

# ch1

Student: \_\_\_\_\_

Indicate how the event affects the elements of the financial statements. Use the following letters to record your answer in the box shown below each element:

Increase = I Decrease = D No Effect = N

You do not need to enter amounts.

1. Hidalgo Corporation acquired cash by issuing common stock

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

2. Hatch Corporation acquired land by issuing a note payable (a liability)

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

3. Hico Corporation earned cash revenues of \$52,000

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

4. Gomez Corporation paid its monthly utility bill of \$850

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

5. Peru Corporation paid \$40,000 to purchase land

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

6. City Corporation paid a \$3,000 cash dividend to its owners

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

7. Hale Company issued a note payable to purchase a truck

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

8. Dent Company paid \$5,000 to one of its creditors to reduce the amount of the obligation.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

9. Wave Company borrowed \$10,000 cash from a bank

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

Indicate how the event affects the elements of the financial statements. Use the following letters to record your answer in the box shown below each element:

Increase = I Decrease = D No Effect = N

If the event affected cash flow, indicate whether the cash flow would be classified as an operating activity (OA), investing activity (IA), or financing activity (FA). For example, an event that increased cash and was an investing activity would be shown in the Cash Flow column as I/IA.

10. Hidalgo Corporation acquired cash by issuing common stock

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

11. Hico Corporation earned cash revenues of \$52,000

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

12. Gomez Corporation paid its monthly utility bill of \$850

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

13. Peru Corporation paid \$40,000 to purchase land

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

14. City Corporation paid a \$3,000 cash dividend to its owners

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

15. What does the acronym "GAAP" stand for? Name the group that has the primary responsibility for establishing US GAAP.

16. What is meant by the term "stakeholders?"

17. Name and briefly define the three business "resources."

18. Distinguish between financial accounting and managerial accounting.

19. What is meant by "reporting entity"? How does the identification of the reporting entity affect accounting practice?

20. What is the term that is used to describe creditors' claims on the assets of a business?

21. How does the payment of a liability affect the accounting equation?

22. How does the payment of cash dividends to stockholders affect the accounting equation?

23. If the total claims by owners of Obe's Gallery are \$60,000 and liabilities are \$25,000, what are total assets?

24. What does the historical cost concept require?

25. Give two examples of asset use transactions.

26. Give two examples of asset source transactions.

27. What does the statement of cash flows explain?

28. List the three categories of cash receipts and cash payments that are reported on the statement of cash flows.

29. Which financial statement presents a summary of revenues and expenses of a business for a specific period of time, such as month or year?

30. Which financial statement provides information about how a business obtained and spent cash during an accounting period?

31. If a corporation issued common stock for \$20,000 cash, in which section of the statement of cash flows would this transaction be reported?

32. What is the effect on total assets of a cash dividend to owners?

33. In a market, \_\_\_\_\_ are resource users.

- A. businesses
- B. consumers
- C. financial institutions
- D. governments

34. In a market, \_\_\_\_\_ are conversion agents.

- A. businesses
- B. consumers
- C. financial institutions
- D. governments

35. Open markets are created by and made up of

- A. resource owners.
- B. conversion agents.
- C. consumers.
- D. all of the above.

36. Conversion agents acquire financial resources from
- A. consumers.
  - B. investors.
  - C. creditors.
  - D. both B and C.
37. An investor provides resources to a business in exchange for
- A. physical resources.
  - B. priority of claims in event of liquidation.
  - C. an ownership interest in the business.
  - D. a promise that the resources will be repaid at a given date.
38. A business's resources are called
- A. assets.
  - B. liabilities.
  - C. equity.
  - D. revenue.
39. A creditor
- A. provides financial resources to a business in exchange for an ownership interest.
  - B. provides labor resources to a business.
  - C. provides financial resources to a business on a lending basis.
  - D. is a resource user.
40. In event of liquidation of a business,
- A. creditors have priority claim on the business's assets.
  - B. investors have priority claim on the business's assets.
  - C. resource users have priority claim on the business's assets.
  - D. stakeholders are assured of receiving the resources they had provided to the business.
41. Accounting information focused on the needs of external users is
- A. financial accounting.
  - B. managerial accounting.
  - C. claims accounting.
  - D. not-for-profit accounting.
42. A stockholder in a corporation would use \_\_\_\_ to learn about the company
- A. financial accounting information
  - B. managerial accounting information
  - C. not-for-profit accounting information
  - D. both A and C
43. Generally accepted accounting principles (GAAP) are measurement rules for
- A. managerial accounting.
  - B. tax accounting.
  - C. financial accounting.
  - D. measuring the cost of goods or services provided to customers.
44. Which financial statement is sometimes called the statement of financial position?
- A. income statement
  - B. statement of changes in equity
  - C. balance sheet
  - D. statement of cash flows
45. Which financial statement reports the results of a business's operations?
- A. income statement
  - B. statement of changes in equity
  - C. balance sheet
  - D. statement of cash flows
46. The broad categories of information reported on a business's financial statements are referred to as
- A. accounts.
  - B. elements of the financial statements.
  - C. components.
  - D. assets.
47. Which of the following groups has primary responsibility for establishing generally accepted accounting principles for businesses in the United States?
- A. the US Congress
  - B. the Securities and Exchange Commission

- C. the Financial Accounting Standards Board
- D. the Internal Revenue Service

48. Which is the only financial statement for which FASB required a specific title?

- A. balance sheet
- B. income statement
- C. statement of cash flows
- D. statement of changes in stockholders' equity

49. Resources that a business uses to produce earnings are called

- A. assets.
- B. equity.
- C. revenues.
- D. liabilities.

50. Liabilities are

- A. claims of creditors.
- B. the owner's interest in the company.
- C. claims of investors.
- D. both A and B.

51. The claims side of the accounting equation

- A. lists the resources that a business owns or controls.
- B. is a listing of the sources of the business's assets.
- C. must balance out to zero.
- D. indicates the amount of profit that a business has earned.

52. The accounting equation may be written,

- A. Revenues – Expenses = Net Income.
- B. Assets = Liabilities.
- C. Liabilities = Equity.
- D. Assets = Claims.

53. A business's equity comes from

- A. its creditors.
- B. investments by owners.
- C. amounts earned by the business.
- D. both B and C

54. Shale Corporation acquired cash by issuing common stock for \$50,000. As a result of this event,

- A. retained earnings increased.
- B. assets increased.
- C. liabilities increased.
- D. both B and C.

55. The balance sheet for Moore Company shows total assets of \$4,000, liabilities of \$1,500, and retained earnings of \$800. Based on this information, the amount of common stock must be

- A. \$700.
- B. \$5,500.
- C. \$4,700.
- D. \$1,700.

56. As of December 31, 2007, Bueno Company had \$2,000 in liabilities, \$8,000 in common stock, and \$2,500 in retained earnings. The total amount of assets on that date is

- A. \$10,000.
- B. \$12,500.
- C. \$3,500.
- D. \$7,500.

57. During 2007, Cruz Company earned \$5,000 in cash revenue, incurred \$3,700 in cash expenses, and paid \$500 in cash dividends to its owners. Based on this information,

- A. retained earnings increased by \$800 during the year.
- B. net income was \$800 for 2007.
- C. the net cash flow from operating activities was \$800 for the year.
- D. total assets increased by \$1,300 during 2007.

58. A company's retained earnings at the beginning and ending of the accounting period were \$48,000 and \$55,000, respectively. If the company had revenues of \$61,000 and expenses of \$52,000, the amount of cash dividends paid must have been

- A. \$2,000.
- B. \$9,000.
- C. \$3,000.

D. \$4,000.

59. Raven Company spent cash to purchase equipment. As a result of this event,

- A. total liabilities increased.
- B. total assets increased.
- C. net income increased.
- D. total assets were unchanged.

60. Dayton Company provided services to a customer for \$700 cash. As a result of this event,

- A. total assets decreased.
- B. total liabilities increased.
- C. retained earnings increased.
- D. cash flows from financing activities increased.

61. Which of the following items would be an example of revenue?

- A. cash investments made by owners
- B. cash received from a bank loan
- C. cash received from customers for services provided
- D. all of the above

62. In 1998, Parker Corporation purchased land for \$85,000. In 2007, Parker Company had the land appraised, and its value was estimated to be \$190,000. Also during 2007, another company offered Parker \$145,000 for the parcel of land. When the balance sheet is prepared at the end of 2007, at what dollar amount should the land be reported?

- A. \$190,000
- B. \$85,000
- C. \$145,000
- D. none of the above

63. Accounting information is said to be reliable if

- A. it is based on recent information.
- B. it was prepared by someone with good credentials in accounting, such as a CPA certificate.
- C. it can be independently verified.
- D. it complies with rules and standards of the Internal Revenue Service.

64. Most assets must be reported on the balance sheet at

- A. their current replacement cost.
- B. fair market value.
- C. an amount estimated by the company's management.
- D. historical cost.

65. An asset source transaction

- A. increases one asset and decreases another.
- B. increases an asset and increases a liability or equity.
- C. increases an asset and decreases a liability or equity.
- D. decreases an asset and increases a liability.

66. Which of the following transactions is an asset source transaction?

- A. acquired office supplies by signing a short-term note payable
- B. paid cash to purchase land
- C. paid cash for operating expenses
- D. paid cash dividends to owners

67. If a company receives cash for providing services to customers, that transaction is

- A. an asset source transaction.
- B. an asset use transaction.
- C. an asset exchange transaction.
- D. either A or C

68. An asset use transaction

- A. increases one asset and decreases another.
- B. decreases an asset and decreases a liability or equity.
- C. increases an asset and decreases a liability or equity.
- D. increases an asset and increases a liability or equity.

69. Which of the following transactions is an asset use transaction?

- A. payment of cash dividends to owners
- B. paying cash to acquire furniture
- C. acquiring cash by issuing stock to owners
- D. providing services to customers for cash

70. Which of the following is NOT an asset use transaction?

- A. paying cash dividends
- B. purchasing land
- C. paying off the principal on a loan
- D. paying salaries to employees

71. Paradox Company earned \$45,000 of cash revenue. What kind of transaction is this?

- A. asset source transaction
- B. asset use transaction
- C. asset exchange transaction
- D. claims source transaction

72. Chen Company paid \$3,000 cash for utility expenses. What kind of transaction is this?

- A. asset source transaction
- B. asset use transaction
- C. asset exchange transaction
- D. claims source transaction

73. An asset decrease resulting from consumption of resources to earn revenue is

- A. a net loss.
- B. a liability.
- C. an expense.
- D. an asset source transaction.

74. If a company's expenses are greater than its revenues for the year,

- A. its assets increased during the period.
- B. the company incurred a net loss during the period.
- C. the company's liabilities must have increased.
- D. the company's stockholders' equity must have decreased during the period.

75. Which of the following items would appear on a balance sheet?

- A. Notes Payable
- B. Dividends
- C. Expenses
- D. Revenues

76. Grace Company purchased equipment for \$45,000. As a result of this event, Grace had a

- A. \$45,000 cash outflow from financing activities.
- B. \$45,000 cash inflow from financing activities.
- C. \$45,000 cash outflow from investing activities.
- D. \$45,000 cash outflow from operating activities.

77. Beatrice Company earned \$4,000 in cash revenues, paid cash expenses of \$3,450, and paid a cash dividend of \$300 to its owners. It engaged in no other transactions during the period. Which of the following statements is true?

- A. The cash flow from financing activities was \$0.
- B. The net cash flow from operating activities was an inflow or increase of \$550.
- C. The net cash flow from operating activities was an inflow or increase of \$250.
- D. The cash flow from investing activities was an increase of \$250.

78. Which of the following financial statements provides information at a specific point in time?

- A. income statement
- B. statement of changes in stockholders' equity
- C. statement of cash flows
- D. balance sheet

79. Which of the following items would appear in the financing activities section of a statement of cash flows?

- A. received cash revenue from customers
- B. paid cash for dividends
- C. purchased equipment for cash
- D. paid cash for utility bill

80. The term "articulation"

- A. indicates that there are interrelationships among the financial statements.
- B. requires that asset decreases (expenses) be matched with asset increases (revenues).
- C. refers to the requirement that separate financial statements be prepared for separate entities.
- D. means that a business's financial statements are prepared for specified periods of time.

81. The amount of land owned by a business appears on which financial statement?

- A. income statement
- B. statement of changes in stockholders' equity
- C. statement of cash flows
- D. balance sheet

82. Liabilities are shown on the

- A. income statement.
- B. statement of changes in stockholders' equity.
- C. statement of cash flows.
- D. balance sheet.

83. Dividends paid by a company are shown on the

- A. income statement.
- B. balance sheet.
- C. statement of changes in stockholders' equity.
- D. all of the above.

84. Expenses are shown on the

- A. income statement.
- B. statement of changes in stockholders' equity.
- C. balance sheet.
- D. all of the above.

