Operating
  - Cash, Credit, Noncash
  - Financing, Credit, Operating
  - Financing, Management, Operating

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 21 **Multiple Choice** **0 points**

**Question** Which one of the following is **not** one of the three business activities?

- Answer**
- Financing
  - Operating
  - Investing
  - Measuring

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 22 **Multiple Choice** **0 points**

**Question** Which financial statement would you analyze to determine its operating performance for the past year?

- Answer**
- Balance Sheet
  - Statement of Retained Earnings
  - Income Statement
  - Statement of Public Accounting

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 23 **Multiple Choice** **0 points**

**Question** Which one of the following financial statements show the end of the year cash balance for a business entity?

- Answer**
- Income Statement and Statement of Retained Earnings
  - Balance Sheet and Statement of Cash Flows
  - Statement of Retained Earnings and Statement of Cash Flows
  - Balance Sheet and Statement of Retained Earnings

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 24 **Multiple Choice** **0 points**

**Question** Which one of the following events involves a liability for a business?

- Answer**
- An obligation to pay for goods purchased on credit from a supplier
  - Inventories purchased for cash
  - Amounts invested by the owners
  - Stock sold to the general public

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 25 **Multiple Choice** **0 points**

**Question** Which one of the following is a correct fundamental accounting equation?

- Answer**
- Assets + Liabilities = Equity
  - Assets + Retained Earnings = Equity
  - Assets + Equity = Liabilities
  - Assets = Liabilities + Equity

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 26 **Multiple Choice** **0 points**

**Question** How is the Balance Sheet linked to the other financial statements?

- Answer**
- The amount of retained earnings is reported on the Balance Sheet as a liability.
  - Retained earnings is added to total assets and reported on the Balance Sheet.
  - Retained earnings is reported on the Balance Sheet.
  - There is no link between the Balance Sheet and other statements, as each contains different accounts and provides different information.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 27 **Multiple Choice** **0 points**

**Question** On January 1, 2010, Blackstone Company reported assets of \$1,000,000 and liabilities of \$600,000. During 2010 assets decreased by \$200,000 and Equity decreased \$250,000. What is the amount of Equity at December 31, 2010.

- Answer**
- \$650,000
  - \$150,000
  - \$400,000
  - \$800,000

**Correct Feedback**

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
Jan. 01, 2010	\$1,000,000	=	\$600,000	+	\$400,000
During 2010	-200,000	=	50,000	+	-250,000
Jan. 31, 2010	800,000	=	650,000	+	150,000

**Incorrect Feedback**

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
Jan. 01, 2010	\$1,000,000	=	\$600,000	+	\$400,000
During 2010	-200,000	=	50,000	+	-250,000
Jan. 31, 2010	800,000	=	650,000	+	150,000

[◀ Add Question Here](#)**Question 28 Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** Which of the following best describes the term "retained earnings" of a company?

- Answer**
- The amount of total profits earned by a company since it began operations.
  - The amount of claim that the owners have on the assets of the company.
  - The future economic resources of a company.
  - ✓ The accumulated net income of a company that has not been distributed to owners in the form of dividends.

[◀ Add Question Here](#)**Question 29 Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** Which one of the following items appears on a balance sheet?

- Answer**
- ✓ Retained Earnings
  - Sales Revenue
  - Utilities Expense
  - Dividends

[◀ Add Question Here](#)**Question 30 Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** Which of the following is an organization that lends funds to a business entity and expects repayment of the funds?

- Answer**
- A partner
  - A stockholder
  - An owner
  - ✓ A creditor

[◀ Add Question Here](#)**Question 31 Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** Which of the following invests funds into a business and is considered an owner?

- Answer**
- ✓ Stockholders
  - Creditors
  - Bankers
  - Lenders

[◀ Add Question Here](#)**Question 32 Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** Which one of the following financial statements reports an entity's financial position at a specific date?

- Answer**
- ✓ Balance Sheet
  - Statement of Retained Earnings
  - Income Statement
  - Both the Income Statement and the Balance Sheet

[◀ Add Question Here](#)**Question 33 Multiple Choice****0 points**[Modify](#)[Remove](#)**Question Bailout Corp.**

Bailout Corp. reported the following information for the year ended December 31, 2010.

Revenues	\$2,500,000
Expenses	2,000,000
Retained Earnings at December 31, 2009	100,000
Retained Earnings at December 31, 2010	450,000

Refer to Bailout Corp. How much was paid out in dividends in 2010?

