

**Pool Canvas**

Add, modify, and remove questions. Select a question type from the Add Question drop-down list and click **Go** to add questions. Use Creation Settings to establish which default options, such as feedback and images, are available for question creation.

Add   [Creation Settings](#)

**Name** Chapter 1--Accounting and the Financial Statements  
**Description**  
**Instructions**

[Modify](#)[◀ Add Question Here](#)

Question 1 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question** There are more corporations than sole proprietorships and partnerships in the United States.**Answer**

True

✓ False

[◀ Add Question Here](#)

Question 2 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question** The three main business activities are financing, operating, and investing.**Answer**

✓ True

False

[◀ Add Question Here](#)

Question 3 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question** Internal users of accounting information include present creditors and management.**Answer**

True

✓ False

[◀ Add Question Here](#)

Question 4 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question** The income statement summarizes the assets, liabilities and stockholders' equity for a period of time.**Answer**

True

✓ False

[◀ Add Question Here](#)

Question 5 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question** The four basic financial statements are the Income Statement, Statement of Retained Earnings, Balance Sheet, and Statement of Cash Flows.**Answer**

✓ True

False

[◀ Add Question Here](#)

Question 6 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question** The amount of earnings distributed to stockholders can be found in the income statement as an expense.**Answer**

True

✓ False

[◀ Add Question Here](#)

Question 7 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question** Stockholders' equity is composed of two main sources: liabilities and contributed capital.**Answer**

True

✓ False

[◀ Add Question Here](#)

Question 8 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question** The first step in preparing the classified balance sheet is to list the assets in order of liquidity.**Answer**

True

✓ False

[◀ Add Question Here](#)

Question 9 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question** The only financial statement that reports the retained earnings balance at the end of the period is the Statement of Retained Earnings.**Answer**

True

✓ False

[◀ Add Question Here](#)

Question 10 ▾

True/False

0 points

[Modify](#)[Remove](#)**Question** An income statement provides information at one specific point in time, while the other basic financial statements provide information on activities that occur over a period of time.**Answer**

True

✔ False

[◀ Add Question Here](#)

Question 11 ▾ True/False 0 points [Modify](#) [Remove](#)

**Question** When an entity's stock issuances exceed its expenses for a period of time, the entity will report net income.

**Answer** True  
✔ False

[◀ Add Question Here](#)

Question 12 ▾ True/False 0 points [Modify](#) [Remove](#)

**Question** Contributed capital is the residual interest that remains after deducting liabilities from stockholders' equity.

**Answer** True  
✔ False

[◀ Add Question Here](#)

Question 13 ▾ True/False 0 points [Modify](#) [Remove](#)

**Question** The four steps in preparing the Income Statement are: 1) Prepare heading, 2) List the revenues of the company, 3) List the expenses of the company, 4) List the dividends of the company.

**Answer** True  
✔ False

[◀ Add Question Here](#)

Question 14 ▾ True/False 0 points [Modify](#) [Remove](#)

**Question** Stockholders equity is composed of contributed capital and retained earnings.

**Answer** ✔ True  
False

[◀ Add Question Here](#)

Question 15 ▾ True/False 0 points [Modify](#) [Remove](#)

**Question** The primary objective of internal auditors who are employees of the company is to provide assurance to the company's stockholders that the financial statements are fairly presented.

**Answer** True  
✔ False

[◀ Add Question Here](#)

Question 16 ▾ True/False 0 points [Modify](#) [Remove](#)

**Question** The independent auditor's report conveys whether or not the business is a good investment.

**Answer** True  
✔ False

[◀ Add Question Here](#)

Question 17 ▾ True/False 0 points [Modify](#) [Remove](#)

**Question** The Statement of Cash Flows shows cash inflows and cash outflows for a period of time.

**Answer** ✔ True  
False

[◀ Add Question Here](#)

Question 18 ▾ True/False 0 points [Modify](#) [Remove](#)

**Question** Because the four financial statements are interrelated (i.e., there is a natural progression from one financial statement to another), the balance sheet should be prepared first.

**Answer** True  
✔ False

[◀ Add Question Here](#)

Question 19 ▾ True/False 0 points [Modify](#) [Remove](#)

**Question** The company's annual report includes an audit report, notes to the financial statements, but **not** management's discussion and analysis.

**Answer** True  
✔ False

[◀ Add Question Here](#)

Question 20 ▾ True/False 0 points [Modify](#) [Remove](#)

**Question** Investing is the business activity that measures the company's ability to generate cash from its revenue and expense activities.

**Answer** True  
✔ False

[◀ Add Question Here](#)

Question 21 ▾ True/False 0 points [Modify](#) [Remove](#)

**Question** The owners of a sole proprietorship, partnership and corporations have limited liability.

**Answer** True  
✔ False

[◀ Add Question Here](#)

Question 22	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> The purpose of financial reporting is to provide economic information to investors, creditors, and other financial statement users.</p> <p><b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False</p>				
<a href="#">◀ Add Question Here</a>				
Question 23	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> Creditors use accounting information to evaluate whether to loan money to a company.</p> <p><b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False</p>				
<a href="#">◀ Add Question Here</a>				
Question 24	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> Current assets include all of the following: cash, inventory, equipment, supplies, and accounts receivable.</p> <p><b>Answer</b> <input type="checkbox"/> True <input checked="" type="checkbox"/> False</p>				
<a href="#">◀ Add Question Here</a>				
Question 25	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> Current liabilities are typically listed in the order in which they will be paid.</p> <p><b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False</p>				
<a href="#">◀ Add Question Here</a>				
Question 26	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> Three common categories of long-term assets are: 1) property, plant, and equipment, 2) long-term investments, and 3) intangibles.</p> <p><b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False</p>				
<a href="#">◀ Add Question Here</a>				
Question 27	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> In the stockholders' equity section of a classified balance sheet, a distinction is made between amounts invested by owners and amounts financed by creditors.</p> <p><b>Answer</b> <input type="checkbox"/> True <input checked="" type="checkbox"/> False</p>				
<a href="#">◀ Add Question Here</a>				
Question 28	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> One primary purpose of a classified balance sheet is to help users evaluate the working capital of a company.</p> <p><b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False</p>				
<a href="#">◀ Add Question Here</a>				
Question 29	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> A Classified balance sheet is to help users determine how a company obtained its resources.</p> <p><b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False</p>				
<a href="#">◀ Add Question Here</a>				
Question 30	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> The current ratio is useful in determining a company's ability to pay obligations when they become due.</p> <p><b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False</p>				
<a href="#">◀ Add Question Here</a>				
Question 31	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> Income from operations includes interest revenue and interest expense because these items are considered to be operating in nature.</p> <p><b>Answer</b> <input type="checkbox"/> True <input checked="" type="checkbox"/> False</p>				
<a href="#">◀ Add Question Here</a>				
Question 32	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> Net loss reduces a company's retained earnings balance.</p> <p><b>Answer</b> <input checked="" type="checkbox"/> True <input type="checkbox"/> False</p>				
<a href="#">◀ Add Question Here</a>				
Question 33	True/False	0 points	<a href="#">Modify</a>	<a href="#">Remove</a>
<p><b>Question</b> Dividend payments appear on the Statement of Retained Earnings.</p> <p><b>Answer</b> <input checked="" type="checkbox"/> True</p>				

False

[◀ Add Question Here](#)

Question 34 ▾ **True/False** **0 points** [Modify](#) [Remove](#)

**Question** The Statement of Cash Flows, like the Income Statement, reports only operating activities and other activities of a company.

**Answer** True  
 False

[◀ Add Question Here](#)

Question 35 ▾ **True/False** **0 points** [Modify](#) [Remove](#)

**Question** The ending cash balance is shown on the Balance Sheet and the Statement of Retained Earnings.

**Answer** True  
 False

[◀ Add Question Here](#)

Question 36 ▾ **True/False** **0 points** [Modify](#) [Remove](#)

**Question** The company's annual report is contained within the company's 10-K filing with the Securities Exchange Commission.

**Answer**  True  
 False

[◀ Add Question Here](#)

Question 37 ▾ **True/False** **0 points** [Modify](#) [Remove](#)

**Question** Independent auditors (CPAs) render an opinion that the financial statements do or do not fairly present a company's financial position, operating results, and cash flows.

**Answer**  True  
 False

[◀ Add Question Here](#)

Question 38 ▾ **True/False** **0 points** [Modify](#) [Remove](#)

**Question** An independent auditor's (CPA's) report is a guarantee that the financial statements are free from fraud or material error.

**Answer** True  
 False

[◀ Add Question Here](#)

Question 39 ▾ **True/False** **0 points** [Modify](#) [Remove](#)

**Question** In the independent auditors' report included with the annual report, management discusses the financial statements and provides the shareholders with explanations for certain amounts reported in the statements.

**Answer** True  
 False

[◀ Add Question Here](#)

Question 40 ▾ **True/False** **0 points** [Modify](#) [Remove](#)

**Question** A company with healthy cash flows from operating activities is in a good position to repay its debts.

**Answer**  True  
 False

[◀ Add Question Here](#)

Question 41 ▾ **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

**Question** External users and outside decision makers use \_\_\_\_\_ accounting.

**Answer** financial

[◀ Add Question Here](#)

Question 42 ▾ **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

**Question** The three forms of business organizations are \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.

**Answer** sole proprietorships, partnerships, corporations  
 partnerships, corporations, sole proprietorships  
 corporations, sole proprietorships, partnerships

[◀ Add Question Here](#)

Question 43 ▾ **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

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

**Answer** Financing

[◀ Add Question Here](#)

Question 44 ▾ **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

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

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

[◀ Add Question Here](#)

Question 45 ▾ **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

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

**Answer** assets, liabilities, shareholders' equity  
assets, shareholders' equity, liabilities

[◀ Add Question Here](#)

Question 46 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

**Question** The step of listing the liabilities of the company in order of their time to maturity is performed for a financial statement called \_\_\_\_\_.

**Answer** classified balance sheet

[◀ Add Question Here](#)

Question 47 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

**Question** Current assets minus current liabilities is called \_\_\_\_\_.

**Answer** working capital

[◀ Add Question Here](#)

Question 48 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

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

**Answer** Income Statement

[◀ Add Question Here](#)

Question 49 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

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

**Answer** Statement of Retained Earnings

[◀ Add Question Here](#)

Question 50 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

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

**Answer** retained earnings

[◀ Add Question Here](#)

Question 51 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

**Question** \_\_\_\_\_ have claims to an entity's economic resources.

**Answer** Creditors  
Lenders  
Investors  
Stockholders

[◀ Add Question Here](#)

Question 52 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

**Question** \_\_\_\_\_ are cash and other assets that are reasonably expected to be realized in cash during the normal operating cycle, whichever is longer.

**Answer** Current Assets

[◀ Add Question Here](#)

Question 53 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

**Question** Property, plant and equipment is classified as \_\_\_\_\_ assets on the balance sheet.

**Answer** Noncurrent

[◀ Add Question Here](#)

Question 54 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

**Question** \_\_\_\_\_ is a liquidity measure that is calculated by subtracting current assets from current liabilities.

**Answer** Working capital

[◀ Add Question Here](#)

Question 55 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

**Question** The ability of a company to pay its debt as it comes due relates to \_\_\_\_\_.

**Answer** liquidity

[◀ Add Question Here](#)

Question 56 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

**Question** In a(n) \_\_\_\_\_-step income statement, all expenses and losses are added together, then deducted from the sum of all revenues and gains.

**Answer** single

[◀ Add Question Here](#)

Question 57 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

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

**Answer** Operating, Investing, Financing  
Investing, Financing, Operating  
Financing, Operating, Investing

[◀ Add Question Here](#)

Question 58 **Fill in the Blank** **0 points** [Modify](#) [Remove](#)

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

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

[◀ Add Question Here](#)

Question 59 ▾

Fill in the Blank

0 points

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

**Question** The demand for accounting information comes from stakeholders both inside and outside the business. The five stakeholder groups discussed in the text include \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.