Hamilton Company began operations in 2007. During the year, the following cash transactions occurred:

- (1.) issued stock for \$40,000
- (2.) borrowed \$20,000 from bank
- (3.) provided services to customers for \$53,000 cash
- (4.) paid back \$8,000 of the loan from the bank
- (5.) paid rent expense, \$9,000
- (6.) purchased equipment costing \$15,000
- (7.) paid operating expenses, \$25,000
- (8.) paid \$4,000 dividend to stockholders

85. What was the cash flow from operating activities?

- A. an inflow of \$4,000
- B. an inflow of \$19,000
- C. an inflow of \$11,000
- D. an inflow of \$15,000

86. What was the cash flow from investing activities?

- A. an outflow of \$15,000
- B. an outflow of \$19,000
- C. an inflow of \$65,000
- D. an outflow of \$23,000

87. What was the cash flow from financing activities?

- A. an inflow of \$60,000
- B. an inflow of \$52,000
- C. an inflow of \$36,000
- D. an inflow of \$48,000

88. What amount of cash did Hamilton have at the end of 2007?

- A. \$48,000
- B. \$56,000
- C. \$52,000
- D. \$67,000

89. Assuming that Hamilton engaged in no transactions during the year other than those listed above, what was the amount of net income or loss for the year?

- A. \$19,000 net income
- B. \$15,000 net income
- C. \$12,000 net income
- D. \$11,000 net loss

90. XYZ Company borrowed \$32,000 of cash from a local bank. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	32,000	=	32,000	+	NA	32,000	-	NA	=	32,000	NA
B)	32,000	=	NA	+	32,000	NA	-	NA	=	NA	32,000 FA
C)	32,000	=	NA	+	32,000	32,000	-	NA	=	32,000	32,000 FA
D)	32,000	=	32,000	+	NA	NA	-	NA	=	NA	32,000 FA

- A. See A above
- B. See B above
- C. See C above
- D. See D above

91. Apex Company sold land for \$25,000 cash. The original cost of the land was \$25,000. Select the answer that indicates how this event would affect the company's financial statements.

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	NA	+	NA	NA	-	NA	=	NA	25,000 IA
B)	(25,000)	=	NA	+	(25,000)	NA	-	NA	=	NA	(25,000) IA
C)	25,000	=	25,000	+	NA	NA	-	NA	=	NA	25,000 FA
D)	None of the above.										

- A. See A above
- B. See B above
- C. See C above
- D. See D above

92. Which of the following could describe the effects of an asset source transaction on a company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	NA	+	+	NA	-	NA	=	NA	+ OA
B)	+	=	+	+	NA	NA	-	+	=	+	+ IA
C)	+	=	NA	+	+	+	-	NA	=	+	+ OA
D)	None of the above could represent the effects of an asset source transaction.										

- A. See A above
- B. See B above
- C. See C above
- D. See D above

93. Which of the following could describe the effects of an asset exchange transaction on a company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+ -	=	NA	+	NA	NA	-	NA	=	NA	- IA
B)	+ -	=	+	+	NA	NA	-	+	=	+	NA
C)	-	=	NA	+	-	NA	-	NA	=	NA	- OA
D)	None of the above could represent the effects of an asset exchange transaction.										

- A. A above
- B. B above
- C. C above
- D. D above

94. Which of the following could describe the effects of an asset source transaction on a company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	-	=	NA	+	-	NA	-	NA	=	NA	- OA
B)	-	=	-	+	NA	NA	-	-	=	-	- IA
C)	-	=	NA	+	-	-	-	NA	=	-	- OA
D)	None of the above could represent the effects of an asset source transaction.										

- A. A above
- B. B above
- C. C above
- D. D above

95. KLM Company experienced an accounting event that affected its financial statements as indicated below:

Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
+		NA		+	+		NA		+	+ OA

Which of the following accounting events could have caused these effects on KLM's financial statements?

- A. paid a cash dividend
- B. earned cash revenue.
- C. borrowed money from a bank.
- D. none of the above.

96. RST Company experienced an accounting event that affected its financial statements as indicated below:

Assets	=	Liab.	+	Equity	Revenues	-	Expenses	=	Net Inc.	Cash Flow
-		NA		-	NA		NA		NA	-FA

Which of the following accounting events could have caused these effects on RST statements?

- A. Paid a cash dividend.
- B. Earned cash revenue.
- C. Borrowed money from a bank.
- D. None of the above.

97. STU Company earned \$15,000 of cash revenue. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	15,000	=	NA	+	15,000	NA	-	NA	=	NA	15,000 OA
B)	15,000	=	NA	+	15,000	15,000	-	NA	=	15,000	NA
C)	15,000	=	NA	+	15,000	15,000	-	NA	=	15,000	15,000 OA
D)	15,000	=	15,000	+	NA	15,000	-	NA	=	15,000	15,000 OA

- A. A above
- B. B above
- C. C above
- D. D above

98. HIJ Company paid \$500 cash for salary expenses. Which of the following choices accurately reflects how this event would affect the company's financial statements.

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	500	+	(500)	NA	-	500	=	(500)	NA
B)	(500)	=	NA	+	(500)	NA	-	500	=	(500)	(500) OA
C)	(500)	=	NA	+	(500)	NA	-	NA	=	NA	(500) OA
D)	(500)	=	NA	+	(500)	NA	-	500	=	(500)	(500) IA

- A. A above
- B. B above
- C. C above
- D. D above

99. PQR Company paid a \$300 cash dividend. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	300	+	(300)	NA	-	300	=	(300)	NA
B)	(300)	=	NA	+	(300)	NA	-	300	=	(300)	(300) FA
C)	(300)	=	NA	+	(300)	NA	-	NA	=	NA	(300) FA
D)	(300)	=	NA	+	(300)	NA	-	NA	=	NA	(300) OA

- A. A above
- B. B above
- C. C above
- D. D above

100. ABC Company acquired \$23,000 by issuing common stock. Which of the following choices accurately reflects how this event would affect the company's financial statements.

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	23,000	=	NA	+	23,000	NA	-	NA	=	NA	23,000 FA
B)	23,000	=	NA	+	23,000	23,000	-	NA	=	23,000	NA
C)	23,000	=	NA	+	23,000	23,000	-	NA	=	23,000	23,000 FA
D)	23,000	=	23,000	+	NA	23,000	-	NA	=	23,000	23,000 OA

- A. A above
- B. B above
- C. C above
- D. D above

101. The Sarbanes-Oxley Act

- A. was prompted by corporate bankruptcies and audit failures.
- B. limits an auditor's ability to provide non-audit services to a client.
- C. clarifies the responsibility of a company's management for its financial statements.
- D. all of the above.

102. Indicate whether each of the following statements about markets is true or false.

- a) Financial resources can be provided by investors and creditors.
- b) Conversion agents are the businesses that transform resources into products that satisfy consumer desires.
- c) Physical resources include the labor of the production workers.
- d) Resource owners purchase their resources from conversion agents.
- e) Consumers are the main providers of resources in any market.

103. Indicate whether each of the following statements about accounting information is true or false.

- a) Financial accounting is primarily intended to satisfy the information needs of external resource providers.
- b) Financial accounting is used only by banks and brokerage firms.
- c) Generally accepted accounting principles apply to financial accounting but do not apply to managerial accounting.
- d) Managerial accounting is primarily intended to satisfy the information needs of internal users.
- e) Managerial accounting information is usually more detailed than financial accounting information.

104. Indicate whether each of the following statements about retained earnings is true or false.

- a) A dividend paid to stockholders decreases retained earnings.
- b) Cash received from issuing common stock increases retained earnings.
- c) Net income must equal retained earnings.
- d) The purchase of a truck decreases retained earnings.
- e) Net income from the income statement increases retained earnings.

105. Indicate whether each of the following statements about accounting principles is true or false.

- a) If a person owns two businesses, each of the businesses would be treated as a separate reporting entity.
- b) Most of a business's assets are reported at their current market value.
- c) Accountants rely on the historical cost concept to help ensure the reliability of accounting information.
- d) A business's income is measured for a period of time called the accounting period.
- e) The purpose of accounting rules is to eliminate diverse reporting practices among businesses.

106. Indicate whether each of the following statements about the types of transactions is true or false.

- a) An asset source transaction results in an increase in total assets along with a decrease in claims.
- b) The issuance of stock to owners for cash would be an example of an asset use transaction.
- c) Purchasing equipment for cash is an example of an asset exchange transaction.
- d) Paying a dividend to stockholders is an example of an asset use transaction.
- e) Loaning money to another company is an example of an asset exchange transaction.

107. Indicate whether each of the following statements about the income statement is true or false.

- a) The income statement matches asset increases from operating a business with asset decreases from operation of the business.
- b) The income statement measures income for a given period of time.
- c) An income statement can be prepared for a period shorter than a year, such as a quarter.
- d) An asset decrease from operating a business is a revenue.
- e) A net loss occurs when revenues are greater than expenses.

108. Indicate whether each of the following statements about the balance sheet is true or false.

- a) The balance sheet shows revenues, expenses, and the calculation of net income.
- b) The balance sheet demonstrates that  $\text{Assets} = \text{Claims to Assets}$
- c) A business's balance sheet reports amounts for its assets, liabilities, and equity.
- d) Notes Payable are reported on the balance sheet.
- e) The amount of dividends that a business paid during the year would be reported on its balance sheet.

109. Indicate whether each of the following statements about the statement of cash flows is true or false.

- a) A cash receipt from issuing common stock would be reported as a cash flow from investing activities.
- b) A cash receipt from borrowing funds is reported as a cash flow from financing activities.
- c) Cash payments for expenses are reported on the statement of cash flows as operating activities.
- d) The net increase in cash on the statement of cash flows must always equal the amount of net income reported on a business's income statement.
- e) A cash payment to purchase equipment is an investing activity.

110. Indicate whether each of the following statements about the statement of changes in stockholders' equity is true or false.
- a) The statement of changes in stockholders' equity reports the effects of transactions on stockholders' equity during the accounting period.
  - b) The amount of net income for the accounting period appears on the statement of changes in stockholders' equity.
  - c) The statement of changes in stockholders' equity reports changes in retained earnings but not changes in common stock.
  - d) The amount of dividends paid during a period is added to beginning Retained Earnings in calculating ending Retained Earnings.
  - e) The total amount of stockholders' equity reported on the statement of changes in stockholders' equity is also reported on the balance sheet.

111. Indicate whether each of the following statements about financial statements is true or false.
- a) A cash dividend to stockholders will be shown on the statement of cash flows.
  - b) A cash dividend to stockholders will be shown on the statement of changes in stockholders' equity.
  - c) A cash dividend to stockholders will be shown on the income statement.
  - d) Among other things, the balance sheet shows how a company got its cash.
  - e) All changes in retained earnings should be shown on the income statement.

112. Indicate whether each of the following statements about assets is true or false.
- a) As long as a company has more assets than liabilities it will be able to pay its bills on time.
  - b) Assets are economic resources for a business entity.
  - c) The recognition of an expense acts to reduce retained earnings.
  - d) Assets are shown on the balance sheet at their fair market value (i.e., what they would be worth if sold "today").
  - e) A purchase of land for cash will not affect total assets.

113. Indicate whether each of the following statements about equity is true or false.
- a) Operating expenses reported on the income statement increase retained earnings.
  - b) Common Stock is a part of contributed capital for a corporation.
  - c) Retained earnings is increased by loans received from a bank.
  - d) Dividends paid to stockholders decrease retained earnings.
  - e) Owners' equity equals the difference between assets and liabilities.

114. Indicate whether each of the following statements about the horizontal statements model is true or false.
- a) The major divisions under each financial statement heading are called "elements."
  - b) The subdivisions within a particular element are called accounts.
  - c) The number of accounts used by a company is specified by GAAP.
  - d) The issuance of stock to the owners of a corporation would be recorded as a plus to cash and a plus to notes payable.
  - e) The receipt of cash revenue from customers would be recorded as a decrease in cash and a decrease in retained earnings.

115. Accounting is sometimes described as an information system or as the language of business.

True False

116. In a market, consumers are resource providers.

True False

117. In a market, a company that manufactures cars would be referred to as a conversion agent.

True False

118. The value created by a business may be called income or earnings.

True False

119. Financial resources are provided to businesses by investors and consumers.

True False

120. A business's creditors have a priority claim to its assets in the event of liquidation.

True False

121. Investors in a business usually expect to receive a share of the income earned by the business in the future

True False

122. The types of resources needed by a business are financial, physical, and capital resources.

True False

123. Resource providers use accounting information to identify the businesses they wish to provide resources to.

True False

124. Financial accounting information is usually more detailed than managerial accounting information.

True False

125. The Financial Accounting Standards Board is an agency of the US government with authority for establishing accounting standards for businesses in the US.