- Answer**
- \$500,000
  - ✓ \$150,000
  - \$350,000
  - \$250,000
- Correct Feedback**  $\$100,000 + \$2,500,000 - \$2,000,000 - X = \$450,000$   
 $X = \$150,000$
- Incorrect Feedback**  $\$100,000 + \$2,500,000 - \$2,000,000 - X = \$450,000$   
 $X = \$150,000$

[◀ Add Question Here](#)**Question 34 Multiple Choice****0 points**[Modify](#)[Remove](#)**Question Jetson Corp.**

Jetson Corp. reported the following information for the year ended December 31, 2010.

Revenue	\$14,000,000
Expenses	11,500,000
Dividends	1,000,000
Retained Earnings at December 31, 2010	1,750,000

Refer to Jetson Corp. What was the retained earnings balance at December 31, 2009?

**Answer**  \$ 250,000  
 \$2,500,000  
 \$1,500,000  
 \$ 350,000

**Correct Feedback**  $X + \$14,000,000 - \$11,500,000 - \$1,000,000 = \$1,750,000$   
 $X = \$250,000$

**Incorrect Feedback**  $X + \$14,000,000 - \$11,500,000 - \$1,000,000 = \$1,750,000$   
 $X = \$250,000$

[◀ Add Question Here](#)

Question 35 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** On January 1, 2010, Money Company's balance in retained earnings was \$10,000,000. At the end of the year, December 31, 2010, the balance in retained earnings was \$9,400,000. During 2010, the company earned net income of \$440,000. How much were dividends?

**Answer**  \$1,040,000  
 \$1,000,000  
 \$ 600,000  
 \$ 440,000

**Correct Feedback**  $\$10,000,000 + \$440,000 - \$9,400,000 = \$1,040,000$

**Incorrect Feedback**  $\$10,000,000 + \$440,000 - \$9,400,000 = \$1,040,000$

[◀ Add Question Here](#)

Question 36 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question Tarp Corporation**

Beginning Retained Earnings	\$550,000
Ending Retained Earnings	700,000
Dividends Paid	100,000
Revenue	525,000

Refer to Tarp Corporation. What is the net income for Tarp Corp.?

**Answer**  \$150,000  
 \$250,000  
 \$300,000  
 \$350,000

**Correct Feedback**  $\$550,000 + X - \$100,000 = \$700,000$   
 $X = \$250,000$

**Incorrect Feedback**  $\$550,000 + X - \$100,000 = \$700,000$   
 $X = \$250,000$

[◀ Add Question Here](#)

Question 37 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question Tarp Corporation**

Beginning Retained Earnings	\$550,000
Ending Retained Earnings	700,000
Dividends Paid	100,000
Revenue	525,000

Refer to Tarp Corporation. The company's expenses are:

**Answer**  \$100,000  
 \$150,000  
 \$450,000  
 \$275,000

**Correct Feedback**  $\$550,000 + X - \$100,000 = \$700,000$   
 $X = \$250,000$  or Net Income  
 $\$525,000$  (Revenue) -  $\$250,000$  (Net Income) =  $\$275,000$  (Expenses)

**Incorrect Feedback**  $\$550,000 + X - \$100,000 = \$700,000$   
 $X = \$250,000$  or Net Income  
 $\$525,000$  (Revenue) -  $\$250,000$  (Net Income) =  $\$275,000$  (Expenses)

[◀ Add Question Here](#)

Question 38 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** If a company has \$10,500,000 of revenues, declares and pays \$550,000 in dividends, and has net income of \$1,600,000, how much were expenses for the year?

**Answer**  \$9,950,000  
 \$1,050,000  
 \$2,150,000  
 \$8,900,000

**Correct Feedback**  $\$10,500,000$  (Revenues) -  $\$1,600,000$  (Net Income) =  $\$8,900,000$  (Expenses)

**Incorrect Feedback**  $\$10,500,000$  (Revenues) -  $\$1,600,000$  (Net Income) =  $\$8,900,000$  (Expenses)

[◀ Add Question Here](#)

Question 39 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Ranger Company has assets of \$5,000,000, liabilities of \$3,000,000, and retained earnings of \$1,200,000. How much is total equity?

<b>Answer</b>	\$ 800,000
	✓ \$2,000,000
	\$3,800,000
	\$1,800,000
<b>Correct Feedback</b>	\$5,000,000 (Assets) - \$3,000,000 (Liabilities) = \$2,000,000 (Equity)
<b>Incorrect Feedback</b>	\$5,000,000 (Assets) - \$3,000,000 (Liabilities) = \$2,000,000 (Equity)

[◀ Add Question Here](#)

Question 40 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Doughtry's Pet Shop reported a net loss of \$1,500,000 and total expenses of \$2,900,000. How much are total sales?