**Answer**

- Managers
- Employees
- Investors
- Creditors
- Governments

[◀ Add Question Here](#)

Question 60 ▾

Fill in the Blank

0 points

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

**Question** The current ratio is found by dividing current assets by \_\_\_\_\_.

**Answer** current liabilities

[◀ Add Question Here](#)

Question 61 ▾

Matching

0 points

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

**Question** Provided is a list of important users of accounting information. Also provided are descriptions of a major need for accounting information that may be experienced by the various users. Identify the one user group that is most likely to have the need described. (Choices may be used more than once.)

Answer	Match Question Items	Answer Items
A.	A. The prospects for future dividend payments.	A. Investors
F.	B. Will I get a raise this year?	B. Management
E.	C. The profitability of the company based upon the Internal Revenue Code.	C. Supplier
B.	D. The effectiveness of the last advertising campaign.	D. Banker
B.	E. The exact amount of profit on each product of the company.	E. Government
I.	F. The ability of the company to pay its debts as they become due.	F. Employees
G.	G. The company's labor rate agree to the last contract.	G. Labor Union
		H. Investors and Banker
		I. Supplier and Banker

[◀ Add Question Here](#)

Question 62 ▾

Matching

0 points

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

**Question** Several items from the financial statements of Fireside Tires are listed. Use the following choices to identify the type of account for each item listed. (Choices may be used more than once.)

Answer	Match Question Items	Answer Items
A.	A. Inventory	A. Assets
C.	B. Net sales	B. Liabilities
B.	C. Unearned revenue	C. Revenues
C.	D. Interest Income	D. Expenses
D.	E. Research and development expense	E. Stockholders' Equity
A.	F. Accounts receivable	
E.	G. Common stock	
B.	H. Long-term notes payable	
A.	I. Cash	
E.	J. Retained earnings	
A.	K. Patents	

[◀ Add Question Here](#)

Question 63 ▾

Matching

0 points

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

**Question** Match each statement to the item listed below.

Answer	Match Question Items	Answer Items
C.	A. Cash flows directly related to earning income	A. Cash flows from financing activities
A.	B. Cash flows related to obtaining capital for the company	B. Cash flows from investing activities
B.	C. Cash flows related to the acquisition or sale of investment and long-term assets	C. Cash flows from operating activities

[◀ Add Question Here](#)

Question 64 ▾

Matching

0 points

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

**Question** Match each statement to the item listed below.

Answer	Match Question Items	Answer Items
C.	A. Net sales less cost of goods sold expense	A. Current assets
E.	B. Resources that provide a benefit over a number of years but which lack physical substance	B. Current liabilities
F.	C. Investment in the debt and stock of other companies that is expected to be held for more than a year	C. Gross margin
B.	D. Obligations that must be satisfied within a year	D. Income from operations
H.	E. Net income divided by sales revenue	E. Intangible assets
D.	F. Gross margin less operating expenses	F. Long-term investments
G.	G. Obligations that will require payment beyond one year	G. Long-term liabilities
A.	H. Cash and other resources that are expected to become cash or used up within a year's time or less	H. Net profit margin

[◀ Add Question Here](#)

Question 65 ▾

Matching

0 points

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



**Question** Match each statement to the item listed below.

**Answer** Match Question Items

- D. - A. Section in the annual report that highlights favorable or unfavorable trends and significant risks facing the company
- B. - B. An accounting period that may or may not cover January 1 - December 31
- A. - C. Contains the auditor's opinion as to whether the financial statements fairly present the company's financial position and results of operations
- C. - D. A set of reports that communicate a company's financial position and results of operations
- E. - E. Information that clarifies and expands upon the information presented in the financial statements

**Answer Items**

- A. Audit report
- B. Fiscal year
- C. Financial statements
- D. Management's discussion and analysis
- E. Notes to the financial statements

[◀ Add Question Here](#)

Question 66 ▾

**Matching**

**0 points**

[Modify](#)

[Remove](#)

**Question** Match each statement to the item listed below.

**Answer** Match Question Items

- C. - A. Organization currently working to establish international financial reporting standards

**Answer Items**

- A. Financial Accounting Standards Board
- B. Generally accepted accounting principles
- C. International Accounting Standards Board
- D. International financial reporting standards
- E. Securities and Exchange Commission

[◀ Add Question Here](#)

Question 67 ▾

**Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** Which one of the following is an internal user of financial information?

- Answer** ✓ Company management
- Governments
- Creditors
- Investors

[◀ Add Question Here](#)

Question 68 ▾

**Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** Which one of the following is **not** an external user of financial statements?

- Answer** Internal Revenue Service
- Creditors
- Stockholders
- ✓ The Company's President

[◀ Add Question Here](#)

Question 69 ▾

**Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** Which one of the following groups is considered an internal user of financial statements?

- Answer** A supplier considering selling to the company on credit.
- The labor union representing employees of a company that is involved in labor negotiations
- The financial analysts for a brokerage firm who are preparing recommendations for the firm's brokers on companies in a certain industry,
- ✓ Managers of the company that supervise production workers.

[◀ Add Question Here](#)

Question 70 ▾

**Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** What is the name for a person who lends funds to a business entity and expects repayment with interest?

- Answer** ✓ Creditor
- Owner
- Proprietor
- Stockholder

[◀ Add Question Here](#)

Question 71 ▾

**Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** What is the name of the branch of accounting concerned with providing outside decision makers with information to assess the amounts, timing and uncertainties of the company's future cash flows?

- Answer** ✓ Financial Accounting
- Auditing
- Managerial Accounting
- Bookkeeping

[◀ Add Question Here](#)

Question 72 ▾

**Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** Which of the following invests funds into a business and is considered an owner?

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

[◀ Add Question Here](#)

Question 73	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a> <a href="#">Remove</a>
<p><b>Question</b> Which of the following is <b>not</b> a form of a business entity?</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>Sole proprietorship</li> <li>Partnership</li> <li>✓ Cooperative</li> <li>Corporation</li> </ul>			
<a href="#">◀ Add Question Here</a>			
Question 74	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a> <a href="#">Remove</a>
<p><b>Question</b> In which form of organization are the owners' legal responsibility for the debt of the business limited to the amount they invested in the business?</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>Cooperative</li> <li>✓ Corporation</li> <li>Partnership</li> <li>Proprietorship</li> </ul>			
<a href="#">◀ Add Question Here</a>			
Question 75	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a> <a href="#">Remove</a>
<p><b>Question</b> Businesses engage in which of the following three main activity categories?</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>✓ Financing, Investing, Operating</li> <li>Cash, Credit, Noncash</li> <li>Financing, Credit, Operating</li> <li>Financing, Management, Operating</li> </ul>			
<a href="#">◀ Add Question Here</a>			
Question 76	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a> <a href="#">Remove</a>
<p><b>Question</b> "Revenues" are best described as:</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>decreases in assets resulting from the sale of goods or services.</li> <li>✓ increases in assets resulting from the sale of products or services.</li> <li>assets used or consumed in the sale of products or services.</li> <li>an increase in the financing activities.</li> </ul>			
<a href="#">◀ Add Question Here</a>			
Question 77	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a> <a href="#">Remove</a>
<p><b>Question</b> What is unearned revenue?</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>Stockholders' equity</li> <li>✓ Liability</li> <li>Asset</li> <li>Revenue</li> </ul>			
<a href="#">◀ Add Question Here</a>			
Question 78	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a> <a href="#">Remove</a>
<p><b>Question</b> Which of the following best describes the term "expenses"?</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>The cost of assets used in the investing activities of a business.</li> <li>The amount of interest or claim that the owners have in the business.</li> <li>The future economic resources of a business entity.</li> <li>✓ The cost of assets used in the operations of a business.</li> </ul>			
<a href="#">◀ Add Question Here</a>			
Question 79	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a> <a href="#">Remove</a>
<p><b>Question</b> Which one of the following is <b>not</b> one of the three business activities?</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>Financing</li> <li>Operating</li> <li>Investing</li> <li>✓ Measuring</li> </ul>			
<a href="#">◀ Add Question Here</a>			
Question 80	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a> <a href="#">Remove</a>
<p><b>Question</b> You are a potential creditor and are concerned that a particular company you are ready to give a loan to might have too much debt. Which financial statement would provide you information needed in order to evaluate your concern?</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>✓ Balance Sheet</li> <li>Income Statement</li> <li>Statement of Retained Earnings</li> <li>Statement of Public Accounting</li> </ul>			
<a href="#">◀ Add Question Here</a>			
Question 81	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a> <a href="#">Remove</a>
<p><b>Question</b> Which financial statement would you analyze to assess a firm's operating performance for the past year?</p> <p><b>Answer</b></p> <ul style="list-style-type: none"> <li>Balance Sheet</li> <li>Statement of Retained Earnings</li> <li>✓ Income Statement</li> <li>Statement of Public Accounting</li> </ul>			
<a href="#">◀ Add Question Here</a>			
Question 82	<b>Multiple Choice</b>	<b>0 points</b>	<a href="#">Modify</a> <a href="#">Remove</a>



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

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

[◀ Add Question Here](#)

Question 83 **Multiple Choice** **0 points**

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

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

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

[◀ Add Question Here](#)

Question 84 **Multiple Choice** **0 points**

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

**Question** On January 1, 2012, a company reported assets of \$1,000,000 and liabilities of \$600,000. During 2012, assets decreased by \$100,000 and Stockholders' Equity decreased \$200,000. What is the amount of liabilities at December 31, 2012?

- Answer**
- \$200,000
  - \$500,000
  - \$600,000
  - \$700,000

**Correct Feedback**

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
Jan. 01, 2012	\$1,000,000	=	\$600,000	+	\$400,000
During 2012	<u>0400,000</u>	=	<u>100,000</u>	±	<u>0200,000</u>
Dec. 31, 2012	900,000	=	700,000	+	200,000

**Incorrect Feedback**

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
Jan. 01, 2012	\$1,000,000	=	\$600,000	+	\$400,000
During 2012	<u>0400,000</u>	=	<u>100,000</u>	±	<u>0200,000</u>
Dec. 31, 2012	900,000	=	700,000	+	200,000

[◀ Add Question Here](#)

Question 85 **Multiple Choice** **0 points**

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

**Question** Which one of the following correctly represents one of the basic financial statement models?

- Answer**
- Assets - Liabilities = Net Income
  - Assets + Liabilities = Total Assets
  - Revenues + Expenses = Net Income
  - Beginning Retained Earnings + Net Income - Dividends = Ending Retained Earnings

[◀ Add Question Here](#)

Question 86 **Multiple Choice** **0 points**

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

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

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

[◀ Add Question Here](#)

Question 87 **Multiple Choice** **0 points**

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

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

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

[◀ Add Question Here](#)

Question 88 **Multiple Choice** **0 points**

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

**Question** Bennett Motors is facing the following business decisions. Which decision will **least** likely require financial information?

- Answer**
- A local bank is reviewing the company's loan application.
  - The company is attempting to sell its stock to the public.
  - The labor union representing the company's employees is negotiating a pay raise as part of a new labor agreement.
  - The company's management is deciding whether to detail its vehicles today or tomorrow.

[◀ Add Question Here](#)

Question 89 **Multiple Choice** **0 points**

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

**Question** Which of the following best describes the term "retained earnings" of a company?

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

[◀ Add Question Here](#)

Question 90 **Multiple Choice** **0 points**

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

**Question** Which of the following best describes the term "current assets"?

- Answer**
- The amount of total profits earned by a business since it began operations plus all other resources.