True False

126. Companies are required to comply with GAAP when preparing financial information for their managers' use.

True False

127. A business and the person who owns the business are separate reporting entities.

True False

128. Accounts are subclassifications of the various elements of the financial statements.

True False

129. A business's equity is the future obligations of the entity.

True False

130. Both liabilities and equity are sources of a business's assets.

True False

131. The accounting equation may be written, "Assets = Claims" or "Assets = Liabilities + Equity."

True False

132. A business can obtain resources from just two sources: from owners and from creditors

True False

133. The complete collection of a business's accounts is called the journal of accounts.

True False

134. The historical cost concept requires that most assets be reported at the amount paid for them.

True False

135. The accounting term, "reliability" refers to information that is consistent from one accounting period to the next.

True False

136. An asset source transaction increases a business's assets and the claims to assets.

True False

137. Issuance of common stock is an asset use transaction.

True False

138. An asset exchange transaction does not affect the total amount of assets of an entity.

True False

139. The four financial statements prepared by a business bear no relationship to each other.

True False

140. The income statement matches expenses and revenues.

True False

141. Dividends that a company pays to its stockholders are treated as an expense of the business.

True False

142. The balance sheet reports a business's assets and the claims on those assets.

True False

143. All major professional accounting organizations have adopted formal codes of professional ethics.

True False

144. The Sarbanes-Oxley Act of 2002 eased the rules governing auditors' independence.

True False

145. The Sarbanes –Oxley Act of 2002 clarified the legal responsibility of company managers for the entity's financial reports.

True False

146. A business's internal controls are policies and procedures designed to reduce opportunities for fraud.

True False

147. A merchandising company earns revenue primarily by selling goods to its customers.

True False

148. Rodriguez Company was founded in 2007. It acquired \$30,000 cash by issuing stock to investors and an additional \$20,000 cash by borrowing from creditors. During 2007 it received \$15,000 cash revenues and paid \$22,000 in cash expenses. The company then went out of business.

Required:

(a) Explain the term, "business liquidation."

(b) What amount of cash should Rodriguez Company have had on hand immediately before going out of business?

(c) What amount of cash will Rodriguez's creditors receive?

(d) What amount of cash will Rodriguez's stockholders receive?

149. Each of the following requirements is independent of the others.

(a) Bruno Corporation has liabilities of \$95,000 and equity of \$110,000. What is the amount of Bruno's assets?

---

(b) Wilder Company has assets of \$320,000 and liabilities of \$100,000. What is the amount of equity?

---

(c) Limon Company has assets of \$90,000 and liabilities of \$40,000. What is the amount of claims?

---

150.

Reno Company experienced the following events during 2008:

(1.) borrowed cash

(2.) purchased land by paying cash

(3.) provided services to customers for cash

(4.) repaid part of the cash borrowed in event 1

(5.) paid operating expenses with cash

(6.) paid a dividend to stockholders

(7.) issued common stock

Required:

Indicate how each of these events affects the accounting equation by writing the letter I for increase, the letter D for decrease, and NA for no effect under each of the components of the accounting equation. The first is done for you as an example.

Event number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock +	Retained Earnings
1	I	I	NA	NA
2				
3				
4				
5				
6				
7				

151. The following events occurred for Bias Company during 2007, its first year in operation:

- (1.) issued stock to investors for \$35,000 cash
- (2.) borrowed \$15,000 cash from the local bank
- (3.) provided services to its customers and received \$22,000 cash
- (4.) paid expenses of \$18,000
- (5.) paid \$12,000 cash for land
- (6.) paid dividend of \$2,000 to stockholders
- (7.) repaid \$2,000 of the loan listed in item 2

Required:

Show the effects of the above transactions on the accounting equation, below. Include dollar amounts of increases and decreases. The first is done for you. After entering all the events, calculate the total amounts of assets, liabilities, and equity at the end of the year.

Event number	Assets	=	Liabilities	+	Equity
1	+\$35,000				+\$35,000
2					
3					
4					
5					
6					
7					
Total					

152. Ransom Company experienced the following events during 2005:

- (1.) Acquired \$40,000 cash by issuing common stock.
- (2.) Borrowed \$10,000 cash from a creditor
- (3.) Provided services to customers for \$25,000 cash
- (4.) Paid \$18,000 cash for operating expenses.
- (5.) Paid a cash dividend of \$1,000 to stockholders.
- (6.) Purchased equipment with cash, \$6,000

Event Number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock	Retained Earnings
1	+\$40,000	NA	+\$40,000	NA
2				
3				
4				
5				
6				
Totals				

153.

At the beginning of 2008, Starr Company's accounting records had the general ledger accounts and balances shown in the table below. During 2008, the following transactions occurred:

- (1.) received \$80,000 cash for providing services to customers
- (2.) paid rent expense, \$10,000
- (3.) purchased land for \$9,000 cash
- (4.) paid \$5,000 on note payable
- (5.) paid operating expenses, \$52,000
- (6.) paid cash dividend, \$6,000

Required:

(a) Record the transactions in the appropriate general ledger accounts. Record the amounts of revenue, expense, and dividends in the Retained Earnings column. Provide appropriate titles for these accounts in the last column of the table.

Starr Company Accounting Equation							
Event	Assets		=	Liabilities	+	Stockholders' Equity	Acct Titles for RE
	Cash	Land		Notes Payable		Common Stock	Retained Earnings
Balance 1/1/08	\$16,000	\$40,000		\$10,000		\$32,000	\$14,000
1							
2							
3							
4							
5							
6							

- (b) What is the amount of total assets as of December 31, 2008?  
(c) What is the amount of total stockholders' equity as of December 31, 2008?

154. Classify each of the following events as an asset source (AS), asset use (AU), or asset exchange (AX).

- \_\_\_\_ a. borrowed cash from bank  
\_\_\_\_ b. issued stock for cash  
\_\_\_\_ c. paid cash for operating expenses  
\_\_\_\_ d. performed services and collected cash from customers  
\_\_\_\_ e. purchased land by paying cash  
\_\_\_\_ f. repaid bank loan with cash  
\_\_\_\_ g. paid dividends to company owners

155. Indicate how each of the following transactions affects assets by entering + if assets increase, - if assets decrease, and NA if the total amount of assets is not affected.

- \_\_\_\_ 1. issued stock to investors  
\_\_\_\_ 2. borrowed cash from bank  
\_\_\_\_ 3. provided services to customers for cash  
\_\_\_\_ 4. purchased land for cash  
\_\_\_\_ 5. paid operating expenses  
\_\_\_\_ 6. paid cash dividends to stockholders  
\_\_\_\_ 7. repaid bank loan

156. Fulton Company was formed in 2007 and experienced the following accounting events during the year:

- (1.) issued common stock for \$20,000 cash  
(2.) earned cash revenue of \$30,000  
(3.) paid cash expenses of \$26,000.

These were the only events that affected the company during the year.

Required:

- (a) Write the accounting equation and record the effects of each accounting event under the appropriate general ledger account heading.  
(b) Prepare an income statement for 2007 and a balance sheet as of December 31, 2007.

157. Tracy Corporation reported the following cash transactions for the year ending December 31, 2007, its first year in operation:

- (1.) issued common stock for \$60,000 cash  
(2.) borrowed \$10,000 cash from a local bank  
(3.) purchased land for \$40,000  
(4.) provided services to clients for \$70,000 cash  
(5.) paid operating expenses of \$62,000  
(6.) paid \$3,000 cash dividends to stockholders

Required:

- (a) What are the total assets for Tracy Corporation at December 31, 2007?  
(b) What is the total equity for Tracy at December 31, 2007?  
(c) Prepare an income statement for 2007.

158. Use the following information to prepare an income statement for Burleson Company for the year ended December 31, 2006.
- (1.) revenue from services, \$28,000
  - (2.) paid \$10,000 cash for land
  - (3.) paid operating expenses, \$21,000
  - (4.) paid dividends to stockholders, \$4,000
  - (5.) issued \$6,000 of common stock for cash

159. The following events are for Berea Company for 2007, its first year in business. Assume that all involve receipt or payment of cash.
- (1.) acquired \$25,000 cash by issuing stock to owners
  - (2.) borrowed \$7,000 cash from creditors
  - (3.) provided services to customers and received \$50,000
  - (4.) paid operating expenses amounting to \$38,000
  - (5.) purchased land for \$10,000
  - (6.) paid a dividend of \$5,000 to owners
- Required:
- (a) Show the effects of each of these events on the accounting equation shown below, showing dollar amounts of increases and decreases; calculate totals for each account at the end of the period.

Event number.	Assets =		Liabilities +	Equity	
	Cash +	Land =	Notes Payable +	Common Stock +	Retained Earnings
1					
2					
3					
4					
5					
6					
Totals					

- (b) Prepare an income statement and balance sheet for 2007.

160. Fill in the missing information by identifying dollar amounts a, b, c, and d. All transactions were for cash.

<b>Income Statement</b>	
Revenue	\$ a
Expenses	<u>35,000</u>
Net income	<u>\$ b</u>
<b>Statement of changes in stockholders' equity</b>	
Beginning common stock	\$0
Add: issuance of common stock	<u>50,000</u>
Ending common stock	\$50,000
Beginning retained earnings	\$0
Add: net income	<u>5,800</u>
Ending retained earnings	\$ c
Total equity	<u>\$ d</u>

161. The following transactions apply to Springfield Consulting Services in 2007:

- (1.) issued stock to investors, \$40,000
- (2.) borrowed cash from bank, \$10,000
- (3.) purchased land for cash, \$12,000
- (4.) provided services to customers for cash, \$60,000
- (5.) paid \$8,000 for rent
- (6.) paid \$35,000 for salaries
- (7.) paid \$2,000 for supplies used during the year
- (8.) paid \$5,000 dividends to owners
- (9.) repaid \$4,000 of loan described in item 2

Required: Prepare a statement of cash flows for 2007. The company started operations on January 1, 2007

162. Frey Company was founded January 1, 2007. During 2007, the company experienced the following events:

- (1.) earned cash revenue of \$50,000
- (2.) paid cash expenses of \$41,000
- (3.) issued common stock for \$30,000 cash
- (4.) paid cash dividend of \$2,000 to owners.

Required:

- (a) Write an accounting equation and record effects of each accounting event under appropriate general ledger account headings, showing dollar amounts of increases and decreases and totals at the end of the year.
- (b) Prepare the 2007 income statement and balance sheet for Frey Company.

163. Indicate how each of the following events would be classified on the statement of cash flows: as operating activities (OA), investing activities (IA), financing activities (FA), or not applicable (NA)

- \_\_\_\_\_ 1. received cash from issuance of common stock
- \_\_\_\_\_ 2. borrowed cash from bank
- \_\_\_\_\_ 3. paid rent expense
- \_\_\_\_\_ 4. purchased building for cash
- \_\_\_\_\_ 5. provided services to customers for cash
- \_\_\_\_\_ 6. paid cash dividend to stockholders

164. The following events are for Fun Travel Services for the year 2007, the first year of operations. Assume that all transactions involve the receipt or payment of cash.

- (1) The business acquired \$20,000 from stock issued to owners.
- (2) Creditors loaned the company \$7,000.
- (3) The company provided services to its customers and received \$35,000.
- (4) The company paid expenses amounting to \$23,000.
- (5) Purchased land for \$9,000.
- (6) The company paid a dividend of \$3,000 to its owners.

Required:

- (a) Show the effects of the above transactions on the accounting equation. Use appropriate elements and account headings.
- (b) Prepare a balance sheet and income statement for year 2007.

165. The following transactions apply to Copeland's Fitness Center for 2006.

- (1) Started the business by issuing \$18,000 of common stock for cash..
- (2) Provided services to clients and received \$28,000 cash.
- (3) Borrowed \$6,500 from the bank for the business.
- (4) Paid \$4,500 for rent of equipment.
- (5) Paid \$6,000 of salary expense.
- (6) Cash dividends of \$11,500 were paid to the stockholders.

Required:

- (a.) What are the total assets of the business at the end of 2006?
- (b.) Prepare a Statement of Cash Flows for 2006.

166.

Fill in the blanks indicated by the alphabetic letters in the following financial statements. Assume that the company started operations on January 1, 2006 and that all transactions were for cash.





## ch1 KEY

Indicate how the event affects the elements of the financial statements. Use the following letters to record your answer in the box shown below each element:

Increase = I Decrease = D No Effect = N

You do not need to enter amounts.