<b>Answer</b>	\$4,400,000
	✓ \$1,400,000
	\$2,400,000
	\$1,600,000

**Correct Feedback** \$2,900,000 Total Expenses + (\$1,500,000) Net Loss = \$1,400,000 Total Revenues

**Incorrect Feedback** \$2,900,000 Total Expenses + (\$1,500,000) Net Loss = \$1,400,000 Total Revenues

[◀ Add Question Here](#)

Question 41 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** "Economic resources" are known as

<b>Answer</b>	✓ Assets
	Liabilities and stockholders' equity
	Owners' equity and stockholders' equity
	Retained earnings and revenues

[◀ Add Question Here](#)

Question 42 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The Income Statement shows:

<b>Answer</b>	How much profit the company has earned since it began operations
	Net Income equal to the amount of cash on the Balance Sheet
	✓ A summary of the results of operations for a period of time
	The liquidity of the company on an annual basis

[◀ Add Question Here](#)

Question 43 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which one of the following equations represents the Statement of Retained Earnings activity?

<b>Answer</b>	Beginning retained earnings + net income + dividends = ending retained earnings
	Beginning retained earnings + cash inflows - cash outflows = ending retained earnings
	Beginning retained earnings + dividends - net income = ending retained earnings
	✓ Beginning retained earnings + net income - dividends = ending retained earnings

[◀ Add Question Here](#)

Question 44 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question Davis Construction Inc.**

Davis Construction began operation on January 1, 2010, with an initial investment of \$100,000 from each of its three stockholders. During the year ending 2010 Davis Construction had net income of \$125,000 and paid dividends of \$50,000.

Refer to Davis Construction, Inc. and calculate its Retained Earnings balance at December 31, 2010.

<b>Answer</b>	\$175,000
	✓ \$ 75,000
	\$250,000
	\$375,000

**Correct Feedback** \$ -0- Beginning Balance + \$125,000 Net Income - 50,000 Dividends = \$75,000

**Incorrect Feedback** \$ -0- Beginning Balance + \$125,000 Net Income - 50,000 Dividends = \$75,000

[◀ Add Question Here](#)

Question 45 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question Davis Construction Inc.**

Davis Construction began operation on January 1, 2010, with an initial investment of \$100,000 from each of its three stockholders. During the year ending 2010 Davis Construction had net income of \$125,000 and paid dividends of \$50,000.

Refer to Davis Construction. The dividends for the year

<b>Answer</b>	Increase the amount of capital stock reported by the company
	Are part of Davis Construction's operating expense
	✓ Are reported on the Statement of Retained Earnings
	Are reported on the Income Statement.

[◀ Add Question Here](#)

Question 46 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question Davis Construction Inc.**

Davis Construction began operation on January 1, 2010, with an initial investment of \$100,000 from each of its three stockholders. During the year ending 2010 Davis Construction had net income of \$125,000 and paid dividends of \$50,000.

Refer to Davis Construction. If Davis Construction's revenues were \$500,000 for the year ended December 31, 2010, how much were total expenses?

<b>Answer</b>	\$300,000
	✓ \$375,000
	\$325,000
	\$625,000
<b>Correct Feedback</b>	\$500,000 Revenues - \$125,000 Net Income = \$375,000
<b>Incorrect Feedback</b>	\$500,000 Revenues - \$125,000 Net Income = \$375,000

[◀ Add Question Here](#)

Question 47 **Multiple Choice** **0 points**

[Modify](#) | [Remove](#)

**Question** Which one of the following is **not** one of the activities on the Statement of Cash Flows?

**Answer**

- Operating activities
- Investing activities
- ✓ Business activities
- Financing activities

[◀ Add Question Here](#)

Question 48 **Multiple Choice** **0 points**

[Modify](#) | [Remove](#)

**Question** Which of the following best describes a company's operating activities?

**Answer** ✓ Operating activities are cash flows directly related to earning income.  
 Operating activities are necessary to provide the money to start a business.  
 Operating activities are needed to provide the valuable assets required to run a business.  
 Operating activities represent the right to receive a benefit in the future.

[◀ Add Question Here](#)

Question 49 **Multiple Choice** **0 points**

[Modify](#) | [Remove](#)

**Question** In order for accounting information to be useful in making informed decisions, it must be

**Answer**

- Internal
- Relevant
- Reliable
- ✓ Both relevant and reliable

[◀ Add Question Here](#)

Question 50 **Multiple Choice** **0 points**

[Modify](#) | [Remove](#)

**Question** Which of the following is a constraint to the qualitative characteristics of useful accounting information?

**Answer**

- Conservatism
- ✓ Materiality
- Relevance
- Comparability

[◀ Add Question Here](#)

Question 51 **Multiple Choice** **0 points**

[Modify](#) | [Remove](#)

**Question** The principle of conservatism is concerned with

**Answer** ✓ the avoidance of overstating assets or income in the preparation of financial statements.  
 the minimization of costs associated with providing financial information.  
 the company's ability to carry out its existing commitments.  
 the company's procedures for recording activities at their initial exchange price.