- ✓ The amount of claim that the owners have in the business in the current year.
- ✓ Assets expected to be converted into cash within one year or one operating cycle, whichever is longer.
- The cumulative profits earned by a business less any dividends distributed in the current period.

[◀ Add Question Here](#)

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

Question 91 ▾

**Multiple Choice**

**0 points**

**Question** Which one of the following items is a classification on the Classified Balance Sheet?

- Answer**
- Operating accounts
  - ✓ Stockholders' Equity
  - Revenues and Expenses
  - Net Income and Dividends

[◀ Add Question Here](#)

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

Question 92 ▾

**Multiple Choice**

**0 points**

**Question** Which of the following are Noncurrent assets?

- Answer**
- ✓ Machinery and equipment
  - Accounts receivable
  - Inventories
  - Unearned revenues

[◀ Add Question Here](#)

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

Question 93 ▾

**Multiple Choice**

**0 points**

**Question** Which one of the following items appears on a balance sheet?

- Answer**
- Service revenue
  - ✓ Unearned revenue
  - Dividends
  - Cash flow from operations

[◀ Add Question Here](#)

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

Question 94 ▾

**Multiple Choice**

**0 points**

**Question** Which one of the following financial statements reports an entity's financial position at a specific date?

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

[◀ Add Question Here](#)

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

Question 95 ▾

**Multiple Choice**

**0 points**

**Question** Another term for Short Term Investments is:

- Answer**
- Inventories
  - Accounts Receivable
  - Contributed Capital
  - ✓ Marketable Securities

[◀ Add Question Here](#)

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

Question 96 ▾

**Multiple Choice**

**0 points**

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

- Answer**
- Retained Earnings
  - ✓ Dividends
  - Liquidation of assets
  - Monetary Unit

[◀ Add Question Here](#)

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

Question 97 ▾

**Multiple Choice**

**0 points**

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

- Answer**
- Balance Sheet for the Year Ended June 30, 2013
  - Income Statement at December 31, 2013
  - ✓ Income Statement for the Year Ended December 31, 2013
  - Statement of Retained Earnings at December 31, 2013

[◀ Add Question Here](#)

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

Question 98 ▾

**Multiple Choice**

**0 points**

**Question** Which statement summarizes the results of the company's operations?

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

[◀ Add Question Here](#)

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

Question 99 ▾

**Multiple Choice**

**0 points**

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

- Answer**
- Net Income
  - ✓ Expenses
  - Revenues

Dividends

[Add Question Here](#)

Question 100 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question Bargain Spot Fabrics**

This company's end-of-year balance sheet consisted of the following amounts:

Cash	\$ 75,000	Accounts Receivable	\$250,000
Property, plant & equipment	350,000	Long-term debt	200,000
Capital stock	500,000	Accounts payable	100,000
Retained earnings	?	Inventory	175,000

Refer to Bargain Spot Fabrics. What amount should the company report on its Balance Sheet for *Total Assets*?

- Answer**
- \$550,000
  - \$775,000
  - \$850,000
  - \$950,000

**Correct Feedback** \$75,000 + \$250,000 + \$350,000 + \$175,000 = \$850,000**Incorrect Feedback** \$75,000 + \$250,000 + \$350,000 + \$175,000 = \$850,000[Add Question Here](#)

Question 101 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question Bargain Spot Fabrics**

This company's end-of-year balance sheet consisted of the following amounts:

Cash	\$ 75,000	Accounts Receivable	\$250,000
Property, plant & equipment	350,000	Long-term debt	200,000
Capital stock	500,000	Accounts payable	100,000
Retained earnings	?	Inventory	175,000

Refer to Bargain Spot Fabrics. What is the retained earnings balance at the end of the current year?

- Answer**
- \$50,000
  - \$550,000
  - \$800,000
  - \$850,000

**Correct Feedback** Assets = \$75,000 + \$350,000 + \$250,000 + \$175,000 = \$850,000

Liabilities = \$200,000 + \$100,000 = \$300,000

Stockholders' Equity = \$850,000 - \$300,000 = \$550,000

Retained Earnings = \$550,000 - \$500,000 = \$50,000

**Incorrect Feedback** Assets = \$75,000 + \$350,000 + \$250,000 + \$175,000 = \$850,000

Liabilities = \$200,000 + \$100,000 = \$300,000

Stockholders' Equity = \$850,000 - \$300,000 = \$550,000

Retained Earnings = \$550,000 - \$500,000 = \$50,000

[Add Question Here](#)

Question 102 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question Bay Camera**

The company reported the following items on its financial statements for the year ended December 31, 2013:

Sales	\$780,000	Cost of Sales	\$700,000
Selling, general & administrative expense	20,000	Other Expense	15,000
Dividends	5,000	Income Tax Expense	12,500

Refer to Bay Camera. What is the company's *Net Income* for the current year?

- Answer**
- \$22,500
  - \$32,500
  - \$42,500
  - \$80,000

**Correct Feedback** \$780,000 - \$700,000 - \$20,000 - \$15,000 - \$12,500 = \$32,500**Incorrect Feedback** \$780,000 - \$700,000 - \$20,000 - \$15,000 - \$12,500 = \$32,500[Add Question Here](#)

Question 103 ▾

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question Bay Camera**

The company reported the following items on its financial statements for the year ended December 31, 2013:

Sales	\$780,000	Cost of Sales	\$700,000
Selling, general & administrative expense	20,000	Other Expense	15,000
Dividends	5,000	Income Tax Expense	12,500

Refer to Bay Camera. What amount will be reported as *Retained Earnings* on the Balance Sheet at December 31, 2013, assuming this is the first year of operations?

- Answer**
- \$22,500
  - \$27,500
  - \$42,500
  - Not enough information is provided.

**Correct Feedback** Net Income: \$780,000 - \$700,000 - \$20,000 - \$15,000 - \$12,500 = \$32,500

Retained Earnings: \$32,500 - \$5,000 = \$27,500

**Incorrect Feedback** Net Income: \$780,000 ◦ \$700,000 ◦ \$20,000 ◦ \$15,000 ◦ \$12,500 = \$32,500  
Retained Earnings: \$32,500 ◦ \$5,000 = \$27,500

[◀ Add Question Here](#)

Question 104 **Multiple Choice** 0 points

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

**Question Beard Marine**

The company reported the following information for the year ended December 31, 2013:

Net income	\$100,000
Dividends	6,000
Retained earnings at December 31, 2013	\$120,000

Refer to Beard Marine. What was the balance of Retained Earnings at January 1, 2013?

**Answer**

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

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

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

[◀ Add Question Here](#)

Question 105 **Multiple Choice** 0 points

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

**Question Beard Marine**

The company reported the following information for the year ended December 31, 2013:

Net income	\$100,000
Dividends	6,000
Retained earnings at December 31, 2013	\$120,000

Refer to Beard Marine. What was the economic effect of the dividend payment?

**Answer**

- The dividend reduced net income for 2013.
- The dividend should be added to net income if the company's accounting equation is in balance.
- The dividend reduced total retained earnings.
- The dividends must be paid whenever the company reports net income.

[◀ Add Question Here](#)

Question 106 **Multiple Choice** 0 points

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

**Question** B&B Painting reported the following information for the year ended December 31, 2013.

Revenues	\$2,500,000
Expenses	2,000,000
Retained Earnings at December 31, 2012	100,000
Retained Earnings at December 31, 2013	450,000

How much was paid out in dividends in 2013?

**Answer**

- \$500,000
- \$150,000
- \$350,000
- \$250,000

**Correct Feedback** \$100,000 + \$2,500,000 ◦ \$2,000,000 ◦ X = \$450,000  
X = \$150,000

**Incorrect Feedback** \$100,000 + \$2,500,000 ◦ \$2,000,000 ◦ X = \$450,000  
X = \$150,000

[◀ Add Question Here](#)

Question 107 **Multiple Choice** 0 points

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

**Question** Barr Attorneys reported the following information for the year ended December 31, 2013.

Revenue	\$14,000,000
Expenses	11,500,000
Dividends	1,000,000
Retained Earnings at December 31, 2013	1,750,000

What was the retained earnings balance at December 31, 2012?

**Answer**

- \$ 250,000
- \$2,500,000
- \$1,500,000
- \$ 350,000

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

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

[◀ Add Question Here](#)

Question 108 **Multiple Choice** 0 points

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

**Question** A company had the following balance sheet amounts at the beginning of the year:

Total assets	\$650,000
Total stockholder's equity	250,000

During the year, total assets increased by \$350,000, total liabilities increased by \$100,000, and dividends were paid in the amount of

\$300,000. No other transactions occurred except revenues and expenses. How much is net income for the year?

**Answer**

\$750,000  
 \$650,000  
 \$500,000  
 \$550,000

**Correct Feedback**

Assets:	$\$650,000 + \$350,000 = \$1,000,000$
Liabilities:	$(\$650,000 \text{ o } \$250,000) + \$100,000 = \$500,000$
Stockholders' Equity at Year End:	$\$1,000,000 \text{ o } \$500,000 = \$500,000$
Net Income:	$\$500,000 \text{ o } \$250,000 + 300,000 = \$550,000$

**Incorrect Feedback**

Assets:	$\$650,000 + \$350,000 = \$1,000,000$
Liabilities:	$(\$650,000 \text{ o } \$250,000) + \$100,000 = \$500,000$
Stockholders' Equity at Year End:	$\$1,000,000 \text{ o } \$500,000 = \$500,000$
Net Income:	$\$500,000 \text{ o } \$250,000 + 300,000 = \$550,000$

[Add Question Here](#)

Question 109

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question** On January 1, 2013, a company's balance in retained earnings was \$10,000,000. At December 31, 2013, the balance in retained earnings was \$9,400,000. If the company earned net income of \$440,000 during the year, how much were dividends?

**Answer**

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

**Correct Feedback**  $\$10,000,000 + \$440,000 \text{ o } \$9,400,000 = \$1,040,000$

**Incorrect Feedback**  $\$10,000,000 + \$440,000 \text{ o } \$9,400,000 = \$1,040,000$

[Add Question Here](#)

Question 110

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question** On January 1, 2013, a company's balance in retained earnings was \$275,000. During 2013, the company earned net income of \$23,500 and paid \$11,200 in dividends. Calculate the retained earnings balance at December 31, 2013.

**Answer**

\$263,800  
 \$298,500  
 \$262,700  
 \$287,300

**Correct Feedback**  $\$275,000 + \$23,500 \text{ o } \$11,200 = \$287,300$

**Incorrect Feedback**  $\$275,000 + \$23,500 \text{ o } \$11,200 = \$287,300$

[Add Question Here](#)

Question 111

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question Beaver Tree Service**

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

Refer to Beaver Tree Service. What is the company's net income?

**Answer**

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

**Correct Feedback**  $\$550,000 + X \text{ o } \$100,000 = \$700,000$   
 $X = \$250,000$

**Incorrect Feedback**  $\$550,000 + X \text{ o } \$100,000 = \$700,000$   
 $X = \$250,000$

[Add Question Here](#)

Question 112

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question Beaver Tree Service**

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

Refer to Beaver Tree Service. The company's expenses are:

**Answer**

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

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

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

[Add Question Here](#)

Question 113

Multiple Choice

0 points

[Modify](#)

[Remove](#)

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



<b>Answer</b>	\$9,950,000
	\$1,050,000
	\$2,150,000
	✓ \$8,900,000
<b>Correct Feedback</b>	\$10,500,000 (Revenues) - \$1,600,000 (Net Income) = \$8,900,000 (Expenses)
<b>Incorrect Feedback</b>	\$10,500,000 (Revenues) - \$1,600,000 (Net Income) = \$8,900,000 (Expenses)

[Add Question Here](#)

Question 114 ▾

**Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** Suppose a company reports the following information at December 31, 2013:

Sales	\$15,000,000
Cash	\$ 3,000,000
Unearned Revenue	\$ 400,000
Dividends	\$ 1,000,000
Cost of Sales	\$ 8,500,000

What is the company's Gross Profit?