*Edmonds - Chapter 01*

1. Hidalgo Corporation acquired cash by issuing common stock

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (N) (I) (N) (N) (N) (I)

*Difficulty: Medium  
Edmonds - Chapter 01 #1  
Learning Objective: 9*

2. Hatch Corporation acquired land by issuing a note payable (a liability)

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (I) (N) (N) (N) (N) (N)

*Difficulty: Easy  
Edmonds - Chapter 01 #2  
Learning Objective: 9*

3. Hico Corporation earned cash revenues of \$52,000

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (N) (I) (I) (N) (I) (I)

*Difficulty: Medium  
Edmonds - Chapter 01 #3  
Learning Objective: 9*

4. Gomez Corporation paid its monthly utility bill of \$850

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (N) (D) (N) (I) (D) (D)

*Difficulty: Medium  
Edmonds - Chapter 01 #4  
Learning Objective: 9*

5. Peru Corporation paid \$40,000 to purchase land

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (N) (N) (N) (N) (N) (D)

*Difficulty: Medium  
Edmonds - Chapter 01 #5  
Learning Objective: 9*

6. City Corporation paid a \$3,000 cash dividend to its owners

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (N) (D) (N) (N) (N) (D)

*Difficulty: Medium  
Edmonds - Chapter 01 #6  
Learning Objective: 9*

7. Hale Company issued a note payable to purchase a truck

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (I) (N) (N) (N) (N) (N)

*Difficulty: Medium  
Edmonds - Chapter 01 #7  
Learning Objective: 9*

8. Dent Company paid \$5,000 to one of its creditors to reduce the amount of the obligation.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (D) (N) (N) (N) (N) (D)

Difficulty: Medium  
Edmonds - Chapter 01 #8  
Learning Objective: 9

9. Wave Company borrowed \$10,000 cash from a bank

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (I) (N) (N) (N) (N) (I)

Difficulty: Medium  
Edmonds - Chapter 01 #9  
Learning Objective: 9

Indicate how the event affects the elements of the financial statements. Use the following letters to record your answer in the box shown below each element:

Increase = I Decrease = D No Effect = N

If the event affected cash flow, indicate whether the cash flow would be classified as an operating activity (OA), investing activity (IA), or financing activity (FA). For example, an event that increased cash and was an investing activity would be shown in the Cash Flow column as I/IA.

Edmonds - Chapter 01

10. Hidalgo Corporation acquired cash by issuing common stock

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (N) (I) (N) (N) (N) (I/FA)

Difficulty: Medium  
Edmonds - Chapter 01 #10  
Learning Objective: 8  
Learning Objective: 9

11. Hico Corporation earned cash revenues of \$52,000

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (N) (I) (I) (N) (I) (I/OA)

Difficulty: Medium  
Edmonds - Chapter 01 #11  
Learning Objective: 8  
Learning Objective: 9

12. Gomez Corporation paid its monthly utility bill of \$850

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (N) (D) (N) (I) (D) (D/OA)

Difficulty: Medium  
Edmonds - Chapter 01 #12  
Learning Objective: 8  
Learning Objective: 9

13. Peru Corporation paid \$40,000 to purchase land

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (N) (N) (N) (N) (N) (D/IA)

Difficulty: Medium  
Edmonds - Chapter 01 #13  
Learning Objective: 8  
Learning Objective: 9

14. City Corporation paid a \$3,000 cash dividend to its owners

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (N) (D) (N) (N) (N) (D/FA)

Difficulty: Medium  
Edmonds - Chapter 01 #14  
Learning Objective: 8  
Learning Objective: 9

15. What does the acronym "GAAP" stand for? Name the group that has the primary responsibility for establishing US GAAP.

GAAP stands for Generally Accepted Accounting Principles. The Financial Accounting Standards Board has primary responsibility for establishing US GAAP.

Difficulty: Easy  
Edmonds - Chapter 01 #15

16. What is meant by the term "stakeholders?"

The parties that are interested in operations of an organization.

Difficulty: Easy  
Edmonds - Chapter 01 #16  
Learning Objective: 1

17. Name and briefly define the three business "resources."

Financial resources, physical resources and labor resources. Financial resources are money; physical resources are materials, such as wood or metal parts; labor resources include both intellectual and physical labor.

Difficulty: Medium  
Edmonds - Chapter 01 #17  
Learning Objective: 1

18. Distinguish between financial accounting and managerial accounting.

Financial accounting is designed to satisfy the needs of external resource providers (external users); managerial accounting provides information that is useful in operating a business (internal users).

Difficulty: Medium  
Edmonds - Chapter 01 #18  
Learning Objective: 1

19. What is meant by "reporting entity"? How does the identification of the reporting entity affect accounting practice?

The reporting entity is a business, other organization or individual, the activities of which are disclosed in financial reporting. The financial reports adopt the perspective of the reporting entity. For example, the financial statements of a business are reported from the perspective of the business.

Difficulty: Medium  
Edmonds - Chapter 01 #19  
Learning Objective: 2

20. What is the term that is used to describe creditors' claims on the assets of a business?

Liabilities

Difficulty: Easy  
Edmonds - Chapter 01 #20  
Learning Objective: 4

21. How does the payment of a liability affect the accounting equation?

Decrease assets, decrease liabilities

Difficulty: Easy  
Edmonds - Chapter 01 #21  
Learning Objective: 4

22. How does the payment of cash dividends to stockholders affect the accounting equation?

Decrease assets, decrease equity

Difficulty: Easy  
Edmonds - Chapter 01 #22  
Learning Objective: 4

23. If the total claims by owners of Obe's Gallery are \$60,000 and liabilities are \$25,000, what are total assets?

\$85,000

Difficulty: Medium  
Edmonds - Chapter 01 #23  
Learning Objective: 4

24. What does the historical cost concept require?

that most assets be reported at the amount paid for them

Difficulty: Easy  
Edmonds - Chapter 01 #24  
Learning Objective: 6

25. Give two examples of asset use transactions.

Choose from: Paid loan, paid expense, and paid dividends to stockholders

Difficulty: Medium  
Edmonds - Chapter 01 #25  
Learning Objective: 7

26. Give two examples of asset source transactions.

Choose from: Borrowed funds from the bank, recognized revenue, issued common stock

Difficulty: Easy  
Edmonds - Chapter 01 #26  
Learning Objective: 7

27. What does the statement of cash flows explain?

How a company obtained and used cash during the accounting period

28. List the three categories of cash receipts and cash payments that are reported on the statement of cash flows.

Operating activities, Investing activities, Financing activities

29. Which financial statement presents a summary of revenues and expenses of a business for a specific period of time, such as month or year?

Income Statement

30. Which financial statement provides information about how a business obtained and spent cash during an accounting period?

Statement of Cash Flows

31. If a corporation issued common stock for \$20,000 cash, in which section of the statement of cash flows would this transaction be reported?

Financing activities

32. What is the effect on total assets of a cash dividend to owners?

Decrease in total assets

33. In a market, \_\_\_\_\_ are resource users.

- A. businesses
- B.** consumers
- C. financial institutions
- D. governments

34. In a market, \_\_\_\_\_ are conversion agents.

- A.** businesses
- B. consumers
- C. financial institutions
- D. governments

35. Open markets are created by and made up of

- A. resource owners.
- B. conversion agents.
- C. consumers.
- D.** all of the above.

36. Conversion agents acquire financial resources from

- A. consumers.
- B. investors.
- C. creditors.
- D.** both B and C.

37. An investor provides resources to a business in exchange for

- A. physical resources.
- B. priority of claims in event of liquidation.

- C. an ownership interest in the business.
- D. a promise that the resources will be repaid at a given date.

*Difficulty: Easy  
Edmonds - Chapter 01 #37  
Learning Objective: 1*

38. A business's resources are called

- A. assets.
- B. liabilities.
- C. equity.
- D. revenue.

*Difficulty: Easy  
Edmonds - Chapter 01 #38  
Learning Objective: 1*

39. A creditor

- A. provides financial resources to a business in exchange for an ownership interest.
- B. provides labor resources to a business.
- C. provides financial resources to a business on a lending basis.
- D. is a resource user.

*Difficulty: Easy  
Edmonds - Chapter 01 #39  
Learning Objective: 1*

40. In event of liquidation of a business,

- A. creditors have priority claim on the business's assets.
- B. investors have priority claim on the business's assets.
- C. resource users have priority claim on the business's assets.
- D. stakeholders are assured of receiving the resources they had provided to the business.

*Difficulty: Easy  
Edmonds - Chapter 01 #40  
Learning Objective: 1*

41. Accounting information focused on the needs of external users is

- A. financial accounting.
- B. managerial accounting.
- C. claims accounting.
- D. not-for-profit accounting.

*Difficulty: Easy  
Edmonds - Chapter 01 #41  
Learning Objective: 1*

42. A stockholder in a corporation would use \_\_\_\_ to learn about the company

- A. financial accounting information
- B. managerial accounting information
- C. not-for-profit accounting information
- D. both A and C

*Difficulty: Easy  
Edmonds - Chapter 01 #42  
Learning Objective: 1*

43. Generally accepted accounting principles (GAAP) are measurement rules for

- A. managerial accounting.
- B. tax accounting.
- C. financial accounting.
- D. measuring the cost of goods or services provided to customers.

*Difficulty: Easy  
Edmonds - Chapter 01 #43  
Learning Objective: 1*

44. Which financial statement is sometimes called the statement of financial position?

- A. income statement
- B. statement of changes in equity
- C. balance sheet
- D. statement of cash flows

*Difficulty: Easy  
Edmonds - Chapter 01 #44  
Learning Objective: 3*

45. Which financial statement reports the results of a business's operations?

- A. income statement
- B. statement of changes in equity
- C. balance sheet
- D. statement of cash flows

*Difficulty: Medium  
Edmonds - Chapter 01 #45  
Learning Objective: 3*

46. The broad categories of information reported on a business's financial statements are referred to as

- A. accounts.
- B.** elements of the financial statements.
- C. components.
- D. assets.

*Difficulty: Easy*  
*Edmonds - Chapter 01 #46*  
*Learning Objective: 3*

47. Which of the following groups has primary responsibility for establishing generally accepted accounting principles for businesses in the United States?

- A. the US Congress
- B. the Securities and Exchange Commission
- C.** the Financial Accounting Standards Board
- D. the Internal Revenue Service

*Difficulty: Easy*  
*Edmonds - Chapter 01 #47*  
*Learning Objective: 3*

48. Which is the only financial statement for which FASB required a specific title?

- A. balance sheet
- B. income statement
- C.** statement of cash flows
- D. statement of changes in stockholders' equity

*Difficulty: Easy*  
*Edmonds - Chapter 01 #48*  
*Learning Objective: 3*

49. Resources that a business uses to produce earnings are called

- A.** assets.
- B. equity.
- C. revenues.
- D. liabilities.

*Difficulty: Easy*  
*Edmonds - Chapter 01 #49*  
*Learning Objective: 4*

50. Liabilities are

- A.** claims of creditors.
- B. the owner's interest in the company.
- C. claims of investors.
- D. both A and B.

*Difficulty: Medium*  
*Edmonds - Chapter 01 #50*  
*Learning Objective: 4*

51. The claims side of the accounting equation

- A. lists the resources that a business owns or controls.
- B.** is a listing of the sources of the business's assets.
- C. must balance out to zero.
- D. indicates the amount of profit that a business has earned.

*Difficulty: Medium*  
*Edmonds - Chapter 01 #51*  
*Learning Objective: 4*

52. The accounting equation may be written,

- A. Revenues – Expenses = Net Income.
- B. Assets = Liabilities.
- C. Liabilities = Equity.
- D.** Assets = Claims.

*Difficulty: Easy*  
*Edmonds - Chapter 01 #52*  
*Learning Objective: 4*

53. A business's equity comes from

- A. its creditors.
- B. investments by owners.
- C. amounts earned by the business.
- D.** both B and C

*Difficulty: Easy*  
*Edmonds - Chapter 01 #53*  
*Learning Objective: 4*

54. Shale Corporation acquired cash by issuing common stock for \$50,000. As a result of this event,

- A. retained earnings increased.
- B.** assets increased.

- C. liabilities increased.
- D. both B and C.

*Difficulty: Easy*  
*Edmonds - Chapter 01 #54*  
*Learning Objective: 4*

55. The balance sheet for Moore Company shows total assets of \$4,000, liabilities of \$1,500, and retained earnings of \$800. Based on this information, the amount of common stock must be
- A. \$700.
  - B. \$5,500.
  - C. \$4,700.
  - D. \$1,700.**

*Difficulty: Medium*  
*Edmonds - Chapter 01 #55*  
*Learning Objective: 4*

56. As of December 31, 2007, Bueno Company had \$2,000 in liabilities, \$8,000 in common stock, and \$2,500 in retained earnings. The total amount of assets on that date is
- A. \$10,000.
  - B. \$12,500.**
  - C. \$3,500.
  - D. \$7,500.

*Difficulty: Easy*  
*Edmonds - Chapter 01 #56*  
*Learning Objective: 4*

57. During 2007, Cruz Company earned \$5,000 in cash revenue, incurred \$3,700 in cash expenses, and paid \$500 in cash dividends to its owners. Based on this information,
- A. retained earnings increased by \$800 during the year.**
  - B. net income was \$800 for 2007.
  - C. the net cash flow from operating activities was \$800 for the year.
  - D. total assets increased by \$1,300 during 2007.

*Difficulty: Medium*  
*Edmonds - Chapter 01 #57*  
*Learning Objective: 4*

58. A company's retained earnings at the beginning and ending of the accounting period were \$48,000 and \$55,000, respectively. If the company had revenues of \$61,000 and expenses of \$52,000, the amount of cash dividends paid must have been
- A. \$2,000.**
  - B. \$9,000.
  - C. \$3,000.
  - D. \$4,000.