[◀ Add Question Here](#)

Question 52 **Multiple Choice** **0 points**

[Modify](#) | [Remove](#)

**Question** Mullins, Inc. manufactures furniture. Mullins has given you its most recent annual report in an effort to obtain a sizeable loan. The company is very profitable and appears to have a strong financial position. However, based on a news report you saw on television last night, you are aware that Mullins is a defendant in a class action lawsuit related to defective products. Serious injuries were allegedly caused by Mullins' infant high chairs overturning. The television news report is an example of financial information that is

**Answer**

- Predictable
- Conservative
- ✓ Relevant
- Comparable

[◀ Add Question Here](#)

Question 53 **Multiple Choice** **0 points**

[Modify](#) | [Remove](#)

**Question** If an investor can use accounting information for two different companies to evaluate the types and amounts of expenses, the information is said to have the quality of

**Answer**

- ✓ Comparability
- Consistency
- Neutrality
- Materiality

[◀ Add Question Here](#)

Question 54 **Multiple Choice** **0 points**

[Modify](#) | [Remove](#)

**Question** PTG Enterprises purchases many small pieces of office furniture, such as trash cans, that cost less than \$100 each. PTG accounts for these items as expenses when acquired rather than reporting them as property, plant, and equipment on its balance sheet. The company's accountant states that no accounting principle has been violated. Justification for PTG's policy of expensing these furniture items is based on cost vs. benefit considerations as well as the accounting constraint of

**Answer**

- Conservatism
- Materiality
- Neutrality
- Verifiability

[◀ Add Question Here](#)

Question 55 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Scott Brothers, Inc. follows the qualitative characteristic of consistency. This means that

**Answer**

- For expenses, Scott uses the same account names as used by its competitors.
- Scott has elected certain accounting principles that can never be changed.
- Scott applies the same accounting principles each period.
- Scott applies the same accounting principles as its competitors.

[◀ Add Question Here](#)

Question 56 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Information that is material means that an error in recording the dollar amount of a transaction would

**Answer**

- likely affect the judgment of someone relying on the financial statements
- not affect the decisions of financial statement users
- not impact a business decision of a creditor
- result in the overstatement of assets or income

[◀ Add Question Here](#)

Question 57 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** An accountant is uncertain about the best estimate of an amount for a business transaction. If there are two possible amounts that could be recorded, the amount least likely to overstate assets and earnings is selected. Which of the following qualities is characterized by this action?

**Answer**

- Comparability
- Conservatism
- Materiality
- Neutrality

[◀ Add Question Here](#)

Question 58 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The qualitative characteristics of accounting information include

**Answer**

- reliability
- cash flow information
- all accounting information
- assets reported on the balance sheet

[◀ Add Question Here](#)

Question 59 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** If stockholders want to know how money flowed into and out of the company, what financial statement would they use?

**Answer**

- Income Statement
- Statement of Cash Flows
- Balance Sheet
- None are correct.

[◀ Add Question Here](#)

Question 60 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The assets and liabilities of the company are \$175,000 and \$40,000, respectively. Equity should equal

**Answer**

- \$215,000
- \$135,000
- \$175,000
- \$40,000

[◀ Add Question Here](#)

Question 61 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. The retained earnings statement (RE), 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?

**Answer**

- I,RE, B
- B, I, RE
- RE, I, B
- B,RE, I

[◀ Add Question Here](#)

Question 62 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Liabilities are reported on the

**Answer**

- income statement
- retained earnings statement
- statement of cash flows
- balance sheet

[◀ Add Question Here](#)

Question 63 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Expenses can be matched against revenue

- Answer**
- If the earnings process is not complete.
  - When cash is collected from the sale of products.
  - In the same period as the revenue that it helped to generate.
  - When payment is made for costs related to revenue.

[◀ Add Question Here](#)

Question 64 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** What does the phrase, "Revenue is recognized when earned" mean?

- Answer**
- Revenue is recorded in the accounting records when the goods are received from a supplier, and reported on the income statement when sold to the customer.
  - Revenue is recorded in the accounting records and reported on the income statement when the cash is received from the customer.
  - Revenue is recorded in the accounting records when the goods are sold to a customer, and reported on the income statement when the cash payment is received from the customer.
  - Revenue is recorded in the accounting records and reported on the income statement when goods are sold and delivered to a customer.

[◀ Add Question Here](#)

Question 65 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following concepts relates to separating the reporting of business and personal economic transactions?

- Answer**
- Cost Principle
  - Monetary Unit Assumption
  - Economic Entity Assumption
  - Objectivity Assumption

[◀ Add Question Here](#)

Question 66 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following is **not** an asset?