<b>Answer</b>	\$ 6,100,000
	\$ 5,500,000
	✓ \$ 6,500,000
	\$12,000,000

**Correct Feedback** \$15,000,000 (Sales) - \$8,500,000 (Cost of Sales) = \$6,500,000 (Gross Profit)**Incorrect Feedback** \$15,000,000 (Sales) - \$8,500,000 (Cost of Sales) = \$6,500,000 (Gross Profit)[Add Question Here](#)

Question 115 ▾

**Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** If a company has assets of \$5,000,000, liabilities of \$3,000,000, and retained earnings of \$1,200,000, how much is total stockholders' equity?

<b>Answer</b>	\$ 800,000
	✓ \$2,000,000
	\$3,800,000
	\$1,800,000

**Correct Feedback** \$5,000,000 (Assets) - \$3,000,000 (Liabilities) = \$2,000,000 (Stockholders' Equity)**Incorrect Feedback** \$5,000,000 (Assets) - \$3,000,000 (Liabilities) = \$2,000,000 (Stockholders' Equity)[Add Question Here](#)

Question 116 ▾

**Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** Calculate total sales for a company that reported a net loss of \$1,500,000 and total expenses of \$2,900,000.

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

**Correct Feedback** \$2,900,000 Total Expenses + (\$1,500,000) Net Loss = \$1,400,000 Total Revenues**Incorrect Feedback** \$2,900,000 Total Expenses + (\$1,500,000) Net Loss = \$1,400,000 Total Revenues[Add Question Here](#)

Question 117 ▾

**Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** What is the primary objective of financial reporting?

<b>Answer</b>	To help investors make credit decisions.
	To help management assess cash flows.
	To protect users from fraudulent financial information.
	✓ To provide useful information for decision making

[Add Question Here](#)

Question 118 ▾

**Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** "Economic resources" are known as

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

[Add Question Here](#)

Question 119 ▾

**Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** External users of financial information

<b>Answer</b>	Need detailed records of the business to make informed decisions.
	Are primarily responsible for the preparation of financial statements.
	✓ Rely on the financial statements to help make informed decisions.
	Rely on management to tell them whether the company is a good investment

[Add Question Here](#)

Question 120 ▾

**Multiple Choice****0 points**[Modify](#)[Remove](#)**Question** Net Income appears on which financial statement(s)?

<b>Answer</b>	Balance Sheet only
	Income Statement only
	Both the Balance Sheet and the Income Statement



✓ The Income Statement, Statement of Cash Flows using the indirect method and the Statement of Retained Earnings

[◀ Add Question Here](#)

Question 121 ▾ **Multiple Choice** **0 points**

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

**Question Benchmark Surveyors**

The following balances are provided:

Cash	\$234,000	Accounts Payable	\$ 97,000
Inventories	121,000	Notes Payable (due 2018)	211,000
Land	453,000	Accounts Receivable	46,000

Refer to Benchmark Surveyors. Calculate Current Assets.

**Answer** \$498,000

✓ \$401,000

\$854,000

\$709,000

**Correct Feedback** (\$234,000 Cash + \$46,000 Accounts Receivable + \$121,000 Inventory = \$401,000)

**Incorrect Feedback** (\$234,000 Cash + \$46,000 Accounts Receivable + \$121,000 Inventory = \$401,000)

[◀ Add Question Here](#)

Question 122 ▾ **Multiple Choice** **0 points**

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

**Question Benchmark Surveyors**

The following balances are provided:

Cash	\$234,000	Accounts Payable	\$ 97,000
Inventories	121,000	Notes Payable (due 2018)	211,000
Land	453,000	Accounts Receivable	46,000

Refer to Benchmark Surveyors. Calculate Current Liabilities.

**Answer** ✓ \$ 97,000

\$211,000

\$354,000

\$143,000

**Correct Feedback** (\$97,000 Accounts Payable)

**Incorrect Feedback** (\$97,000 Accounts Payable)

[◀ Add Question Here](#)

Question 123 ▾ **Multiple Choice** **0 points**

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

**Question** Which one of the following items is reported as a current stockholders' equity on a classified balance sheet?

**Answer**

- Net Income
- Accounts Payable
- Land
- ✓ Common Stock

[◀ Add Question Here](#)

Question 124 ▾ **Multiple Choice** **0 points**

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

**Question** Barnes Restaurant reports the following amounts:

Cash	\$125,000	Inventory	\$215,000
Land	275,000	Unearned Revenue	117,000
Equipment	350,000	Common Stock	300,000

Calculate Current Assets.

**Answer** \$457,000

\$615,000

\$125,000

✓ \$340,000

**Correct Feedback** \$125,000 Cash + \$215,000 Inventory = \$340,000

**Incorrect Feedback** \$125,000 Cash + \$215,000 Inventory = \$340,000

[◀ Add Question Here](#)

Question 125 ▾ **Multiple Choice** **0 points**

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

**Question** Which of the following accounts are normally reported as current liabilities on a classified balance sheet?

**Answer**

- Accounts Payable and Prepaid Insurance
- Interest Payable and Interest Receivable
- ✓ Income Taxes Payable and Salaries Payable
- Capital Stock and Accounts Payable

[◀ Add Question Here](#)

Question 126 ▾ **Multiple Choice** **0 points**

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

**Question** Which one of the following is **not** a major category for long-term assets?

**Answer**

- Intangibles
- Property, Plant, and Equipment
- ✓ Inventory
- Patents

[◀ Add Question Here](#)Question 127 ▾ **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** Which of the following would **not** be considered to be an intangible asset?

**Answer**

- Franchises
- Copyrights
- ✓ Investments
- Trademarks

[◀ Add Question Here](#)Question 128 ▾ **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** If assets are expected to be realized in cash, sold, or consumed within the normal operating cycle of a business or within one year (if the operating cycle is shorter than one year), how are they reported on a classified balance sheet?

**Answer**

- Property, Plant, and Equipment
- ✓ Current Assets
- Intangible Assets
- Current Liabilities

[◀ Add Question Here](#)Question 129 ▾ **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** Which set of items below are current assets?

**Answer**

- Accounts Receivable, Net Income, Inventory, and Dividends
- Cash, Accounts Receivable, Capital Stock, and Sales
- Net Income, Cash, Office Supplies, and Inventory
- ✓ Cash, Accounts Receivable, Inventory, and Office Supplies

[◀ Add Question Here](#)Question 130 ▾ **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** A non-classified balance sheet typically does **not** have a distinction between which of the following items?

**Answer**

- Assets and Liabilities
- ✓ Current and Noncurrent items
- Liabilities and Stockholders' Equity
- Resources invested by the owners and amounts borrowed from creditors

[◀ Add Question Here](#)Question 131 ▾ **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question** For the most recent year, a company's current ratio was significantly lower than its industry average. What is the **best** possible explanation for this situation?

**Answer**

- The company's competitors were profitable.
- The company's liquidity has improved.
- The company has less equity than the rest of the industry.
- ✓ The company's liquidity is worse than the rest of the industry.

[◀ Add Question Here](#)Question 132 ▾ **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question Bass Tours**

The following balances were taken from the company's records:

Inventory	\$380,000	Accounts Receivable	\$190,000
Land	290,000	Accounts Payable	180,000
Cash	129,000	Unearned Revenue	110,000
Prepaid Rent	33,000	Common Stock	312,000
Retained Earnings	220,000	Long-term Notes Payable	200,000

Refer to Bass Tours. Calculate the total current assets.

**Answer**

- \$ 842,000
- \$1,022,000
- ✓ \$ 732,000
- \$ 842,000

**Correct Feedback** \$129,000 Cash + \$190,000 Accounts Receivable + \$380,000 Inventory + \$33,000 Prepaid Rent = \$732,000**Incorrect Feedback** \$129,000 Cash + \$190,000 Accounts Receivable + \$380,000 Inventory + \$33,000 Prepaid Rent = \$732,000[◀ Add Question Here](#)Question 133 ▾ **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question Bass Tours**

The following balances were taken from the company's records:

Inventory	\$380,000	Accounts Receivable	\$190,000
Land	290,000	Accounts Payable	180,000
Cash	129,000	Unearned Revenue	110,000
Prepaid Rent	33,000	Common Stock	312,000
Retained Earnings	220,000	Long-term Notes Payable	200,000

Refer to Bass Tours. Calculate the current ratio.

**Answer**

- 3.00 to 1
- 2.75 to 1
- ✓ 2.52 to 1

2.10 to 1

**Correct Feedback**  $(\$129,000 \text{ Cash} + \$190,000 \text{ Accounts Receivable} + \$380,000 \text{ Inventory} + \$33,000 \text{ Prepaid Rent}) / (\$180,000 \text{ Accounts Payable} + \$110,000 \text{ Unearned Revenue}) = 2.52 \text{ to } 1$

**Incorrect Feedback**  $(\$129,000 \text{ Cash} + \$190,000 \text{ Accounts Receivable} + \$380,000 \text{ Inventory} + \$33,000 \text{ Prepaid Rent}) / (\$180,000 \text{ Accounts Payable} + \$110,000 \text{ Unearned Revenue}) = 2.52 \text{ to } 1$

[Add Question Here](#)

Question 134

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question Bass Tours**

The following balances were taken from the company's records:

Inventory	\$380,000	Accounts Receivable	\$190,000
Land	290,000	Accounts Payable	180,000
Cash	129,000	Unearned Revenue	110,000
Prepaid Rent	33,000	Common Stock	312,000
Retained Earnings	220,000	Long-term Notes Payable	200,000

Refer to Bass Tours. If the average current ratio for similar companies is 2.0 to 1, what does this tell you about this company's liquidity?

**Answer**  The company is more liquid than its competitors.  
 The company has more long-term assets than its competitors.  
 The company is bankrupt.  
 The company is more profitable than its competitors.

[Add Question Here](#)

Question 135

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question** If a company has current assets of \$2,100,000 and current liabilities of \$500,000, calculate its working capital.

**Answer**  \$2,100,000  
 \$2,600,000  
 \$1,600,000  
 \$ 500,000

**Correct Feedback**  $\$2,100,000 \text{ current assets} - \$500,000 \text{ current liabilities} = \$1,600,000.$ **Incorrect Feedback**  $\$2,100,000 \text{ current assets} - \$500,000 \text{ current liabilities} = \$1,600,000.$ [Add Question Here](#)

Question 136

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question** Working capital is calculated by which of the following?

**Answer**  Current assets divided by current liabilities  
 Total assets minus total liabilities  
 Current assets minus current liabilities  
 Current assets plus current liabilities

[Add Question Here](#)

Question 137

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question** A company has current assets of \$100,000, total assets of \$250,000, current liabilities of \$20,000, and long-term liabilities of \$50,000. How much of its existing cash can the company use to acquire equipment without allowing its current ratio to decline below 2.0 to 1?

**Answer**  \$ 40,000  
 \$150,000  
 \$180,000  
 \$ 60,000

**Correct Feedback**  $\$40,000 / 20,000 = 2.0 \text{ to } 1$   
 $\$100,000 \text{ total assets} - \$40,000 = \$60,000$ **Incorrect Feedback**  $\$40,000 / 20,000 = 2.0 \text{ to } 1$   
 $\$100,000 \text{ total assets} - \$40,000 = \$60,000$ [Add Question Here](#)

Question 138

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question** A company increased its dollar amount of working capital over the past several years. Which one of the following measures should be used to further evaluate the company's short-run liquidity?