*Difficulty: Hard*  
*Edmonds - Chapter 01 #58*  
*Learning Objective: 4*

59. Raven Company spent cash to purchase equipment. As a result of this event,
- A. total liabilities increased.
  - B. total assets increased.
  - C. net income increased.
  - D. total assets were unchanged.**

*Difficulty: Easy*  
*Edmonds - Chapter 01 #59*  
*Learning Objective: 4*

60. Dayton Company provided services to a customer for \$700 cash. As a result of this event,
- A. total assets decreased.
  - B. total liabilities increased.
  - C. retained earnings increased.**
  - D. cash flows from financing activities increased.

*Difficulty: Medium*  
*Edmonds - Chapter 01 #60*  
*Learning Objective: 5*

61. Which of the following items would be an example of revenue?
- A. cash investments made by owners
  - B. cash received from a bank loan
  - C. cash received from customers for services provided**
  - D. all of the above

*Difficulty: Medium*  
*Edmonds - Chapter 01 #61*  
*Learning Objective: 5*

62. In 1998, Parker Corporation purchased land for \$85,000. In 2007, Parker Company had the land appraised, and its value was estimated to be \$190,000. Also during 2007, another company offered Parker \$145,000 for the parcel of land. When the balance sheet is prepared at the end of 2007, at what dollar amount should the land be reported?
- A. \$190,000

- B.** \$85,000
- C. \$145,000
- D. none of the above

*Difficulty: Easy  
Edmonds - Chapter 01 #62  
Learning Objective: 6*

63. Accounting information is said to be reliable if

- A. it is based on recent information.
- B. it was prepared by someone with good credentials in accounting, such as a CPA certificate.
- C.** it can be independently verified.
- D. it complies with rules and standards of the Internal Revenue Service.

*Difficulty: Easy  
Edmonds - Chapter 01 #63  
Learning Objective: 6*

64. Most assets must be reported on the balance sheet at

- A. their current replacement cost.
- B. fair market value.
- C. an amount estimated by the company's management.
- D.** historical cost.

*Difficulty: Easy  
Edmonds - Chapter 01 #64  
Learning Objective: 6*

65. An asset source transaction

- A. increases one asset and decreases another.
- B.** increases an asset and increases a liability or equity.
- C. increases an asset and decreases a liability or equity.
- D. decreases an asset and increases a liability.

*Difficulty: Easy  
Edmonds - Chapter 01 #65  
Learning Objective: 7*

66. Which of the following transactions is an asset source transaction?

- A.** acquired office supplies by signing a short-term note payable
- B. paid cash to purchase land
- C. paid cash for operating expenses
- D. paid cash dividends to owners

*Difficulty: Medium  
Edmonds - Chapter 01 #66  
Learning Objective: 7*

67. If a company receives cash for providing services to customers, that transaction is

- A.** an asset source transaction.
- B. an asset use transaction.
- C. an asset exchange transaction.
- D. either A or C

*Difficulty: Easy  
Edmonds - Chapter 01 #67  
Learning Objective: 7*

68. An asset use transaction

- A. increases one asset and decreases another.
- B.** decreases an asset and decreases a liability or equity.
- C. increases an asset and decreases a liability or equity.
- D. increases an asset and increases a liability or equity.

*Difficulty: Easy  
Edmonds - Chapter 01 #68  
Learning Objective: 7*

69. Which of the following transactions is an asset use transaction?

- A.** payment of cash dividends to owners
- B. paying cash to acquire furniture
- C. acquiring cash by issuing stock to owners
- D. providing services to customers for cash

*Difficulty: Easy  
Edmonds - Chapter 01 #69  
Learning Objective: 7*

70. Which of the following is NOT an asset use transaction?

- A. paying cash dividends
- B.** purchasing land
- C. paying off the principal on a loan
- D. paying salaries to employees

*Difficulty: Medium  
Edmonds - Chapter 01 #70*

71. Paradox Company earned \$45,000 of cash revenue. What kind of transaction is this?

- A.** asset source transaction
- B. asset use transaction
- C. asset exchange transaction
- D. claims source transaction

Difficulty: Medium  
Edmonds - Chapter 01 #71  
Learning Objective: 7

72. Chen Company paid \$3,000 cash for utility expenses. What kind of transaction is this?

- A. asset source transaction
- B.** asset use transaction
- C. asset exchange transaction
- D. claims source transaction

Difficulty: Medium  
Edmonds - Chapter 01 #72  
Learning Objective: 7

73. An asset decrease resulting from consumption of resources to earn revenue is

- A. a net loss.
- B. a liability.
- C.** an expense.
- D. an asset source transaction.

Difficulty: Easy  
Edmonds - Chapter 01 #73  
Learning Objective: 8

74. If a company's expenses are greater than its revenues for the year,

- A. its assets increased during the period.
- B.** the company incurred a net loss during the period.
- C. the company's liabilities must have increased.
- D. the company's stockholders' equity must have decreased during the period.

Difficulty: Medium  
Edmonds - Chapter 01 #74  
Learning Objective: 8

75. Which of the following items would appear on a balance sheet?

- A.** Notes Payable
- B. Dividends
- C. Expenses
- D. Revenues

Difficulty: Medium  
Edmonds - Chapter 01 #75  
Learning Objective: 8

76. Grace Company purchased equipment for \$45,000. As a result of this event, Grace had a

- A. \$45,000 cash outflow from financing activities.
- B. \$45,000 cash inflow from financing activities.
- C.** \$45,000 cash outflow from investing activities.
- D. \$45,000 cash outflow from operating activities.

Difficulty: Medium  
Edmonds - Chapter 01 #76  
Learning Objective: 8

77. Beatrice Company earned \$4,000 in cash revenues, paid cash expenses of \$3,450, and paid a cash dividend of \$300 to its owners. It engaged in no other transactions during the period. Which of the following statements is true?

- A. The cash flow from financing activities was \$0.
- B.** The net cash flow from operating activities was an inflow or increase of \$550.
- C. The net cash flow from operating activities was an inflow or increase of \$250.
- D. The cash flow from investing activities was an increase of \$250.

Difficulty: Medium  
Edmonds - Chapter 01 #77  
Learning Objective: 8

78. Which of the following financial statements provides information at a specific point in time?

- A. income statement
- B. statement of changes in stockholders' equity
- C. statement of cash flows
- D.** balance sheet

Difficulty: Medium  
Edmonds - Chapter 01 #78  
Learning Objective: 8

79. Which of the following items would appear in the financing activities section of a statement of cash flows?

- A. received cash revenue from customers

- B.** paid cash for dividends
- C. purchased equipment for cash
- D. paid cash for utility bill

*Difficulty: Medium*  
*Edmonds - Chapter 01 #79*  
*Learning Objective: 8*

80. The term "articulation"

- A.** indicates that there are interrelationships among the financial statements.
- B. requires that asset decreases (expenses) be matched with asset increases (revenues).
- C. refers to the requirement that separate financial statements be prepared for separate entities.
- D. means that a business's financial statements are prepared for specified periods of time.

*Difficulty: Medium*  
*Edmonds - Chapter 01 #80*  
*Learning Objective: 8*

81. The amount of land owned by a business appears on which financial statement?

- A. income statement
- B. statement of changes in stockholders' equity
- C. statement of cash flows
- D.** balance sheet

*Difficulty: Easy*  
*Edmonds - Chapter 01 #81*  
*Learning Objective: 8*

82. Liabilities are shown on the

- A. income statement.
- B. statement of changes in stockholders' equity.
- C. statement of cash flows.
- D.** balance sheet.

*Difficulty: Easy*  
*Edmonds - Chapter 01 #82*  
*Learning Objective: 8*

83. Dividends paid by a company are shown on the

- A. income statement.
- B. balance sheet.
- C.** statement of changes in stockholders' equity.
- D. all of the above.

*Difficulty: Easy*  
*Edmonds - Chapter 01 #83*  
*Learning Objective: 8*

84. Expenses are shown on the

- A.** income statement.
- B. statement of changes in stockholders' equity.
- C. balance sheet.
- D. all of the above.

*Difficulty: Easy*  
*Edmonds - Chapter 01 #84*  
*Learning Objective: 8*

Hamilton Company began operations in 2007. During the year, the following cash transactions occurred:

- (1.) issued stock for \$40,000
- (2.) borrowed \$20,000 from bank
- (3.) provided services to customers for \$53,000 cash
- (4.) paid back \$8,000 of the loan from the bank
- (5.) paid rent expense, \$9,000
- (6.) purchased equipment costing \$15,000
- (7.) paid operating expenses, \$25,000
- (8.) paid \$4,000 dividend to stockholders

*Edmonds - Chapter 01*

85. What was the cash flow from operating activities?

- A. an inflow of \$4,000
- B.** an inflow of \$19,000
- C. an inflow of \$11,000
- D. an inflow of \$15,000

*Difficulty: Hard*  
*Edmonds - Chapter 01 #85*  
*Learning Objective: 8*

86. What was the cash flow from investing activities?

- A.** an outflow of \$15,000
- B. an outflow of \$19,000
- C. an inflow of \$65,000
- D. an outflow of \$23,000

*Difficulty: Hard*

87. What was the cash flow from financing activities?

- A. an inflow of \$60,000
- B. an inflow of \$52,000
- C. an inflow of \$36,000
- D.** an inflow of \$48,000

Difficulty: Hard  
Edmonds - Chapter 01 #87  
Learning Objective: 8

88. What amount of cash did Hamilton have at the end of 2007?

- A. \$48,000
- B. \$56,000
- C.** \$52,000
- D. \$67,000

Difficulty: Medium  
Edmonds - Chapter 01 #88  
Learning Objective: 5

89. Assuming that Hamilton engaged in no transactions during the year other than those listed above, what was the amount of net income or loss for the year?

- A.** \$19,000 net income
- B. \$15,000 net income
- C. \$12,000 net income
- D. \$11,000 net loss

Difficulty: Medium  
Edmonds - Chapter 01 #89  
Learning Objective: 8

90. XYZ Company borrowed \$32,000 of cash from a local bank. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	32,000	=	32,000	+	NA	32,000	-	NA	=	32,000	NA
B)	32,000	=	NA	+	32,000	NA	-	NA	=	NA	32,000 FA
C)	32,000	=	NA	+	32,000	32,000	-	NA	=	32,000	32,000 FA
D)	32,000	=	32,000	+	NA	NA	-	NA	=	NA	32,000 FA

- A. See A above
- B. See B above
- C. See C above
- D.** See D above

Difficulty: Medium  
Edmonds - Chapter 01 #90  
Learning Objective: 9

91. Apex Company sold land for \$25,000 cash. The original cost of the land was \$25,000. Select the answer that indicates how this event would affect the company's financial statements.

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	NA	+	NA	NA	-	NA	=	NA	25,000 IA
B)	(25,000)	=	NA	+	(25,000)	NA	-	NA	=	NA	(25,000) IA
C)	25,000	=	25,000	+	NA	NA	-	NA	=	NA	25,000 FA
D)	None of the above.										

- A.** See A above
- B. See B above
- C. See C above
- D. See D above

Difficulty: Hard  
Edmonds - Chapter 01 #91  
Learning Objective: 9

92. Which of the following could describe the effects of an asset source transaction on a company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	NA	+	+	NA	-	NA	=	NA	+ OA
B)	+	=	+	+	NA	NA	-	+	=	+	+ IA
C)	+	=	NA	+	+	+	-	NA	=	+	+ OA
D)	None of the above could represent the effects of an asset source transaction.										

- A. See A above
- B. See B above
- C.** See C above
- D. See D above

Difficulty: Hard  
Edmonds - Chapter 01 #92  
Learning Objective: 7  
Learning Objective: 9

93. Which of the following could describe the effects of an asset exchange transaction on a company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+ -	=	NA	+	NA	NA	-	NA	=	NA	- IA
B)	+ -	=	+	+	NA	NA	-	+	=	+	NA
C)	-	=	NA	+	-	NA	-	NA	=	NA	- OA
D)	None of the above could represent the effects of an asset exchange transaction.										

- A. A above
- B. B above
- C. C above
- D. D above

*Difficulty: Hard  
Edmonds - Chapter 01 #93  
Learning Objective: 7  
Learning Objective: 9*

94. Which of the following could describe the effects of an asset source transaction on a company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	-	=	NA	+	-	NA	-	NA	=	NA	- OA
B)	-	=	-	+	NA	NA	-	-	=	-	- IA
C)	-	=	NA	+	-	-	-	NA	=	-	- OA
D)	None of the above could represent the effects of an asset source transaction.										

- A. A above
- B. B above
- C. C above
- D. D above

*Difficulty: Hard  
Edmonds - Chapter 01 #94  
Learning Objective: 7  
Learning Objective: 9*

95. KLM Company experienced an accounting event that affected its financial statements as indicated below:

Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
+		NA		+	+		NA		+	+ OA

Which of the following accounting events could have caused these effects on KLM's financial statements?