- Answer**
- Investments
  - Cash
  - Inventory
  - Equity

[◀ Add Question Here](#)

Question 67 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Cash investments made by stockholders in exchange for capital stock in a business are reported on the statement of cash flows in the

- Answer**
- financing activities section
  - investing activities section
  - operating activities section
  - supplemental statement

[◀ Add Question Here](#)

Question 68 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** "Matching Principle" is best described as:

- Answer**
- The principle that a revenue should be recorded when a resource has been earned.
  - An increase in resources resulting from the sale of goods or the provision of services.
  - The principle that expenses should be recorded in the period resources are used to generate revenues.
  - An increase in the financing activities.

[◀ Add Question Here](#)

Question 69 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which one of the following is a correct basic structure of the cash flow statement?

- Answer**
- Cash Flows Provided (Used) by Operating Activities + / - Cash Flows Provided (Used) by Business Activities + / - Cash Flows Provided (Used) by Financing Activities = Net Increase (Decrease) in Cash
  - Cash Flows Provided (Used) by Operating Activities + / - Cash Flows Provided (Used) by Investing Activities + / - Cash Flows Provided (Used) by Business Activities = Net Increase (Decrease) in Cash
  - Cash Flows Provided (Used) by Operating Activities + / - Cash Flows Provided (Used) by Financing Activities + / - Net Change in Working Capital = Net Increase (Decrease) in Cash
  - Cash Flows Provided (Used) by Operating Activities + / - Cash Flows Provided (Used) by Investing Activities + / - Cash Flows Provided (Used) by Financing Activities = Net Increase (Decrease) in Cash

[◀ Add Question Here](#)

Question 70 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Monaco Lawn Service Co. used \$250 of fuel to mow customer lawns in June. The fuel was purchased on account and due in July. Fuel Expense should be recorded in:

- Answer**
- July
  - June
  - May
  - None of the Above

[◀ Add Question Here](#)

Question 71 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Monaco Lawn Service Co. creates a revenue each time a lawn is:

- Answer**
- scheduled for service.
  - paid in full.
  - ✓ mowed.
  - prepaid in advance.

[Add Question Here](#)

**Question 72 Multiple Choice 0 points**

[Modify](#) [Remove](#)

**Question** Cash received from customers for mowing their lawns is reported on the statement of cash flows in the

- Answer**
- financing activities section
  - investing activities section
  - ✓ operating activities section
  - supplemental statement

[Add Question Here](#)

**Question 73 Multiple Choice 0 points**

[Modify](#) [Remove](#)

**Question** Cash used to purchase a truck to transport lawn mowers and other tools to customer locations is reported on the statement of cash flows in the

- Answer**
- financing activities section
  - ✓ investing activities section
  - operating activities section
  - supplemental statement

[Add Question Here](#)

**Question 74 Essay 0 points**

[Modify](#) [Remove](#)

**Question Times Corporation**

The accountant for the Times Corporation prepared the following list from the company's accounting records for the year ended December 31, 2010.

Retained Earnings		?Prepaid Expenses	\$ 50,000
Cash	\$ 77,000	Common Stock	400,000
Accounts Payable	50,000	Accounts Receivable	170,000
Sales Revenue	955,000	Interest Income	50,000
Cost of Sales	700,000	Salary Expense	140,000
Land	750,000	Income Tax Expense	20,000
Notes Payable	450,000	Selling Expense	45,000
Inventory	200,000	Salaries Payable	40,000

Determine the following amounts for Times Corporation.

- A) Total Assets at the end of 2010.
- B) Total Liabilities at the end of 2010.
- C) Total Equity at the end of 2010.

- Answer**
- A) \$1,247,000  
(\$77,000 Cash + \$170,000 Accounts Receivable + \$200,000 Inventories + \$50,000 Prepaid Expense + \$750,000 Land = \$1,247,000)
  - B) \$540,000  
(\$50,000 Accounts Payable + \$450,000 Notes Payable + \$40,000 Salaries Payable = \$540,000)
  - C) \$707,000  
(\$1,247,000 Total Assets - \$540,000 Total Liabilities = \$707,000)

[Add Question Here](#)

**Question 75 Essay 0 points**

[Modify](#) [Remove](#)

**Question Times Corporation**

The accountant for the Times Corporation prepared the following list from the company's accounting records for the year ended December 31, 2010.

Retained Earnings		?Prepaid Expenses	\$ 50,000
Cash	\$ 77,000	Common Stock	400,000
Accounts Payable	50,000	Accounts Receivable	170,000
Sales Revenue	955,000	Interest Income	50,000
Cost of Sales	700,000	Salary Expense	140,000
Land	750,000	Income Tax Expense	20,000
Notes Payable	450,000	Selling Expense	45,000
Inventory	200,000	Salaries Payable	40,000

Determine the following amounts for Times Corporation:

- A) Total Revenues for 2010.
- B) Total Expenses for 2010.
- C) Net Income for 2010.