**Answer**  The Asset Ratio  
 An analysis of the company's long-term debt  
 An analysis of the return on stockholders' equity  
 The Current Ratio

[Add Question Here](#)

Question 139

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question** Which financial statement reports information helpful in assessing working capital?

**Answer**  Balance Sheet  
 Capital Statement  
 Statement of Retained Earnings  
 Statement of Cash Flows

[Add Question Here](#)

Question 140

Multiple Choice

0 points

[Modify](#)[Remove](#)**Question** Barrett Oil Company reported the following balances as of December 31, 2013:

Accounts Receivable	\$125,000	Unearned Revenue	\$ 5,000
Cash	150,000	Notes Payable (due in 6 months)	115,000

Land	200,000	Accounts Payable	70,000
Building	400,000	Equipment	165,000
Inventories	105,000	Notes Payable (due 07/01/2020)	600,000

What is the company's current ratio?

- Answer**
- .48 to 1
  - 2.00 to 1
  - 2.55 to 1
  - 2.86 to 1

**Correct Feedback**  $(\$125,000 \text{ Accounts Receivable} + \$150,000 \text{ Cash} + \$105,000 \text{ Inventories}) / (\$70,000 \text{ Accounts Payable} + \$5,000 \text{ Unearned Revenue} + \$115,000 \text{ Notes Payable--due 6 months}) = 2.00 \text{ to } 1$

**Incorrect Feedback**  $(\$125,000 \text{ Accounts Receivable} + \$150,000 \text{ Cash} + \$105,000 \text{ Inventories}) / (\$70,000 \text{ Accounts Payable} + \$5,000 \text{ Unearned Revenue} + \$115,000 \text{ Notes Payable--due 6 months}) = 2.00 \text{ to } 1$

[Add Question Here](#)

Question 141

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question** If the current ratio is 2 to 1 and total assets equal \$200,000, how much is working capital?

- Answer**
- \$0
  - \$100,000
  - \$200,000
  - \$300,000

**Correct Feedback**  $\$200,000 \text{ current assets} / 2 = \$100,000 \text{ in current liabilities. } \$200,000 \text{ current assets} - \$100,000 \text{ current liabilities} = \$100,000$

**Incorrect Feedback**  $\$200,000 \text{ current assets} / 2 = \$100,000 \text{ in current liabilities. } \$200,000 \text{ current assets} - \$100,000 \text{ current liabilities} = \$100,000$

[Add Question Here](#)

Question 142

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question** For which of the following is the working capital and current ratio is most useful?

- Answer**
- In evaluating a company's liquidity
  - In evaluating a company's solvency
  - In evaluating a company's profitability
  - In evaluating a company's revenues

[Add Question Here](#)

Question 143

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question** Liquidity

- Answer**
- measures the ability of the firm to pay financial obligations as they become due
  - can be measured in terms of working capital
  - can be assessed by the current ratio
  - All of the above

[Add Question Here](#)

Question 144

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question** Which of the following would appear on an income statement?

- Answer**
- Unearned Revenue
  - Cost of Sales
  - Retained Earnings
  - Dividends

[Add Question Here](#)

Question 145

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question** The Income Statement shows:

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

[Add Question Here](#)

Question 146

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question** Which of the following items would not be reported on a multiple-step income statement after income from operations?

- Answer**
- Income taxes
  - Interest income
  - Selling expenses
  - Interest expense

[Add Question Here](#)

Question 147

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question** A question frequently asked by investors is, "How much debt does this company have?" Which financial statement answers this question?

- Answer**
- Single step income statement
  - Cash flow statement
  - Multiple-step income statement
  - Classified balance sheet

[Add Question Here](#)

Question 148

Multiple Choice

0 points

[Modify](#)

[Remove](#)

**Question** On a multiple-step income statement, operating income results from subtracting total operating expenses from which of the following amounts?

**Answer**

- Gross margin
- Cost of goods sold
- Income before taxes
- Net sales

[◀ Add Question Here](#)

Question 149 ▾

**Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question** The list below contains several items that appear on a multiple-step income statement.

1. Other income and expense
2. Income before income taxes
3. Net Income
4. Operating expenses
5. Gross margin
6. Net sales
7. Income from operations

Select the choice that lists the items in the order they would appear on a multiple-step income statement.

**Answer**

- 6, 5, 4, 7, 1, 2, 3
- 7, 6, 1, 4, 2, 3, 5
- 6, 5, 4, 1, 7, 2, 3
- 6, 7, 4, 1, 2, 3, 5

[◀ Add Question Here](#)

Question 150 ▾

**Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question Bellweather Times**

The company reports the following balances:

Other Revenue	\$180,000	General and Administrative Expense	\$320,000
Dividends paid	\$220,000	Operating Revenues	\$700,000
Selling Expenses	\$280,000	Income Tax Expense	\$60,000

Refer to Bellweather Times. What is the company's income from operations?

**Answer**

- \$280,000
- \$220,000
- \$100,000
- \$40,000

**Correct Feedback** \$700,000 Operating Revenues  $\ominus$  \$320,000 General & Administrative Expenses  $\ominus$  \$280,000 Selling Expenses = \$100,000

**Incorrect Feedback** \$700,000 Operating Revenues  $\ominus$  \$320,000 General & Administrative Expenses  $\ominus$  \$280,000 Selling Expenses = \$100,000

[◀ Add Question Here](#)

Question 151 ▾

**Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question Bellweather Times**

The company reports the following balances:

Other Revenue	\$180,000	General and Administrative Expense	\$320,000
Dividends paid	\$220,000	Operating Revenues	\$700,000
Selling Expenses	\$280,000	Income Tax Expense	\$60,000

Refer to Bellweather Times. What is the company's Net Income?

**Answer**

- \$280,000
- \$220,000
- \$100,000
- \$40,000

**Correct Feedback** \$700,000 Operating Revenues  $\ominus$  \$320,000 General & Administrative Expenses  $\ominus$  \$280,000 Selling Expenses = \$100,000 + \$180,000 Other Revenues (Expenses)  $\ominus$  \$60,000 Income Taxes = \$220,000

**Incorrect Feedback** \$700,000 Operating Revenues  $\ominus$  \$320,000 General & Administrative Expenses  $\ominus$  \$280,000 Selling Expenses = \$100,000 + \$180,000 Other Revenues (Expenses)  $\ominus$  \$60,000 Income Taxes = \$220,000

[◀ Add Question Here](#)

Question 152 ▾

**Multiple Choice**

**0 points**

[Modify](#)

[Remove](#)

**Question Bellweather Times**

The company reports the following balances:

Other Revenue	\$180,000	General and Administrative Expense	\$320,000
Dividends paid	\$220,000	Operating Revenues	\$700,000
Selling Expenses	\$280,000	Income Tax Expense	\$60,000

Refer to Bellweather Times. By what amount will net income on a single-step income statement differ from net income on a multiple-step income statement if the company prepares both formats?

**Answer**

- \$0
- \$2,000
- \$6,000
- \$8,000

[◀ Add Question Here](#)



- Question 153 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** The Earnings Per Share measure appears on which of the following financial statements?
- Answer**
- Statement of Cash Flows
  - Retained Earnings Statement
  - Income Statement
  - Balance Sheet
- [Add Question Here](#)
- 
- Question 154 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** A company reported the following income statement amounts:
- |                    | <u>2013</u> | <u>2012</u> |
|--------------------|-------------|-------------|
| Sales revenues     | \$950,000   | \$800,000   |
| Operating expenses | \$700,000   | \$550,000   |
| Income taxes       | \$100,000   | 100,000     |
- Which of the following best describes the company's performance?
- Answer**
- The company's operating profit as a percentage of operating revenues decreased.
  - The company has become more profitable.
  - The increase in operating revenues increased the company's net income.
  - The operating expenses as a percentage of operating revenues remained the same.
- Correct Feedback** Operating profit / revenue: 2012:  $(\$800,000 - \$550,000) / \$800,000 = .31$   
2013:  $(\$950,000 - \$700,000) / \$950,000 = .26$
- Incorrect Feedback** Operating profit / revenue: 2012:  $(\$800,000 - \$550,000) / \$800,000 = .31$   
2013:  $(\$950,000 - \$700,000) / \$950,000 = .26$
- [Add Question Here](#)
- 
- Question 155 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** Which one of the following equations represents the Statement of Retained Earnings activity?
- Answer**
- Beginning retained earnings + net income + dividends = ending retained earnings
  - Beginning retained earnings + cash inflows - cash outflows = ending retained earnings
  - Beginning retained earnings + dividends - net income = ending retained earnings
  - Beginning retained earnings + net income - dividends = ending retained earnings
- [Add Question Here](#)
- 
- Question 156 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** Been There Used Furniture
- Been There Used Furniture began operation on January 1, 2013, with an initial investment of \$100,000 from each of its five stockholders. During the year, the company had net income of \$200,000 and paid dividends of \$50,000.
- Refer to Been There Used Furniture. Calculate the retained earnings balance at December 31, 2013.
- Answer**
- \$150,000
  - \$200,000
  - \$500,000
  - \$650,000
- Correct Feedback** \$ -0- Beginning Balance + \$200,000 Net Income - 50,000 Dividends = \$150,000
- Incorrect Feedback** \$ -0- Beginning Balance + \$200,000 Net Income - 50,000 Dividends = \$150,000
- [Add Question Here](#)
- 
- Question 157 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** Been There Used Furniture
- Been There Used Furniture began operation on January 1, 2013, with an initial investment of \$100,000 from each of its five stockholders. During the year, the company had net income of \$200,000 and paid dividends of \$50,000.
- Refer to Been There Used Furniture. The dividends for the year
- Answer**
- Increase the amount of capital stock reported by the company
  - Are part of the company's operating expense
  - Are reported on the Statement of Retained Earnings
  - Are reported on the Income Statement.
- [Add Question Here](#)
- 
- Question 158 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** Been There Used Furniture
- Been There Used Furniture began operation on January 1, 2013, with an initial investment of \$100,000 from each of its five stockholders. During the year, the company had net income of \$200,000 and paid dividends of \$50,000.
- Refer to Been There Used Furniture. If the company's revenues were \$500,000 for the year ended December 31, 2013, how much were total expenses?
- Answer**
- \$300,000
  - \$250,000
  - \$350,000
  - \$800,000
- Correct Feedback** \$500,000 Revenues - \$200,000 Net Income = \$300,000
- Incorrect Feedback** \$500,000 Revenues - \$200,000 Net Income = \$300,000
- [Add Question Here](#)
- 
- Question 159 **Multiple Choice** **0 points** [Modify](#) [Remove](#)



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

- Answer**
- Operating activities
  - Investing activities
  - ✓ Business activities
  - Financing activities

[◀ Add Question Here](#)

Question 160 ▾ **Multiple Choice** **0 points**

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

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

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

[◀ Add Question Here](#)

Question 161 ▾ **Multiple Choice** **0 points**

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

**Question** As used in accounting, the "Notes to the Financial Statements" should be:

- Answer**
- Shown at the bottom of the Income Statement.
  - Excluded, as they are not an integral part of the financial statements.
  - ✓ Included as an integral part of the financial statements.
  - Considered an optional part of the financial statements.

[◀ Add Question Here](#)

Question 162 ▾ **Multiple Choice** **0 points**

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

**Question** Which of the following items will be found in a corporate annual report?

- Answer**
- Industry standards
  - ✓ Notes to the financial statements
  - Selected financial data from non-competitor companies
  - Management's statement that the auditors are responsible for the financial statements.