- A. paid a cash dividend
- B. earned cash revenue.
- C. borrowed money from a bank.
- D. none of the above.

*Difficulty: Medium  
Edmonds - Chapter 01 #95  
Learning Objective: 9*

96. RST Company experienced an accounting event that affected its financial statements as indicated below:

Assets	=	Liab.	+	Equity	Revenues	-	Expenses	=	Net Inc.	Cash Flow
-		NA		-	NA		NA		NA	-FA

Which of the following accounting events could have caused these effects on RST statements?

- A. Paid a cash dividend.
- B. Earned cash revenue.
- C. Borrowed money from a bank.
- D. None of the above.

*Difficulty: Medium  
Edmonds - Chapter 01 #96  
Learning Objective: 9*

97. STU Company earned \$15,000 of cash revenue. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	15,000	=	NA	+	15,000	NA	-	NA	=	NA	15,000 OA
B)	15,000	=	NA	+	15,000	15,000	-	NA	=	15,000	NA
C)	15,000	=	NA	+	15,000	15,000	-	NA	=	15,000	15,000 OA
D)	15,000	=	15,000	+	NA	15,000	-	NA	=	15,000	15,000 OA

- A. A above
- B. B above
- C. C above
- D. D above

*Difficulty: Medium  
Edmonds - Chapter 01 #97  
Learning Objective: 9*

98. HIJ Company paid \$500 cash for salary expenses. Which of the following choices accurately reflects how this event would affect the company's financial statements.

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	500	+	(500)	NA	-	500	=	(500)	NA
B)	(500)	=	NA	+	(500)	NA	-	500	=	(500)	(500) OA
C)	(500)	=	NA	+	(500)	NA	-	NA	=	NA	(500) OA
D)	(500)	=	NA	+	(500)	NA	-	500	=	(500)	(500) IA

- A. A above  
**B.** B above  
 C. C above  
 D. D above

*Difficulty: Medium  
 Edmonds - Chapter 01 #98  
 Learning Objective: 9*

99. PQR Company paid a \$300 cash dividend. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	300	+	(300)	NA	-	300	=	(300)	NA
B)	(300)	=	NA	+	(300)	NA	-	300	=	(300)	(300) FA
C)	(300)	=	NA	+	(300)	NA	-	NA	=	NA	(300) FA
D)	(300)	=	NA	+	(300)	NA	-	NA	=	NA	(300) OA

- A. A above  
 B. B above  
**C.** C above  
 D. D above

*Difficulty: Medium  
 Edmonds - Chapter 01 #99  
 Learning Objective: 9*

100. ABC Company acquired \$23,000 by issuing common stock. Which of the following choices accurately reflects how this event would affect the company's financial statements.

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	23,000	=	NA	+	23,000	NA	-	NA	=	NA	23,000 FA
B)	23,000	=	NA	+	23,000	23,000	-	NA	=	23,000	NA
C)	23,000	=	NA	+	23,000	23,000	-	NA	=	23,000	23,000 FA
D)	23,000	=	23,000	+	NA	23,000	-	NA	=	23,000	23,000 OA

- A.** A above  
 B. B above  
 C. C above  
 D. D above

*Difficulty: Medium  
 Edmonds - Chapter 01 #100  
 Learning Objective: 9*

101. The Sarbanes-Oxley Act

- A. was prompted by corporate bankruptcies and audit failures.  
 B. limits an auditor's ability to provide non-audit services to a client.  
 C. clarifies the responsibility of a company's management for its financial statements.  
**D.** all of the above.

*Difficulty: Easy  
 Edmonds - Chapter 01 #101  
 Learning Objective: 10*

102. Indicate whether each of the following statements about markets is true or false.

- \_\_\_\_\_ a) Financial resources can be provided by investors and creditors.  
 \_\_\_\_\_ b) Conversion agents are the businesses that transform resources into products that satisfy consumer desires.  
 \_\_\_\_\_ c) Physical resources include the labor of the production workers.  
 \_\_\_\_\_ d) Resource owners purchase their resources from conversion agents.  
 \_\_\_\_\_ e) Consumers are the main providers of resources in any market.

- a) T b) T c) F d) F e) F

*Difficulty: Medium  
 Edmonds - Chapter 01 #102  
 Learning Objective: 1*

103. Indicate whether each of the following statements about accounting information is true or false.

- \_\_\_\_\_ a) Financial accounting is primarily intended to satisfy the information needs of external resource providers.  
 \_\_\_\_\_ b) Financial accounting is used only by banks and brokerage firms.  
 \_\_\_\_\_ c) Generally accepted accounting principles apply to financial accounting but do not apply to managerial accounting.  
 \_\_\_\_\_ d) Managerial accounting is primarily intended to satisfy the information needs of internal users.  
 \_\_\_\_\_ e) Managerial accounting information is usually more detailed than financial accounting information.

- a) T b) F c) T d) T e) T

104. Indicate whether each of the following statements about retained earnings is true or false.

- a) A dividend paid to stockholders decreases retained earnings.
- b) Cash received from issuing common stock increases retained earnings.
- c) Net income must equal retained earnings.
- d) The purchase of a truck decreases retained earnings.
- e) Net income from the income statement increases retained earnings.

a) T b) F c) F d) F e) T

105. Indicate whether each of the following statements about accounting principles is true or false.

- a) If a person owns two businesses, each of the businesses would be treated as a separate reporting entity.
- b) Most of a business's assets are reported at their current market value.
- c) Accountants rely on the historical cost concept to help ensure the reliability of accounting information.
- d) A business's income is measured for a period of time called the accounting period.
- e) The purpose of accounting rules is to eliminate diverse reporting practices among businesses.

a) T b) F c) T d) T e) F

106. Indicate whether each of the following statements about the types of transactions is true or false.

- a) An asset source transaction results in an increase in total assets along with a decrease in claims.
- b) The issuance of stock to owners for cash would be an example of an asset use transaction.
- c) Purchasing equipment for cash is an example of an asset exchange transaction.
- d) Paying a dividend to stockholders is an example of an asset use transaction.
- e) Loaning money to another company is an example of an asset exchange transaction.

a) F b) F c) T d) T e) T

107. Indicate whether each of the following statements about the income statement is true or false.

- a) The income statement matches asset increases from operating a business with asset decreases from operation of the business.
- b) The income statement measures income for a given period of time.
- c) An income statement can be prepared for a period shorter than a year, such as a quarter.
- d) An asset decrease from operating a business is a revenue.
- e) A net loss occurs when revenues are greater than expenses.

a) T b) T c) T d) F e) F

108. Indicate whether each of the following statements about the balance sheet is true or false.

- a) The balance sheet shows revenues, expenses, and the calculation of net income.
- b) The balance sheet demonstrates that Assets = Claims to Assets
- c) A business's balance sheet reports amounts for its assets, liabilities, and equity.
- d) Notes Payable are reported on the balance sheet.
- e) The amount of dividends that a business paid during the year would be reported on its balance sheet.

a) F b) T c) T d) T e) F

109. Indicate whether each of the following statements about the statement of cash flows is true or false.

- a) A cash receipt from issuing common stock would be reported as a cash flow from investing activities.
- b) A cash receipt from borrowing funds is reported as a cash flow from financing activities.
- c) Cash payments for expenses are reported on the statement of cash flows as operating activities.
- d) The net increase in cash on the statement of cash flows must always equal the amount of net income reported on a business's income statement.
- e) A cash payment to purchase equipment is an investing activity.

a) F b) T c) T d) F e) T

110. Indicate whether each of the following statements about the statement of changes in stockholders' equity is true or false.

- a) The statement of changes in stockholders' equity reports the effects of transactions on stockholders' equity during the accounting period.
- b) The amount of net income for the accounting period appears on the statement of changes in stockholders' equity.
- c) The statement of changes in stockholders' equity reports changes in retained earnings but not changes in common stock.
- d) The amount of dividends paid during a period is added to beginning Retained Earnings in calculating ending Retained Earnings.
- e) The total amount of stockholders' equity reported on the statement of changes in stockholders' equity is also reported on the

balance sheet.

a) T b) T c) F d) F e) T

*Difficulty: Medium  
Edmonds - Chapter 01 #110  
Learning Objective: 8*

111. Indicate whether each of the following statements about financial statements is true or false.

- a) A cash dividend to stockholders will be shown on the statement of cash flows.
- b) A cash dividend to stockholders will be shown on the statement of changes in stockholders' equity.
- c) A cash dividend to stockholders will be shown on the income statement.
- d) Among other things, the balance sheet shows how a company got its cash.
- e) All changes in retained earnings should be shown on the income statement.

a) T b) T c) F d) F e) F

*Difficulty: Medium  
Edmonds - Chapter 01 #111  
Learning Objective: 8*

112. Indicate whether each of the following statements about assets is true or false.

- a) As long as a company has more assets than liabilities it will be able to pay its bills on time.
- b) Assets are economic resources for a business entity.
- c) The recognition of an expense acts to reduce retained earnings.
- d) Assets are shown on the balance sheet at their fair market value (i.e., what they would be worth if sold "today").
- e) A purchase of land for cash will not affect total assets.

a) F b) T c) T d) F e) T

*Difficulty: Medium  
Edmonds - Chapter 01 #112  
Learning Objective: 3  
Learning Objective: 8*

113. Indicate whether each of the following statements about equity is true or false.

- a) Operating expenses reported on the income statement increase retained earnings.
- b) Common Stock is a part of contributed capital for a corporation.
- c) Retained earnings is increased by loans received from a bank.
- d) Dividends paid to stockholders decrease retained earnings.
- e) Owners' equity equals the difference between assets and liabilities.

a) F b) T c) F d) T e) T

*Difficulty: Medium  
Edmonds - Chapter 01 #113  
Learning Objective: 3  
Learning Objective: 8*

114. Indicate whether each of the following statements about the horizontal statements model is true or false.

- a) The major divisions under each financial statement heading are called "elements."
- b) The subdivisions within a particular element are called accounts.
- c) The number of accounts used by a company is specified by GAAP.
- d) The issuance of stock to the owners of a corporation would be recorded as a plus to cash and a plus to notes payable.
- e) The receipt of cash revenue from customers would be recorded as a decrease in cash and a decrease in retained earnings.

a) T b) T c) F d) F e) F

*Difficulty: Easy  
Edmonds - Chapter 01 #114  
Learning Objective: 8*

115. Accounting is sometimes described as an information system or as the language of business.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 01 #115  
Learning Objective: 1*

116. In a market, consumers are resource providers.

**FALSE**

*Difficulty: Medium  
Edmonds - Chapter 01 #116  
Learning Objective: 1*

117. In a market, a company that manufactures cars would be referred to as a conversion agent.

**TRUE**

*Difficulty: Medium  
Edmonds - Chapter 01 #117  
Learning Objective: 1*

118. The value created by a business may be called income or earnings.

**TRUE**

*Difficulty: Medium  
Edmonds - Chapter 01 #118  
Learning Objective: 1*

119. Financial resources are provided to businesses by investors and consumers.

**FALSE**

*Difficulty: Medium  
Edmonds - Chapter 01 #119  
Learning Objective: 1*

120. A business's creditors have a priority claim to its assets in the event of liquidation.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 01 #120  
Learning Objective: 1*

121. Investors in a business usually expect to receive a share of the income earned by the business in the future

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 01 #121  
Learning Objective: 1*

122. The types of resources needed by a business are financial, physical, and capital resources.

**FALSE**

*Difficulty: Medium  
Edmonds - Chapter 01 #122  
Learning Objective: 1*

123. Resource providers use accounting information to identify the businesses they wish to provide resources to.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 01 #123  
Learning Objective: 1*

124. Financial accounting information is usually more detailed than managerial accounting information.

**FALSE**

*Difficulty: Medium  
Edmonds - Chapter 01 #124  
Learning Objective: 1*

125. The Financial Accounting Standards Board is an agency of the US government with authority for establishing accounting standards for businesses in the US.