- Answer**
- A) \$1,005,000  
(\$955,000 Sales Revenue + \$50,000 Interest Income = \$1,005,000)
  - B) \$905,000  
(\$700,000 Cost of Sales + \$140,000 Salary Expense + \$20,000 Income Tax Expense + \$45,000 Selling Expense = \$905,000)
  - C) \$100,000  
(\$1,005,000 Total Revenue - \$905,000 Total Expenses = \$100,000)

[Add Question Here](#)

## Question 76 Essay

0 points

[Modify](#) [Remove](#)**Question Times Corporation**

The accountant for the Times Corporation prepared the following list from the company's accounting records for the year ended December 31, 2010.

Retained Earnings		?Prepaid Expenses	\$ 50,000
Cash	\$ 77,000	Common Stock	400,000
Accounts Payable	50,000	Accounts Receivable	170,000
Sales Revenue	955,000	Interest Income	50,000
Cost of Sales	700,000	Salary Expense	140,000
Land	750,000	Income Tax Expense	20,000
Notes Payable	450,000	Selling Expense	45,000
Inventory	200,000	Salaries Payable	40,000

Using good form, prepare an income statement for Times Corporation.

**Answer**

Times Corporation		
Income Statement		
For the Year Ended December 31, 2010		
<b>Revenues:</b>		
Sales Revenue	\$955,000	
Interest Income	50,000	\$1,005,000
<b>Expenses:</b>		
Cost of Sales	\$700,000	
Salary Expense	140,000	
Selling Expense	45,000	
Income tax Expense	20,000	905,000
Net Income		\$ 100,000

[Add Question Here](#)

## Question 77 Essay

0 points

[Modify](#) [Remove](#)**Question Times Corporation**

The accountant for the Times Corporation prepared the following list from the company's accounting records for the year ended December 31, 2010.

Retained Earnings		?Prepaid Expenses	\$ 50,000
Cash	\$ 77,000	Common Stock	400,000
Accounts Payable	50,000	Accounts Receivable	170,000
Sales Revenue	955,000	Interest Income	50,000
Cost of Sales	700,000	Salary Expense	140,000
Land	750,000	Income Tax Expense	20,000
Notes Payable	450,000	Selling Expense	45,000
Inventory	200,000	Salaries Payable	40,000

Using good form, prepare a Balance Sheet for the Times Corporation.

**Answer**

Times Corporation			
Balance Sheet			
As of December 31, 2010			
<b>Assets</b>		<b>Liabilities &amp; Equity</b>	
Cash	\$ 77,000	Accounts Payable	\$ 50,000
Accounts Receivable	170,000	Salaries Payable	40,000
Inventory	200,000	Notes Payable	450,000
Prepaid Expenses	50,000	Common Stock	400,000
Land	750,000	Retained Earnings	307,000
Total Assets	\$1,247,000	Total Liabilities & Equity	\$1,247,000

[Add Question Here](#)

## Question 78 Essay

0 points

[Modify](#) [Remove](#)

**Question** President Corp. started business at the beginning of the year, with assets of \$1,000,000 and equity of \$565,000. By the end of the year, assets increased by \$100,000 and liabilities decreased by \$150,000. Other than net income or loss, the only change in equity was dividends of \$50,000.

- A) What was the amount of President Corp. equity at the end of the year?
- B) What was the amount of President Corp. net income or net loss for the year?

**Answer**

A)

<b>Assets</b>			<b>Liabilities</b>	<b>Stockholders' Equity</b>
Beginning of year	\$1,000,000		\$435,000	\$565,000
Change during year	+100,000		-150,000	+250,000
End of year	\$1,100,000	=	285,000	\$815,000

B)

Change in equity	\$ 250,000
Add: Dividends	50,000
Net Income	\$ 300,000

[Add Question Here](#)

## Question 79 Essay

0 points

[Modify](#) [Remove](#)

**Question** The following information comes from the records of America Corporation:

	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
January 1, 2010	\$1,500,000	\$540,000	\$
December 31, 2010	1,810,000		1,400,000

- A) What is the amount of Equity at January 1, 2010?

- B) What is the amount of Liabilities at December 31, 2010?
- C) Assume that the company paid dividends of \$620,000 during the year. How much net income did it earn during the year?
- D) Assume that the company paid no dividends during the year. Without looking at the income statement, how can you tell if the company is profitable or not?