[◀ Add Question Here](#)

Question 163 ▾ **Multiple Choice** **0 points**

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

**Question** Which one of the following items is **least** likely to be found in a corporate annual report?

- Answer**
- Notes to the Financial Statements
  - ✓ Internal Budget Reports
  - Report of the Independent Accountants
  - Management's Discussion and Analysis

[◀ Add Question Here](#)

Question 164 ▾ **Multiple Choice** **0 points**

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

**Question** Management's Discussion and Analysis:

- Answer**
- Is a report of the independent accountants
  - Can be substituted for the notes to the financial statements.
  - ✓ Provides a discussion and explanation of various items reported in the financial statements.
  - Provides assurances that the auditors are responsible for the financial statements.

[◀ Add Question Here](#)

Question 165 ▾ **Multiple Choice** **0 points**

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

**Question** In which section of the annual report would you find: "The financial statements, in our opinion, present fairly the financial position, operating results, and cash flows, in conformity with generally accepted accounting principles"?

- Answer**
- Management report
  - Notes to the Financial Statements
  - Management's Discussion and Analysis
  - ✓ Report of the Independent Accountants

[◀ Add Question Here](#)

Question 166 ▾ **Multiple Choice** **0 points**

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

**Question** Which of the following represents one of the purposes of the Auditor's Report?

- Answer**
- To provide a place for management to justify questionable items in the statements.
  - To provide comparative ratios for the company's financial data
  - ✓ To provide the CPA's opinion of the fairness of the financial statements.
  - To satisfy the need for full disclosure of all the facts relevant to a company's results and financial position

[◀ Add Question Here](#)

Question 167 ▾ **Essay** **0 points**

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

#### Question Backus Tractor Sales

The accountant prepared the following list of account balances from the company's records for the year ended December 31, 2013.

Sales Revenue	\$1,650,000	Cash	\$300,000
Accounts Receivable	140,000	Selling Expenses	440,000
Equipment	420,000	Common Stock	170,000
Accounts Payable	120,000	Interest Income	30,000
Salaries & Wages Expense	400,000	Cost of Sales	510,000
Inventories	220,000	Prepaid Expenses	20,000
Income Taxes Payable	50,000	Income Taxes Expense	180,000
Notes Payable	200,000	Retained Earnings	?

Determine the following amounts for Backus Tractor Sales.

- A) Current Assets at the end of 2013  
Total Assets at the end of 2013
- B) Current Liabilities at the end of 2013
- C) What parties have a claim on the company's assets? Explain your answer in the terms of the accounting equation.

- Answer A)** Current Assets = \$680,000  
(\$300,000 Cash + \$140,000 Accounts Receivable + \$220,000 Inventories + 20,000 Prepaid Expenses = \$680,000)
- Total Assets = \$1,100,000  
(\$300,000 Cash + \$140,000 Accounts Receivable + \$220,000 Inventories + \$20,000 Prepaid Expenses + \$420,000 Equipment)
- B) Current Liabilities = \$370,000  
(\$120,000 Accounts Payable + \$50,000 Income Taxes Payable + \$200,000 Notes Payable = \$370,000)
- C) Both the creditors and the owners have a claim on the assets of the corporation. The creditors have their claim arising from the liabilities of the corporation, while the owners have a claim through the stockholders' equity.

[◀ Add Question Here](#)

Question 168 ▾

Essay

0 points

[Modify](#)

[Remove](#)

#### Question Backus Tractor Sales

The accountant prepared the following list of account balances from the company's records for the year ended December 31, 2013.

Sales Revenue	\$1,650,000	Cash	\$300,000
Accounts Receivable	140,000	Selling Expenses	440,000
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Inventories	220,000	Prepaid Expenses	20,000
Income Taxes Payable	50,000	Income Taxes Expense	180,000
Notes Payable	200,000	Retained Earnings	?

Determine the following amounts for Backus Tractor Sales:

- A) The balance of Retained Earnings at the end of 2013.
- B) The total stockholders' equity at the end of 2013.
- C) Name the two events that might cause stockholders' equity to increase.

- Answer A)** \$560,000  
(\$1,100,000 Total Assets - \$370,000 Total Liabilities - \$170,000 Common Stock = \$560,000)
- B) \$730,000  
(\$1,100,000 Total Assets - \$370,000 Total Liabilities = \$730,000)  
OR  
(\$170,000 Common Stock + \$560,000 Retained Earnings = \$730,000)
- C) Stockholders' Equity can increase when common stock is issued to investors. It also can increase through increases to retained earnings or the net income of the business is greater than any dividends paid to the shareholders.

[◀ Add Question Here](#)

Question 169 ▾

Essay

0 points

[Modify](#)

[Remove](#)

#### Question Backus Tractor Sales

The accountant prepared the following list of account balances from the company's records for the year ended December 31, 2013.

Sales Revenue	\$1,650,000	Cash	\$300,000
Accounts Receivable	140,000	Selling Expenses	440,000
Equipment	420,000	Common Stock	170,000
Accounts Payable	120,000	Interest Income	30,000
Salaries & Wages Expense	400,000	Cost of Sales	510,000
Inventories	220,000	Prepaid Expenses	20,000
Income Taxes Payable	50,000	Income Taxes Expense	180,000
Notes Payable	200,000	Retained Earnings	?

Determine the following amounts for Backus Tractor Sales:

- A) The total revenues for 2013.
- B) The total expenses for 2013.
- C) What is the purpose of the Income Statement?
- D) Is this company profitable? Explain your answer.
- E) Is this the first year of operations for this company? Explain your answer.
- Answer A)** \$1,680,000  
(\$1,650,000 Sales Revenue + \$30,000 Interest Income = \$1,680,000)
- B) \$1,530,000  
(\$510,000 Cost of Sales + \$400,000 Salaries & Wages Expense + \$440,000 Selling Expenses + \$180,000 Income Taxes Expense = \$1,530,000)
- C) The purpose of the Income Statement is to provide information regarding the revenues and expenses of the entity. The difference shows the profitability of the company for a particular period of time.
- D) The company had net income for the period of \$150,000. Since revenues exceeded expenses for the period, the company would be considered profitable.

- E) This would not be the first year of operations for this company. The reasons for this are that the ending Retained Earnings balance is greater than the net income of \$150,000. Since the ending balance of Retained Earnings is \$560,000, and Net Income for the period was \$150,000 as well as apparently no dividends being paid to the stockholders during the year, the company began the year with a balance of \$410,000 (\$560,000 - \$150,000) in Retained Earnings.

[Add Question Here](#)

Question 170

Essay

0 points

[Modify](#)

[Remove](#)

### Question Backus Tractor Sales

The accountant prepared the following list of account balances from the company's records for the year ended December 31, 2013.

Sales Revenue	\$1,650,000	Cash	\$300,000
Accounts Receivable	140,000	Selling Expenses	440,000
Equipment	420,000	Common Stock	170,000
Accounts Payable	120,000	Interest Income	30,000
Salaries & Wages Expense	400,000	Cost of Sales	510,000
Inventories	220,000	Prepaid Expenses	20,000
Income Taxes Payable	50,000	Income Taxes Expense	180,000
Notes Payable	200,000	Retained Earnings	?

Prepare an Income Statement for Backus Tractor Sales in good form.

Answer

Backus Tractor Sales		
Income Statement		
For the Year Ended December 31, 2013		
Revenues:		
Sales revenue	\$1,650,000	
Interest income	30,000	\$1,680,000
Expenses:		
Cost of sales	\$ 510,000	
Salaries & wages expense	400,000	
Selling expenses	440,000	
Income taxes expense	180,000	1,530,000
Net income		\$ 150,000

[Add Question Here](#)

Question 171

Essay

0 points

[Modify](#)

[Remove](#)

### Question Backus Tractor Sales

The accountant prepared the following list of account balances from the company's records for the year ended December 31, 2013.

Sales Revenue	\$1,650,000	Cash	\$300,000
Accounts Receivable	140,000	Selling Expenses	440,000
Equipment	420,000	Common Stock	170,000
Accounts Payable	120,000	Interest Income	30,000
Salaries & Wages Expense	400,000	Cost of Sales	510,000
Inventories	220,000	Prepaid Expenses	20,000
Income Taxes Payable	50,000	Income Taxes Expense	180,000
Notes Payable	200,000	Retained Earnings	?

Prepare a Balance Sheet for Backus Tractor Sales in good form.

Answer

Backus Tractor Sales			
Balance Sheet			
December 31, 2013			
<b>Assets</b>		<b>Liabilities &amp; Stockholders' Equity</b>	
Cash	\$ 300,000	Accounts payable	\$ 120,000
Accounts receivable	140,000	Income taxes payable	50,000
Inventories	220,000	Notes payable	200,000
Prepaid expenses	20,000	Common stock	170,000
Equipment	420,000	Retained Earnings	560,000
Total Assets	\$1,100,000	Total Liabilities & Stockholders' Equity	\$1,100,000

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Question 172

Essay

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### Question Ben & Terry's Ice Cream

The accountant prepared the following list from the company's accounting records for the year ended December 31, 2013:

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

Determine the following amounts for Ben & Terry's Ice Cream.

- A) Total Assets at the end of 2013.  
 B) Total Liabilities at the end of 2013.  
 C) Total Equity at the end of 2013.

Answer A) \$1,247,000

(\$77,000 Cash + \$170,000 Accounts Receivable + \$200,000 Inventories + \$50,000 Prepaid Expense + \$750,000 Land = \$1,247,000)

- B) \$540,000  
(\$50,000 Accounts Payable + \$450,000 Notes Payable + \$40,000 Salaries Payable = \$540,000)
- C) \$707,000  
(\$1,247,000 Total Assets - \$540,000 Total Liabilities = \$707,000)

[Add Question Here](#)

Question 173

Essay

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**Question Ben & Terry's Ice Cream**

The accountant prepared the following list from the company's accounting records for the year ended December 31, 2013:

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

Determine the following amounts for Ben & Terry's Ice Cream:

- A) Total Revenues for 2013.
  - B) Total Expenses for 2013.
  - C) Net Income for 2013.
- Answer A)** \$1,005,000  
(\$955,000 Sales Revenue + \$50,000 Interest Income = \$1,005,000)
- B) \$905,000  
(\$700,000 Cost of Sales + \$140,000 Salary Expense + \$20,000 Income Tax Expense + \$45,000 Selling Expense = \$905,000)
- C) \$100,000  
(\$1,005,000 Total Revenue - \$905,000 Total Expenses = \$100,000)

[Add Question Here](#)

Question 174

Essay

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**Question Ben & Terry's Ice Cream**

The accountant prepared the following list from the company's accounting records for the year ended December 31, 2013:

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

Using good form, prepare an income statement for Ben & Terry's Ice Cream.

**Answer**

Ben & Terry's Ice Cream			
Income Statement			
For the Year Ended December 31, 2013			
<b>Revenues:</b>			
Sales Revenue		\$955,000	
Interest Income		50,000	\$1,005,000
<b>Expenses:</b>			
Cost of Sales		\$700,000	
Salary Expense		140,000	
Selling Expense		45,000	
Income tax Expense		20,000	905,000
Net Income			\$ 100,000

[Add Question Here](#)

Question 175

Essay

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**Question Ben & Terry's Ice Cream**

The accountant prepared the following list from the company's accounting records for the year ended December 31, 2013:

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

Using good form, prepare a Balance Sheet for Ben & Terry's Ice Cream.

**Answer**

Ben & Terry's Ice Cream	
Balance Sheet	

As of December 31, 2013			
Assets		Liabilities & Owners' Equity	
Cash	\$ 77,000	Accounts Payable	\$ 50,000
Accounts Receivable	170,000	Salaries Payable	40,000
Inventory	200,000	Notes Payable	450,000
Prepaid Expenses	50,000	Common Stock	400,000
Land	750,000	Retained Earnings	307,000
Total Assets	\$1,247,000	Total Liabilities & Owners' Equity	
		Equity	\$1,247,000

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Question 176 ▾ Essay

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**Question** Dunn, Inc., started the year with total assets of \$1,400,000 and total liabilities of \$240,000. Net income for the year is \$1,000,000 and dividends declared and paid during the year are \$450,000.