**FALSE**

*Difficulty: Medium  
Edmonds - Chapter 01 #125  
Learning Objective: 1*

126. Companies are required to comply with GAAP when preparing financial information for their managers' use.

**FALSE**

*Difficulty: Easy  
Edmonds - Chapter 01 #126  
Learning Objective: 1*

127. A business and the person who owns the business are separate reporting entities.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 01 #127  
Learning Objective: 2*

128. Accounts are subclassifications of the various elements of the financial statements.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 01 #128  
Learning Objective: 3*

129. A business's equity is the future obligations of the entity.

**FALSE**

*Difficulty: Easy  
Edmonds - Chapter 01 #129  
Learning Objective: 4*

130. Both liabilities and equity are sources of a business's assets.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 01 #130  
Learning Objective: 4*

131. The accounting equation may be written, "Assets = Claims" or "Assets = Liabilities + Equity."

**TRUE**

132. A business can obtain resources from just two sources: from owners and from creditors

**FALSE**

133. The complete collection of a business's accounts is called the journal of accounts.

**FALSE**

134. The historical cost concept requires that most assets be reported at the amount paid for them.

**TRUE**

135. The accounting term, "reliability" refers to information that is consistent from one accounting period to the next.

**FALSE**

136. An asset source transaction increases a business's assets and the claims to assets.

**TRUE**

137. Issuance of common stock is an asset use transaction.

**FALSE**

138. An asset exchange transaction does not affect the total amount of assets of an entity.

**TRUE**

139. The four financial statements prepared by a business bear no relationship to each other.

**FALSE**

140. The income statement matches expenses and revenues.

**TRUE**

141. Dividends that a company pays to its stockholders are treated as an expense of the business.

**FALSE**

142. The balance sheet reports a business's assets and the claims on those assets.

**TRUE**

143. All major professional accounting organizations have adopted formal codes of professional ethics.

**TRUE**

144. The Sarbanes-Oxley Act of 2002 eased the rules governing auditors' independence.

**FALSE**

*Difficulty: Easy  
Edmonds - Chapter 01 #144  
Learning Objective: 10*

145. The Sarbanes –Oxley Act of 2002 clarified the legal responsibility of company managers for the entity's financial reports.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 01 #145  
Learning Objective: 10*

146. A business's internal controls are policies and procedures designed to reduce opportunities for fraud.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 01 #146  
Learning Objective: 10*

147. A merchandising company earns revenue primarily by selling goods to its customers.

**TRUE**

*Difficulty: Medium  
Edmonds - Chapter 01 #147  
Learning Objective: 11*

148. Rodriguez Company was founded in 2007. It acquired \$30,000 cash by issuing stock to investors and an additional \$20,000 cash by borrowing from creditors. During 2007 it received \$15,000 cash revenues and paid \$22,000 in cash expenses. The company then went out of business.

Required:

- (a) Explain the term, "business liquidation."
- (b) What amount of cash should Rodriguez Company have had on hand immediately before going out of business?
- (c) What amount of cash will Rodriguez's creditors receive?
- (d) What amount of cash will Rodriguez's stockholders receive?

- (a) Liquidation is the process of dividing up assets and allocating them to resource providers (creditors and investors).
- (b) Amount of cash on hand = \$30,000 + 20,000 + 15,000 – 22,000 = \$43,000
- (c) Creditors would have first claim on Rodriguez's cash. Therefore, they would receive \$20,000.
- (d) Stockholders would receive the remaining cash, or a total of \$23,000

*Difficulty: Medium  
Edmonds - Chapter 01 #148  
Learning Objective: 1*

149. Each of the following requirements is independent of the others.

- (a) Bruno Corporation has liabilities of \$95,000 and equity of \$110,000. What is the amount of Bruno's assets?  
\_\_\_\_\_
- (b) Wilder Company has assets of \$320,000 and liabilities of \$100,000. What is the amount of equity?  
\_\_\_\_\_
- (c) Limon Company has assets of \$90,000 and liabilities of \$40,000. What is the amount of claims?  
\_\_\_\_\_

- (a) Assets = liabilities + equity = \$95,000 + 110,000 = \$205,000
- (b) Assets – liabilities = equity. Equity = \$320,000 – 100,000 = \$220,000
- (c) Assets = claims. Total amount of claims = \$90,000

*Difficulty: Medium  
Edmonds - Chapter 01 #149  
Learning Objective: 4*

150. Reno Company experienced the following events during 2008:

- (1.) borrowed cash
- (2.) purchased land by paying cash
- (3.) provided services to customers for cash
- (4.) repaid part of the cash borrowed in event 1
- (5.) paid operating expenses with cash
- (6.) paid a dividend to stockholders
- (7.) issued common stock

Required:

Indicate how each of these events affects the accounting equation by writing the letter I for increase, the letter D for decrease, and NA for no effect under each of the components of the accounting equation. The first is done for you as an example.

Event number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock +	Retained Earnings
1	I	I	NA	NA
2				
3				
4				
5				
6				
7				

Event number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock +	Retained Earnings
1	I	I	NA	NA
2	NA (or I, D)	NA	NA	NA
3	I	NA	NA	I
4	D	D	NA	NA
5	D	NA	NA	D
6	D	NA	NA	D
7	I	NA	I	NA

Difficulty: Medium  
Edmonds - Chapter 01 #150  
Learning Objective: 4

151. The following events occurred for Bias Company during 2007, its first year in operation:

- (1.) issued stock to investors for \$35,000 cash
- (2.) borrowed \$15,000 cash from the local bank
- (3.) provided services to its customers and received \$22,000 cash
- (4.) paid expenses of \$18,000
- (5.) paid \$12,000 cash for land
- (6.) paid dividend of \$2,000 to stockholders
- (7.) repaid \$2,000 of the loan listed in item 2

Required:

Show the effects of the above transactions on the accounting equation, below. Include dollar amounts of increases and decreases. The first is done for you. After entering all the events, calculate the total amounts of assets, liabilities, and equity at the end of the year.

Event number	Assets	=	Liabilities	+	Equity
1	+\$35,000				+\$35,000
2					
3					
4					
5					
6					
7					
Total					

Event number	Assets	=	Liabilities	+	Equity
1	+\$35,000				+\$35,000
2	+15,000		+15,000		
3	+22,000				+22,000
4	-18,000				-18,000
5	+12,000 -12,000				
6	-2,000				-2,000
7	-2,000		-2,000		
Total	\$50,000		\$13,000		\$37,000

Difficulty: Medium  
Edmonds - Chapter 01 #151  
Learning Objective: 4  
Learning Objective: 5

152. Ransom Company experienced the following events during 2005:

- (1.) Acquired \$40,000 cash by issuing common stock.
- (2.) Borrowed \$10,000 cash from a creditor
- (3.) Provided services to customers for \$25,000 cash
- (4.) Paid \$18,000 cash for operating expenses.
- (5.) Paid a cash dividend of \$1,000 to stockholders.
- (6.) Purchased equipment with cash, \$6,000

Event Number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock	Retained Earnings
1	+\$40,000	NA	+\$40,000	NA
2				
3				
4				
5				
6				
Totals				

Event Number	Assets =	Liabilities +	Stockholders' Equity	
			Common Stock	Retained Earnings
1	+\$40,000	NA	+\$40,000	NA
2	+\$10,000	+\$10,000	NA	NA
3	+\$25,000	NA	NA	+\$25,000
4	-\$18,000	NA	NA	-\$18,000
5	-\$1,000	NA	NA	-\$1,000
6	NA	NA	NA	NA
Totals	\$56,000	\$10,000	\$40,000	\$6,000

153. At the beginning of 2008, Starr Company's accounting records had the general ledger accounts and balances shown in the table below.

During 2008, the following transactions occurred:

- (1.) received \$80,000 cash for providing services to customers
- (2.) paid rent expense, \$10,000
- (3.) purchased land for \$9,000 cash
- (4.) paid \$5,000 on note payable
- (5.) paid operating expenses, \$52,000
- (6.) paid cash dividend, \$6,000

Required:

(a) Record the transactions in the appropriate general ledger accounts. Record the amounts of revenue, expense, and dividends in the Retained Earnings column. Provide appropriate titles for these accounts in the last column of the table.

Starr Company Accounting Equation							
Event	Assets		=	Liabilities	+	Stockholders' Equity	Acct Titles for RE
	Cash	Land		Notes Payable		Common Stock	Retained Earnings
Balance 1/1/08	\$16,000	\$40,000		\$10,000		\$32,000	\$14,000
1							
2							
3							
4							
5							
6							

(b) What is the amount of total assets as of December 31, 2008?

(c) What is the amount of total stockholders' equity as of December 31, 2008?

(a)

Starr Company Accounting Equation							
Event	Assets		=	Liabilities	+	Stockholders' Equity	Acct Titles for RE
	Cash	Land		Notes Payable		Common Stock	Retained Earnings
Balance 1/1/08	\$16,000	\$40,000		\$10,000		\$32,000	\$14,000
1	+80,000						+80,000 Service Revenue
2	-10,000						-10,000 Rent Expense
3	-9,000	+9,000					
4	-5,000			-5,000			
5	-52,000						-52,000 Operating Expenses
6	-6,000						-6,000 Dividends
Totals	\$14,000	\$49,000		\$5,000		\$32,000	\$26,000

(b) Total assets = \$14,000 + 49,000 = \$63,000

(c) Total stockholders' equity = \$32,000 + \$26,000 = \$58,000

154. Classify each of the following events as an asset source (AS), asset use (AU), or asset exchange (AX).

- \_\_\_\_\_ a. borrowed cash from bank
- \_\_\_\_\_ b. issued stock for cash
- \_\_\_\_\_ c. paid cash for operating expenses
- \_\_\_\_\_ d. performed services and collected cash from customers
- \_\_\_\_\_ e. purchased land by paying cash
- \_\_\_\_\_ f. repaid bank loan with cash
- \_\_\_\_\_ g. paid dividends to company owners

a. AS b. AS c. AU d. AS e. AX f. AU g. AU

155. Indicate how each of the following transactions affects assets by entering + if assets increase, - if assets decrease, and NA if the total amount of assets is not affected.

- \_\_\_\_\_ 1. issued stock to investors
- \_\_\_\_\_ 2. borrowed cash from bank
- \_\_\_\_\_ 3. provided services to customers for cash
- \_\_\_\_\_ 4. purchased land for cash
- \_\_\_\_\_ 5. paid operating expenses
- \_\_\_\_\_ 6. paid cash dividends to stockholders
- \_\_\_\_\_ 7. repaid bank loan

(1.) + (2.) + (3.) + (4.) NA (5.) – (6.) – (7.) –

Difficulty: Easy  
Edmonds - Chapter 01 #155  
Learning Objective: 4  
Learning Objective: 7

156. Fulton Company was formed in 2007 and experienced the following accounting events during the year:

- (1.) issued common stock for \$20,000 cash
- (2.) earned cash revenue of \$30,000
- (3.) paid cash expenses of \$26,000.

These were the only events that affected the company during the year.

Required:

- (a) Write the accounting equation and record the effects of each accounting event under the appropriate general ledger account heading.
- (b) Prepare an income statement for 2007 and a balance sheet as of December 31, 2007.

(a)

Event Number	Assets = Cash	Liabilities +	Stockholders' Equity	
			Common Stock +	Retained Earnings
1	+ \$20,000	NA	+ \$20,000	NA
2	+ \$30,000	NA	NA	+ \$30,000
3	- \$26,000	NA	NA	- \$26,000

(b)

Fulton Company Income Statement For the Year Ended December 31, 2007	
Revenue	\$30,000
Expenses	<u>26,000</u>
Net income	<u>\$4,000</u>

Fulton Company Balance Sheet As of December 31, 2007	
<b>Assets</b>	
Cash	<u>\$24,000</u>
<b>Liabilities and Stockholders' Equity</b>	
<b>Liabilities</b>	
	\$0
<b>Stockholders' Equity</b>	
Common Stock	\$20,000
Retained Earnings	<u>4,000</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$24,000</u>

Difficulty: Hard  
Edmonds - Chapter 01 #156  
Learning Objective: 5  
Learning Objective: 8

157. Tracy Corporation reported the following cash transactions for the year ending December 31, 2007, its first year in operation:

- (1.) issued common stock for \$60,000 cash
- (2.) borrowed \$10,000 cash from a local bank
- (3.) purchased land for \$40,000
- (4.) provided services to clients for \$70,000 cash
- (5.) paid operating expenses of \$62,000
- (6.) paid \$3,000 cash dividends to stockholders

Required:

- (a) What are the total assets for Tracy Corporation at December 31, 2007?
- (b) What is the total equity for Tracy at December 31, 2007?
- (c) Prepare an income statement for 2007.

(a) Total assets = \$75,000 (\$60,000 + 10,000 + 70,000 – 62,000 – 3,000)

(b) Total equity = \$65,000 (\$60,000 + 70,000 – 62,000 – 3,000)

(c)

Tracy Corporation Income Statement For the Year Ended December 31, 2007	
Revenue	\$70,000
Operating Expenses	<u>62,000</u>
Net Income	<u>\$8,000</u>

Difficulty: Medium  
Edmonds - Chapter 01 #157  
Learning Objective: 4  
Learning Objective: 8

158. Use the following information to prepare an income statement for Burleson Company for the year ended December 31, 2006.

- (1.) revenue from services, \$28,000
- (2.) paid \$10,000 cash for land
- (3.) paid operating expenses, \$21,000
- (4.) paid dividends to stockholders, \$4,000
- (5.) issued \$6,000 of common stock for cash

Burleson Company Income Statement For the Year Ended December 31, 2006	
Revenue	\$28,000
Operating Expenses	21,000
Net Income	<u>\$7,000</u>

*Difficulty: Medium*  
*Edmonds - Chapter 01 #158*  
*Learning Objective: 8*

159. The following events are for Berea Company for 2007, its first year in business. Assume that all involve receipt or payment of cash.