- Answer A)** \$960,000  
(\$1,500,000 Assets - \$540,000 Liabilities = \$960,000)
- B) \$410,000  
(\$1,810,000 Assets - \$1,400,000 Equity = \$410,000 Liabilities)
- C) \$1,060,000  
(\$960,000 Beginning Equity + X - \$620,000 Dividend = \$1,400,000 Ending Equity)  
  
(X = \$1,060,000)
- D) Assuming that the increase in Equity would come from net income, the company would have to be considered profitable. Net income will increase Retained Earnings which is a part of Equity.

[Add Question Here](#)

**Question 80 Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** The beginning balance of retained earnings was \$800,000, and the ending balance was \$500,000. The company paid dividends of \$50,000.

- A) Determine the amount of net income (loss) for the year.
- B) What information would one find on the income statement in addition to net income?

**Answer A)** (250,000) loss  
[\$500,000 Ending Retained Earnings - \$800,000 Beginning Retained Earnings = (\$300,000)]  
[(\$300,000) decrease + \$50,000 Dividends Paid = (\$250,000) loss]

- B) The Income Statement will show the sources of amounts earned (Revenues) as well as the amount and type of costs incurred by the company (Expenses) during the period.

[Add Question Here](#)

**Question 81 Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** Several amounts from GM Company at December 31, 2010, are listed below. Answer the questions.

Service Revenue	\$545,000	Salaries Expense	\$229,000
Dividends Paid	50,000	Rent Expense	86,000
Buildings	110,000	Land	100,000
Accounts Payable	40,000	Accounts Receivable	28,000
Capital Stock	60,000	Retained Earnings, Jan. 1, 2010	400,000
Utilities Expense	19,000	Notes Payable	30,000
Income Tax Payable	4,000	Income Tax Expense	110,000

- A) Calculate net income for 2010.
- B) How much is GM Company's retained earnings at the end of 2010?

**Answer A)** \$101,000  
(\$545,000 Service Revenue - \$229,000 Salaries Expense - \$86,000 Rent Expense - \$19,000 Utilities Expense - \$110,000 Income Tax Expense = \$101,000)

- B) \$451,000  
(\$400,000 Retained Earnings, Jan 1, 2010 + \$101,000 Net Income - \$50,000 Dividends Paid = \$451,000)

[Add Question Here](#)

**Question 82 Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** Cardinal Corporation reported the following information at December 31, 2010:

Accounts Payable	\$400,000	Dividends Paid	\$100,000
Cash	\$100,000	Expenses	\$600,000
Inventories	\$700,000	Revenue	\$750,000

- A) Calculate Cardinal Corporation's Total Assets.
- B) Calculate Cardinal Corporations' Net Income for 2010.
- C) Calculate Cardinal Corporation's Total Equity at the end of 2010.

**Answer A)** \$800,000  
(\$100,000 Cash + \$700,000 Inventories = \$800,000)

B) \$150,000  
(\$750,000 Revenue - \$600,000 Expenses = \$150,000)

C) \$400,000  
(\$800,000 Total Assets - \$400,000 Accounts Payable = \$400,000)

[Add Question Here](#)

**Question 83 Essay**

**0 points**

[Modify](#) [Remove](#)

**Question** Newton Corporation began operations on January 2, 2008, with a total investment of \$150,000 by its stockholders. Net loss for its first year of business was \$20,000. During 2009 and 2010, net income increased to \$120,000 and to \$150,000, respectively. Newton paid \$50,000 per year in dividends to its shareholders in 2009 and 2010.

- A) In good form, prepare a statement of retained earnings for the year ended December 31, 2009.
- B) How much is total retained earnings on December 31, 2010?
- C) Explain the link between the statement of retained earnings and the balance sheet.

Answer	Newton Corporation	
	Statement of Retained Earnings	
	For the Year Ended December 31, 2009	
	Beginning balance, January 1, 2009	\$(20,000)*
	Add: Net income for 2009	120,000
	Less: Dividends paid during the year	(50,000)
	Ending balance, December 31, 2009	\$ 50,000
	* \$-20,000 Net Loss for 2008 - \$0 Dividends paid = \$(20,000) Balance, January 1, 2009	
B)	Retained earnings at December 31, 2010 = \$150,000	
	(\$50,000 Beginning Balance, January 1, 2010 + \$150,000 Net Income for 2010 - \$50,000 Dividends paid during the year = \$150,000)	
C)	The ending balance of the retained earnings statement represents the cumulative earnings less all the dividends declared and paid for the life of the business. This amount appears on the balance sheet as a component of stockholders' equity.	

[Add Question Here](#)

Question 84 **Essay**

0 points

[Modify](#) [Remove](#)

**Question** The type of business activity that relates to obtaining funds from either issuing stock or borrowing money is called \_\_\_\_\_.

**Answer** Financing

[Add Question Here](#)

Question 85 **Essay**

0 points

[Modify](#) [Remove](#)

**Question** The names of the four basic financial statements are \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.