- A) What is the amount of Dunn's Total Stockholders' Equity at the end of the year?
- B) Could Dunn have paid additional dividends during the year? Explain your answer.

**Answer A)** \$1,710,000  
 (\$1,400,000 Total Assets at the beginning of the year  $\ominus$  \$240,000 Total Liabilities at beginning of the year = \$1,160,000 Total Stockholders' Equity at the beginning of the year)  
 (\$1,160,000 Total Stockholders' Equity at the beginning of the year + \$1,000,000 Net Income for the year  $\ominus$  \$450,000 Dividends = \$1,710,000)

- B) Yes. Assuming the company has enough cash to do so, additional dividends can be paid. Net income exceeded the amount of dividends paid by \$550,000 (\$1,000,000  $\ominus$  \$450,000), so the amount paid could have been increased. Also the company has total positive retained earnings.

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Question 177 ▾ Essay

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**Question** A certain company started business on January 1, 2012 with assets of \$1,000,000 and stockholders' equity of \$565,000. By the end of the year, assets increased by \$100,000 and liabilities decreased by \$150,000. Other than net income or loss, the only change in stockholders' equity was dividends of \$50,000.

- A) What was the amount total stockholders' equity at the end of the year?
- B) What was the amount net income or net loss for the year?

Answer	A)	Assets		Liabilities		Stockholders' Equity
		Beginning of year	\$1,000,000	\$435,000		\$565,000
		Change during year	<u>+100,000</u>	<u>-150,000</u>		<u>+250,000</u>
		End of year	\$1,100,000	= 285,000		\$815,000
	B)	Change in equity	\$ 250,000			
		Add: Dividends	<u>50,000</u>			
		Net Income	<u>\$ 300,000</u>			

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Question 178 ▾ Essay

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**Question** Presented below are selected data from the balance sheet:

Current assets	\$250,000
Property, plant & equipment	700,000
Other assets	???
Current liabilities	200,000
Total Long-term debt	500,000
Total Stockholders' equity	275,000

- A) Determine the amount of "Other assets."  
 (Hint: you must use the accounting equation concept to determine your answer.)
- B) How much of the company is financed by creditors? How much is financed by the owners?

**Answer A)** \$25,000  
 (\$200,000 Current liabilities + \$500,000 Long-term debt + \$275,000 Stockholders' equity = \$975,000 Total Assets)  
 (\$975,000 Total Assets  $\ominus$  \$250,000 Current assets  $\ominus$  \$700,000 Property, plant & equipment = \$25,000)

- B) Amount of financing by creditors: \$700,000  
 (\$200,000 Current liabilities + \$500,000 Long-term debt = \$700,000)

Amount of financing by owners': \$275,000  
 (\$275,000 Stockholders' equity)

[Add Question Here](#)

Question 179 ▾ Essay

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**Question** Presented below are selected data from the accounting records for 2013:

Sales	\$900,000
Income tax expense	80,000
Cost of Sales	550,000
Operating expenses	150,000
Dividends	75,000

- A) Calculate the net income or loss for the year.
- B) Did the company's financial position improve or deteriorate during the year? Explain.
- C) Is the company profitable? Explain.

**Answer A)** \$120,000  
 (\$900,000 Sales  $\ominus$  \$550,000 Cost of sales  $\ominus$  \$150,000 Operating expenses  $\ominus$  \$80,000 Income tax expense = \$120,000)



- B) The financial position improved since the net income increases the company's retained earnings.
- C) Yes. The amount of revenues exceeds the amount of expenses by \$120,000.

[Add Question Here](#)

Question 180

Essay

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**Question** The following balance sheet information is provided:

	<u>Assets</u>	<u>Liabilities</u>	<u>Stockholder's Equity</u>
January 1, 2013	\$1,500,000	\$540,000	\$
December 31, 2013	1,810,000	_____	1,400,000

- A) What is the amount of Stockholders' Equity at January 1, 2013?
- B) What is the amount of Liabilities at December 31, 2013?
- C) Assume that the company paid dividends of \$620,000 during the year. How much net income did it earn during the year?
- D) Assume that the company paid no dividends during the year. Without looking at the income statement, how can you tell if the company is profitable or not?

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

[Add Question Here](#)

Question 181

Essay

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**Question** A certain company began the year with total assets of \$10,000,000 and total liabilities of \$6,200,000. No additional stock was issued during the year. Use the accounting equation to answer the following questions.

- A) What was the amount of Total Assets at the end of the year if Liabilities decreased by \$600,000 and Stockholders' Equity increased by \$900,000?
- B) Was the company profitable? Explain your answer.

**Answer**

A)	\$10,300,000
----	--------------

  

	<u>Assets</u>	<u>Liabilities</u>	<u>Stockholders' Equity</u>
Beginning of the year	\$10,000,000	\$6,200,000	\$3,800,000
Change during the year	300,000	(600,000)	900,000
End of the year	\$10,300,000	\$5,600,000	\$4,700,000

- B) Yes, the company was profitable because the Stockholders' Equity increased from the beginning of the year to the end of the year.

[Add Question Here](#)

Question 182

Essay

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

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

- Answer**
- A) (250,000) loss  
[\$500,000 Ending Retained Earnings - \$800,000 Beginning Retained Earnings = (\$300,000)]  
[((\$300,000) decrease + \$50,000 Dividends Paid = (\$250,000) loss)]
  - B) The Income Statement will show the sources of amounts earned (Revenues) as well as the amount and type of costs incurred by the company (Expenses) during the period.

[Add Question Here](#)

Question 183

Essay

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**Question** Best Deal Auto Parts began 2013 with \$400,000 in assets, \$140,000 in liabilities, and \$160,000 of retained earnings. Net income for the year was \$100,000, and dividends of \$80,000 were paid.

- A) Prepare a Statement of Retained Earnings for 2013.
- B) What is the nature or purpose of the statement of retained earnings?
- C) What was the amount of Capital Stock at the beginning of 2013?
- D) What events would cause the two stockholders' equity items to increase?
- E) How do you identify whether the company was profitable during 2013 by examining the statement of retained earnings?

**Answer**

Best Deal Auto Parts	
Statement of Retained Earnings	
For the Year Ended December 31, 2013	
Retained Earnings, January 1, 2013	\$160,000
Add: Net income	100,000
Deduct: Dividends	(80,000)
Retained Earnings, December 31, 2013	\$180,000



B)	Retained earnings is the amount of income earned by the company less any dividends paid to the stockholders since the company began operations. The Statement of Retained Earnings shows the portion of Stockholders' Equity created by the company.
C)	\$100,000 (\$400,000 Total Assets - \$140,000 Total Liabilities - \$160,000 Beginning Retained Earnings = \$100,000)
D)	One way that the company can increase stockholders' equity is to sell additional shares of stock to investors. Another way is to increase Retained Earnings when the company reports net income for the period greater than the dividends paid.
E)	The Statement of Retained Earnings shows that the company was profitable for the year by reporting net income for the period. If the company were to experience an operating loss, then this would be shown as a deduction from the beginning balance of retained earnings.

[Add Question Here](#)

Question 184

Essay

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**Question** The following accounts were taken from a company's accounting records. Answer the questions that follow.

Total liabilities, end of the yr.	\$920,000	Total assets, end of the yr.	\$1,430,000
Capital stock, end of the yr.	160,000	Retained earnings, beginning of yr.	150,000
Dividends for the period	200,000	Net income for the yr.	400,000

- A) How much is the balance of Retained Earnings at the end of the year?
- B) Show the company's accounting equation at the end of the year with the respective dollar amounts.
- C) If stockholders' equity increases during the year, does that mean that the company is profitable? Explain your answer.

**Answer A)** \$350,000  
 (\$150,000 Retained earnings, beginning of the year + \$400,000 Net income - \$200,000 Dividends for the period = \$350,000)  
 OR  
 (\$1,430,000 Total assets, end of the year - \$920,000 Total liabilities, end of the year - \$160,000 Capital stock, end of the year = \$350,000)

B) \$1,430,000 Total assets, end of the year = \$920,000 Total liabilities, end of the year + \$510,000 Stockholders' Equity, end of the year  
 (\$160,000 Capital stock, end of the year + \$350,000 Retained earnings, end of the year)

C) This would depend upon what causes the stockholders' equity to increase. If the increase were due to an increase in retained earnings, then the company would have been profitable for the period. But if the increase were due to an increase in the amount of capital stock issued, this would not be a measure of profitability.

[Add Question Here](#)

Question 185

Essay

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**Question** Classify the following items according to the financial statement on which each belongs, either the income statement (IS), statement of retained earnings (RE), or the balance sheet (BS). Also indicate whether each is a revenue (R), expense (E), asset (A), liability (L), or stockholders' equity (SE) item.

		Appears on Which Statement?	Type of Account
1.	Retained earnings		
2.	Equipment		
3.	Common stock		
4.	Unearned revenue		
5.	Sales		
6.	Rent expense		
7.	Inventories		

Answer			
1.	Retained earnings	BS, RE	SE
2.	Equipment	BS	A
3.	Common stock	BS	SE
4.	Unearned revenue	BS	L
5.	Sales	IS	R
6.	Rent expense	IS	E
7.	Inventories	BS	A

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Question 186

Essay

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**Question** The following amounts were taken from the accounting records at December 31, 2013:

Service Revenue	\$600,000	Salaries Expense	\$200,000
Dividends Paid	50,000	Rent Expense	86,000
Buildings	110,000	Land	100,000
Accounts Payable	40,000	Accounts Receivable	28,000
Capital Stock	60,000	Retained Earnings, Jan. 1, 2013	400,000
Utilities Expense	19,000	Notes Payable	30,000
Income Tax Payable	4,000	Income Tax Expense	110,000

- A) Calculate net income for 2013.
- B) Calculate retained earnings at the end of 2013.

**Answer A)** \$185,000

(\$600,000 Service Revenue  $\ominus$  \$200,000 Salaries Expense  $\ominus$  \$86,000 Rent Expense  $\ominus$  \$19,000 Utilities Expense  $\ominus$  \$110,000 Income Tax Expense = \$185,000)

- B) \$535,000  
(\$400,000 Retained Earnings, Jan 1, 2013 + \$185,000 Net Income  $\ominus$  \$50,000 Dividends Paid = \$535,000)

[Add Question Here](#)

Question 187

Essay

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**Question** The following amounts were taken from the accounting records at December 31, 2013:

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

- A) Calculate Total Assets.  
B) Calculate Net Income for 2013.  
C) Calculate Total Stockholders' Equity at the end of 2013.  
D) Calculate Total Stockholders' Equity at the beginning of 2013 assuming there were no stock transactions during the year.

- Answer**
- A) \$800,000  
(\$100,000 Cash + \$700,000 Inventories = \$800,000)
- B) \$150,000  
(\$750,000 Revenue  $\ominus$  \$600,000 Expenses = \$150,000)
- C) \$400,000  
(\$800,000 Total Assets  $\ominus$  \$400,000 Accounts Payable = \$400,000)
- D) \$350,000  
(\$400,000 End-of-year - \$150,000 (NI = \$750,000 - \$600,000) + \$100,000 (Dividends))

[Add Question Here](#)

Question 188

Essay

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**Question** The following information is taken from the Balance Sheet at December 31, 2013:

Cash	\$288,000	Retained Earnings	\$168,000
Inventory	96,000	Accounts Payable	84,000
Equipment	456,000	Bonds Payable	276,000
Common Stock	312,000		

- A) How much did creditors provide to this company?  
B) On which financial statement would an investor look to see if any stock was issued during the year?