- (1.) acquired \$25,000 cash by issuing stock to owners
- (2.) borrowed \$7,000 cash from creditors
- (3.) provided services to customers and received \$50,000
- (4.) paid operating expenses amounting to \$38,000
- (5.) purchased land for \$10,000
- (6.) paid a dividend of \$5,000 to owners

Required:

(a) Show the effects of each of these events on the accounting equation shown below, showing dollar amounts of increases and decreases; calculate totals for each account at the end of the period.

Event number.	Assets =		Liabilities +	Equity	
	Cash +	Land =	Notes Payable +	Common Stock +	Retained Earnings
1					
2					
3					
4					
5					
6					
Totals					

(b) Prepare an income statement and balance sheet for 2007.

(a)

Event number	Assets =		Liabilities +	Equity	
	Cash +	Land =	Notes Payable +	Common Stock +	Retained Earnings
1	+\$25,000			+\$25,000	
2	+7,000		+\$7,000		
3	+50,000				+\$50,000
4	-38,000				-38,000
5	-10,000	+10,000			
6	-5,000				-5,000
Totals	\$29,000	\$10,000	\$7,000	\$25,000	\$7,000

(b)

Berea Company Income Statement For the Year Ended December 31, 2007	
Revenues	\$50,000
Operating expenses	38,000
Net income	<u>\$12,000</u>

Berea Company Balance Sheet As of December 31, 2007		
<b>Assets</b>		
Cash		\$29,000
Land		10,000
Total Assets		<u>\$39,000</u>
<b>Liabilities</b>		
		\$7,000
<b>Equity</b>		
Common Stock	\$25,000	
Retained Earnings	7,000	
Total Equity		<u>32,000</u>
Total Liabilities and Equity		<u>\$39,000</u>

Difficulty: Hard  
Edmonds - Chapter 01 #159  
Learning Objective: 8

160. Fill in the missing information by identifying dollar amounts a, b, c, and d. All transactions were for cash.

<b>Income Statement</b>	
Revenue	\$ a
Expenses	35,000
Net income	<u>\$ b</u>
<b>Statement of changes in stockholders' equity</b>	
Beginning common stock	\$0
Add: issuance of common stock	50,000
Ending common stock	\$50,000
Beginning retained earnings	\$0
Add: net income	5,800
Ending retained earnings	<u>\$ c</u>
Total equity	<u>\$ d</u>

a = \$40,800; b = \$5,800; c = \$5,800; d = \$55,800

Difficulty: Medium  
Edmonds - Chapter 01 #160  
Learning Objective: 8

161. The following transactions apply to Springfield Consulting Services in 2007:

- (1.) issued stock to investors, \$40,000
- (2.) borrowed cash from bank, \$10,000
- (3.) purchased land for cash, \$12,000
- (4.) provided services to customers for cash, \$60,000
- (5.) paid \$8,000 for rent
- (6.) paid \$35,000 for salaries
- (7.) paid \$2,000 for supplies used during the year
- (8.) paid \$5,000 dividends to owners
- (9.) repaid \$4,000 of loan described in item 2

Required: Prepare a statement of cash flows for 2007. The company started operations on January 1, 2007

Springfield Consulting Services Statement of Cash Flows For the Year Ended December 31, 2007		
<b>Cash Flows from Operating Activities</b>		
Cash receipts from revenues		\$60,000
Cash payment for rent		(8,000)
Cash payment for salaries		(35,000)
Cash payment for supplies		(2,000)
Cash flow from operating activities		\$15,000
<b>Cash Flows from Investing Activities</b>		
Cash payment for land		(12,000)
<b>Cash Flows from Financing Activities</b>		
Cash receipt from issuance of stock	\$40,000	
Cash receipt from borrowing	10,000	
Cash payment to reduce debt	(4,000)	
Cash payment for dividends	(5,000)	
Cash flow from investing activities		<u>41,000</u>
Net increase in cash		44,000
Plus: beginning cash balance		-0-
Ending cash balance		<u>\$44,000</u>

Difficulty: Hard  
Edmonds - Chapter 01 #161  
Learning Objective: 8

162. Frey Company was founded January 1, 2007. During 2007, the company experienced the following events:

- (1.) earned cash revenue of \$50,000
- (2.) paid cash expenses of \$41,000
- (3.) issued common stock for \$30,000 cash
- (4.) paid cash dividend of \$2,000 to owners.

Required:

- (a) Write an accounting equation and record effects of each accounting event under appropriate general ledger account headings, showing dollar amounts of increases and decreases and totals at the end of the year.
- (b) Prepare the 2007 income statement and balance sheet for Frey Company.

(a)

Event Number	Assets = Cash	Liabilities +	Stockholders' Equity	
			Common Stock +	Retained Earnings
1	+\$50,000			+\$50,000
2	-41,000			-41,000
3	+30,000		+\$30,000	
4	-2,000			-2,000
Totals	\$37,000		\$30,000	\$7,000

(b)

Frey Company Income Statement For the Year Ended December 31, 2007	
Revenues	\$50,000
Less Expenses	<u>(41,000)</u>
Net Income	<u>\$ 9,000</u>

Frey Company Balance Sheet As of December 31, 2007		
<b>Assets:</b>		
Cash		<u>\$37,000</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Stockholders' Equity</b>		
Common Stock	\$30,000	
Retained Earnings	<u>7,000</u>	
<b>Total Liabilities and Stockholders' Equity</b>		<u>\$37,000</u>

*Difficulty: Hard  
Edmonds - Chapter 01 #162  
Learning Objective: 4  
Learning Objective: 8*

163. Indicate how each of the following events would be classified on the statement of cash flows: as operating activities (OA), investing activities (IA), financing activities (FA), or not applicable (NA)

- \_\_\_\_\_ 1. received cash from issuance of common stock
- \_\_\_\_\_ 2. borrowed cash from bank
- \_\_\_\_\_ 3. paid rent expense
- \_\_\_\_\_ 4. purchased building for cash
- \_\_\_\_\_ 5. provided services to customers for cash
- \_\_\_\_\_ 6. paid cash dividend to stockholders

1. FA 2. FA 3. OA 4. IA 5. OA 6. FA

*Difficulty: Medium  
Edmonds - Chapter 01 #163  
Learning Objective: 8*

164. The following events are for Fun Travel Services for the year 2007, the first year of operations. Assume that all transactions involve the receipt or payment of cash.

- (1) The business acquired \$20,000 from stock issued to owners.
- (2) Creditors loaned the company \$7,000.
- (3) The company provided services to its customers and received \$35,000.
- (4) The company paid expenses amounting to \$23,000.
- (5) Purchased land for \$9,000.
- (6) The company paid a dividend of \$3,000 to its owners.

Required:

- (a) Show the effects of the above transactions on the accounting equation. Use appropriate elements and account headings.
- (b) Prepare a balance sheet and income statement for year 2007.

(a)

	<u>Cash</u>	+	<u>Land</u>	=	<u>Notes Pay</u>	+	<u>Com Stk</u>	+	<u>Ret. Earn.</u>
Event No.									
1.	+20,000						+20,000		
2.	+7,000				+7,000				
3.	+35,000								+35,000
4.	- 23,000								-23,000
5.	- 9,000		+9,000						
6.	- 3,000								- 3,000
Totals	<u>+27,000</u>		<u>+9,000</u>		<u>+7,000</u>		<u>+20,000</u>		<u>+9,000</u>

(b)

Fun Travel Services Balance Sheet December 31, 2007			
Assets			
Cash		\$27,000	
Land		9,000	
Total Assets			<u>\$36,000</u>
Liabilities			
			\$ 7,000
Equity			
Common Stock		\$20,000	
Retained Earnings		9,000	
Total Equity			29,000
Total Liabilities and Equity			<u>\$36,000</u>
Fun Travel Services Income Statement For Period Ending 2007			
Revenue			\$35,000
Expenses			(23,000)
Net income			<u>\$12,000</u>

Difficulty: Hard  
Edmonds - Chapter 01 #164  
Learning Objective: 4  
Learning Objective: 8

165. The following transactions apply to Copeland's Fitness Center for 2006.

- (1) Started the business by issuing \$18,000 of common stock for cash..
- (2) Provided services to clients and received \$28,000 cash.
- (3) Borrowed \$6,500 from the bank for the business.
- (4) Paid \$4,500 for rent of equipment.
- (5) Paid \$6,000 of salary expense.
- (6) Cash dividends of \$11,500 were paid to the stockholders.

Required:

- (a.) What are the total assets of the business at the end of 2006?
- (b.) Prepare a Statement of Cash Flows for 2006.

(a)	Cash	+\$18,000
	Cash	+28,000
	Cash	+6,500
	Cash	(4,500)
	Cash	(6,000)
	Cash	(11,500)
	Total Assets	\$30,500

(b)

Copeland's Fitness Center Statement of Cash Flows For the Year Ended December 31, 2006		
Cash Flows From Operating Activities		
Cash receipts from revenue	\$28,000	
Cash payments for expense	(10,500)	
Net Cash Flow from Operating Activities		\$17,500
Cash Flows From Investing Activities		
		-0-
Cash Flows From Financing Activities		
Cash receipt from loan	6,500	
Cash receipt from stock issue	18,000	
Cash dividend to owners	(11,500)	
Net Cash Flow from Financing Activities		13,000
Net Increase in Cash		\$30,500
Plus: Beginning Cash Balance		-0-
Ending Cash Balance		<u>\$30,500</u>

Difficulty: Hard  
Edmonds - Chapter 01 #165  
Learning Objective: 4  
Learning Objective: 8

166. Fill in the blanks indicated by the alphabetic letters in the following financial statements. Assume that the company started operations on January 1, 2006 and that all transactions were for cash.

Income Statement	
Revenue	\$11,000
Expense	a
Net income	b
Statement of Changes in Equity	
Beginning Common stock	\$ -0-
Plus: Stock Issued	20,000
Ending Common stock	\$20,000
Beginning Retained Earnings	-0-
Add: Net Income	c
Less: Dividends	d
Ending Retained Earnings	\$4,000
Total Equity	\$ e

Balance Sheet	
Assets	
Cash	\$ f
Land	5,000
Total Assets	<u>\$30,000</u>
Liabilities	
	\$ g
Equity	
Common Stock	20,000
Retained Earnings	h
Total Equity	<u>i</u>
Total Liabilities and Equity	<u>\$30,000</u>

Cash Flows from Operating Activities	
Cash Receipt from Revenue	\$11,000
Cash Payment for Expense	j
Net Cash Flow from Operating Activities	k
Cash Flows From Investing Activities	
Cash Paid for Land	(5,000)
Cash Flow from Financing Activities	
Cash Receipts from Borrowed Funds	l
Cash Receipts from Stock issue	20,000
Cash Paid for Dividends	(3,000)
Net Cash Flows from Financing Activities	23,000
Net Increase in Cash	<u>\$25,000</u>

(a) \$4,000, (b) \$7,000, (c) \$7,000, (d) \$3,000, (e) \$24,000, (f) \$25,000, (g) \$ 6,000, (h) \$ 4,000, (i) \$24,000, (j) (\$ 4,000), (k) \$ 7,000, (l) \$ 6,000

Difficulty: Hard  
Edmonds - Chapter 01 #166  
Learning Objective: 3  
Learning Objective: 8



	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
a)	+6,000				+6,000						+6,000 FA
b)	-1,600 +1,600										-1,600 IA
c)	-500				-500						-500 FA

*Difficulty: Medium*  
*Edmonds - Chapter 01 #169*  
*Learning Objective: 9*

170. During 2007, MNO Company issued common stock to stockholders for \$5,000; purchased land for \$1,000 cash; provided services to customers for \$4,000; paid cash operating expenses of \$3,100; and paid cash dividends of \$500 to the company's owners. Enter each of these events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA).

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
a)											
b)											
c)											
d)											
e)											

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
a)	+5,000				+5,000						+5,000 FA
b)	-1,000 +1,000										-1,000 IA
c)	+4,000				+4,000	+4,000				+4,000	+4,000 OA
d)	-3,100				-3,100			+3,100		-3,100	-3,100 OA
e)	-500				-500						-500 FA

*Difficulty: Medium*  
*Edmonds - Chapter 01 #170*  
*Learning Objective: 9*

## **ch1 Summary**

<u>Category</u>	<u># of Questions</u>
Difficulty: Easy	72
Difficulty: Hard	17
Difficulty: Medium	81
Edmonds - Chapter 01	173
Learning Objective: 1	30
Learning Objective: 10	5
Learning Objective: 11	1
Learning Objective: 2	3
Learning Objective: 3	11
Learning Objective: 4	28
Learning Objective: 5	10
Learning Objective: 6	7
Learning Objective: 7	19
Learning Objective: 8	50
Learning Objective: 9	30