**Answer** Income Statement, Balance Sheet, Statement of Retained Earnings, Statement of Cash Flows

[Add Question Here](#)

Question 86 **Essay**

0 points

[Modify](#) [Remove](#)

**Question** The fundamental accounting equation is \_\_\_\_\_ = \_\_\_\_\_ + \_\_\_\_\_.

**Answer** assets, liabilities, equity

[Add Question Here](#)

Question 87 **Essay**

0 points

[Modify](#) [Remove](#)

**Question** The financial statement in which you list revenues, starting with sales revenue (service revenue), is called the \_\_\_\_\_.

**Answer** Income Statement

[Add Question Here](#)

Question 88 **Essay**

0 points

[Modify](#) [Remove](#)

**Question** Both net income and dividends can be found on this financial statement: \_\_\_\_\_.

**Answer** Statement of Retained Earnings

[Add Question Here](#)

Question 89 **Essay**

0 points

[Modify](#) [Remove](#)

**Question** Net Income from the Income Statement increases \_\_\_\_\_.

**Answer** retained earnings

[Add Question Here](#)

Question 90 **Essay**

0 points

[Modify](#) [Remove](#)

**Question** The Statement of Cash Flows classifies cash flow into these three categories: \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.

**Answer** Operating, Investing, Financing

[Add Question Here](#)

Question 91 **Essay**

0 points

[Modify](#) [Remove](#)

**Question** The three financial statements in which net income can be found are the \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.

**Answer** Income Statement, Statement of Retained Earnings, Statement of Cash Flows using the Indirect Method

[Add Question Here](#)

Question 92 **Essay**

0 points

[Modify](#) [Remove](#)

**Question** Each of the situations in A through C below applies to one of the assumptions or principles included in the conceptual framework of accounting. Identify which assumption or principles applies and explain why that assumption or principle applies.

- A) Globall Inc. is a U.S. company that has divisions in several countries around the world. Each country has a currency different than the U.S. dollar. Globall must include the financial data of its worldwide divisions in its financial statements.
- B) Cheetum & Howell operate a security business as a partnership. The partners are considering a change to the corporate form of business organization.
- C) Yum Shops, Inc. is a locally owned and operated confectionary. The owners have decided to expand into nearby cities. Expansion will require more capital, but management does not expect it will stay in business for more than one year or so regardless of its expansion plans.

**Answer** A) The Monetary Unit Assumption. Financial statements must be reported in monetary terms, and the standard monetary unit should be denominated in one currency.

B) Economic Entity Assumption. A business can take three forms. Regardless of the form, however, the unit itself is distinct from its owners.

C) Continuity (Going Concern) Assumption. A business is assumed to continue to operate long enough to carry out its obligations, to more accurately reflect the valuation of assets and appropriately allocate costs to accounting periods.

[◀ Add Question Here](#)Question 93 **Essay****0 points**[Modify](#) | [Remove](#)**Question** What is the purpose of an income statement?**Answer** An income statement reports the company's revenues and expenses for a period of time and shows the company's profitability (or lack of). The income statement is sometimes called the "profit or loss statement."[◀ Add Question Here](#)Question 94 **Essay****0 points**[Modify](#) | [Remove](#)**Question** List the four financial statements. Explain the connection between these three statements.**Answer** 1. Balance Sheet  
2. Income Statement  
3. Statement of Retained Earnings  
4. Statement of Cash Flows

Net income on the income statement increases retained earnings on the statement of retained earnings. The balance in the statement of retained earnings goes to the balance sheet. The ending balance for cash on the Statement of Cash Flows is also shown on the Balance Sheet.

[◀ Add Question Here](#)Question 95 **Essay****0 points**[Modify](#) | [Remove](#)**Question** Paige Company claims that its financial information is useful. What four qualities must be present in order to have "useful" accounting information? Explain these four qualities.**Answer** The four qualitative characteristics of useful accounting information are relevance, reliability, comparability, and consistency.

Relevant information has the capacity to make a difference in a decision. It helps users predict future events or provides feedback.

Reliable information is dependable, verifiable, and free from bias.

Comparability allows comparisons to be made between or among companies.

Consistency refers to the application of the same accounting principles over time.

[◀ Add Question Here](#)Question 96 **Essay****0 points**[Modify](#) | [Remove](#)**Question** What is the difference between comparability and consistency?**Answer** Comparability allows comparisons to be made between or among companies. Even though a certain amount of freedom exists in selecting accounting principles, when this information is disclosed in the financial statements, users can still compare the information when they know what principle is used.

Consistency refers to the application of the same accounting principles over time. It involves the relationships between a set of numbers over several periods, but within one company only, unlike comparability that can be between or among companies.

[◀ Add Question Here](#)[OK](#)