- Answer**
- A) \$360,000  
(\$84,000 Accounts Payable + \$276,000 Bond Payable)
- B) The primary source for seeing whether any stock was issued during the year would be the Statement of Stockholders' Equity. While the Balance Sheet may show an amount for "Common Stock," this amount is an ending balance, and would not show the results of any transactions involving new issuances of stock during the period.

[Add Question Here](#)

Question 189

Essay

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**Question** Baloon-E-Tunes

Retained Earnings	\$370,000	Notes Payable (due in 6 years)	\$120,000
Accumulated Depreciation	130,000	Salaries Payable	10,000
Income Taxes Payable	240,000	Supplies	20,000
Plant	480,000	Accounts Payable	360,000
Cash	110,000	Inventory	330,000
Accounts Receivable	350,000	Land	500,000
Common Stock	600,000	Prepaid Insurance	40,000

Refer to Baloon-E-Tunes. Prepare the current assets section of the Balance Sheet at December 31, 2013. You may omit the heading. How does the concept of liquidity apply?

**Answer**

Cash	\$110,000
Accounts Receivable	350,000
Inventory	330,000
Prepaid Insurance	40,000
Supplies	20,000
Total Current Assets	<u>\$850,000</u>

Liquidity is an indicator of how close to cash the company's assets are. Those assets that are most liquid are listed first. It relates to the company's ability to pay its obligations as they become due. Current assets are expected to be converted into cash within the next operating cycle, so they are a key determinant of liquidity.

[Add Question Here](#)

Question 190

Essay

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**Question** Baloon-E-Tunes

Retained Earnings	\$370,000	Notes Payable (due in 6 years)	\$120,000
Accumulated Depreciation	130,000	Salaries Payable	10,000
Income Taxes Payable	240,000	Supplies	20,000
Plant	480,000	Accounts Payable	360,000
Cash	110,000	Inventory	330,000
Accounts Receivable	350,000	Land	500,000
Common Stock	600,000	Prepaid Insurance	40,000

Refer to Baloon-E-Tunes. Prepare the current liabilities section of the balance sheet at December 31, 2013. You may omit the heading. If the amount of current liabilities were larger, what effect would this have on the current ratio?

**Answer**

Accounts Payable	\$360,000
Salaries Payable	10,000
Income Taxes Payable	<u>240,000</u>
Total	<u>\$610,000</u>

When current liabilities increase, the denominator of the current ratio increases. This causes the current ratio itself to decrease.

[Add Question Here](#)

Question 191

Essay

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[Remove](#)

**Question Baloon-E-Tunes**

Retained Earnings	\$370,000	Notes Payable (due in 6 years)	\$120,000
Accumulated Depreciation	130,000	Salaries Payable	10,000
Income Taxes Payable	240,000	Supplies	20,000
Plant	480,000	Accounts Payable	360,000
Cash	110,000	Inventory	330,000
Accounts Receivable	350,000	Land	500,000
Common Stock	600,000	Prepaid Insurance	40,000

Refer to Baloon-E-Tunes. Prepare the long-term asset section of the balance sheet at December 31, 2013. You may omit the heading. Why are these amounts classified as "long-term"?

**Answer**

Land		\$500,000
Plant	\$480,000	
Less: Accumulated Depreciation	<u>(130,000)</u>	<u>350,000</u>
Total		<u>\$850,000</u>

Long-term assets are those that are expected to benefit the company beyond the current accounting period. Both the land and the buildings are expected to benefit more than one accounting period. Accumulated depreciation is the portion of the cost of the building that has benefited the accounting periods to date.

[Add Question Here](#)

Question 192

Essay

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**Question Baloon-E-Tunes**

Retained Earnings	\$370,000	Notes Payable (due in 6 years)	\$120,000
Accumulated Depreciation	130,000	Salaries Payable	10,000
Income Taxes Payable	240,000	Supplies	20,000
Plant	480,000	Accounts Payable	360,000
Cash	110,000	Inventory	330,000
Accounts Receivable	350,000	Land	500,000
Common Stock	600,000	Prepaid Insurance	40,000

Refer to Baloon-E-Tunes. Calculate the current ratio at December 31, 2013. What does this ratio tell you about the "composition" of the current assets?

**Answer**

Current Assets = \$850,000  
 (\$110,000 Cash + \$350,000 Accounts receivable + \$330,000 Inventory + \$40,000 Prepaid Insurance + \$20,000 Supplies = \$850,000)

Current Liabilities = \$610,000  
 (\$360,000 Accounts Payable + \$10,000 Salaries Payable + \$240,000 Income Taxes Payable = \$610,000)

Current ratio = 1.39 to 1  
 (\$850,000 / \$610,000)

The current ratio does not provide information about the composition of the company's current assets and current liabilities. Only totals are used to calculate the current ratio.

[Add Question Here](#)

Question 193

Essay

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**Question Baloon-E-Tunes**

Retained Earnings	\$370,000	Notes Payable (due in 6 years)	\$120,000
Accumulated Depreciation	130,000	Salaries Payable	10,000
Income Taxes Payable	240,000	Supplies	20,000
Plant	480,000	Accounts Payable	360,000
Cash	110,000	Inventory	330,000
Accounts Receivable	350,000	Land	500,000
Common Stock	600,000	Prepaid Insurance	40,000

Refer to Baloon-E-Tunes. Calculate the amount of working capital at December 31, 2013. What can you learn from the current ratio that you cannot learn from the amount of working capital?

**Answer**

Current Assets = \$850,000  
 (\$110,000 Cash + \$350,000 Accounts receivable + \$330,000 Inventory + \$40,000 Prepaid Insurance + \$20,000 Supplies = \$850,000)

Current Liabilities = \$610,000  
 (\$360,000 Accounts Payable + \$10,000 Salaries Payable + \$240,000 Income Taxes Payable = \$610,000)

Working Capital = \$240,000  
 (\$850,000 - \$610,000)

The current ratio indicates the number of times current assets is greater than current liabilities. The current ratio is based on a relative relationship; whereas, working capital is based on total dollars.

[Add Question Here](#)

Question 194

Essay

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**Question B-There Transportation**

B-There Transportation calculated the following amounts concerning its financial information for the years ending December 31, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Current Ratio	4.0 to 1	2.0 to 1

Refer to B-There Transportation. Is the change in the current ratio favorable or not? Explain.

**Answer** The current ratio increased from 2.0 to 1 to 4.0 to 1. This is an unusually large increase for most companies. A larger current ratio means a company is more liquid. This increase is favorable, although care must be taken so that the current ratio does not become too large, which may indicate an inefficient cash management system.

[◀ Add Question Here](#)

Question 195 ▾

**Essay**

**0 points**

[Modify](#)

[Remove](#)

**Question B-There Transportation**

B-There Transportation calculated the following amounts concerning its financial information for the years ending December 31, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Current Ratio	4.0 to 1	2.0 to 1

Refer to B-There Transportation. Suppose the company had a decrease in its cash account from 2012 to 2013. Would the other current asset amounts have increased or decreased? Explain.

**Answer** Since the current ratio increased from 2012 to 2013, the current assets other than cash would have had to increase substantially to offset the decline in cash. However, cash could also have been used to pay down current liabilities thus the current ratio would not be impacted. The decline in cash changes the liquidity somewhat, in that the other current assets must be converted to cash prior to paying the current period debt.

[◀ Add Question Here](#)

Question 196 ▾

**Essay**

**0 points**

[Modify](#)

[Remove](#)

**Question** The following amounts were taken from the income statement of Beauty World for the year ending December 31, 2013:

	<u>2013</u>
Net Sales	\$750,000
Selling, General and Administrative Expense	450,000
Research and Development Expense	50,000
Other Income (net)	25,000

How much is net income for the year ended December 31, 2013? Would the net income amount have been different if the company had used a single-step income statement rather than the multiple-step statement? Explain.

**Answer** Net Income = \$275,000  
 $(\$750,000 \text{ Net Sales} + \$25,000 \text{ Other Income, net} - \$450,000 \text{ Selling, General and Administrative Expenses} - \$50,000 \text{ Research and Development Expense}) = \$275,000$

Net income is the same under a single-step or a multiple-step income statement. Only subtotals and the order the amounts are listed differ.

[◀ Add Question Here](#)

Question 197 ▾

**Essay**

**0 points**

[Modify](#)

[Remove](#)

**Question** After reporting a profit of \$20,000 for the year, a certain company reported the following items on its balance sheet at December 31, 2013:

Cash	\$225,000
Accounts receivable	110,000
Inventory	80,000
Prepaid insurance	5,000
Land	100,000
Building	280,000
Accounts payable	60,000
Salaries payable	10,000
Capital stock	500,000
Retained earnings	230,000

- A) Calculate the current ratio and determine the amount of working capital.
- B) Beyond the information provided in your answers to "A," what does the composition of the current assets tell you about the company's liquidity?
- C) What other information would one need to fully assess liquidity?

**Answer A)** Current ratio: 6 to 1  
 $(\$225,000 \text{ Cash} + \$110,000 \text{ Accounts receivable} + \$80,000 \text{ Inventory} + \$5,000 \text{ Prepaid insurance}) / (\$60,000 \text{ Accounts payable} + \$10,000 \text{ Salaries payable}) = 6 \text{ to } 1$

Working capital: \$350,000  
 $(\$420,000 \text{ Total Current Assets} - \$70,000 \text{ Total Current Liabilities}) = \$350,000$

- B) The closer an asset is to being converted to cash, the more liquid the asset is. Some assets, like inventory, take much longer to turn into cash because they must be sold before collection of the cash can be made. Prepaid insurance is not as liquid as accounts receivable since it will be consumed as time passes. Receivables are more liquid than inventory because a sale has already occurred
- C) The statement of cash flows would be helpful to determine the cash inflows and outflows that occurred during the year. The balance sheet represents only the ending balance of the cash account. The statement of cash flows also identifies the sources and uses of cash by accounting activity.

[◀ Add Question Here](#)

Question 198 ▾

**Essay**

**0 points**

[Modify](#)

[Remove](#)

**Question** Listed below are several amounts from the accounting records of Bike Links for the year ended December 31, 2013. Prepare a multiple-step income statement in good form.

Service revenue	\$960,000
Selling expense	176,000
Income tax expense	160,000
General and administrative expenses	280,000
Interest revenue	8,000

**Answer**

Bike Links		
Income Statement		
For the Year Ended December 31, 2013		
Service Revenue		\$960,000
<b>Operating Expenses:</b>		
Selling Expenses	\$176,000	
General and Administrative Expenses	280,000	
<b>Total Operating Expenses</b>		<b>456,000</b>
Income from Operations		\$ 504,000
<b>Other Revenue and Expenses</b>		
Interest Revenue		8,000
Income Before Taxes		\$ 512,000
Income Tax Expense		160,000
<b>Net Income</b>		<b>\$ 352,000</b>

[◀ Add Question Here](#)

Question 199 ▾

**Essay**

**0 points**

[Modify](#)

[Remove](#)

**Question** Listed below are several amounts from the accounting records of Big Tom's Pawn Shops, for the year ended December 31, 2013. Prepare a single-step income statement in good form.

Salaries expenses	\$145,000
Rent expense	12,000
Sales	225,000
Retained earnings	100,000
Insurance expense	11,000
Income taxes expense	30,000

**Answer**

Big Tom's Pawn Shops		
Income Statement		
For the Year Ended December 31, 2013		
<b>Revenues:</b>		
Sales		\$225,000
<b>Expenses</b>		
Salaries expense	\$145,000	
Rent expense	12,000	
Insurance expense	11,000	
Income tax expense	30,000	
<b>Total Expenses</b>		<b>198,000</b>
<b>Net Income</b>		<b>\$ 27,000</b>

[◀ Add Question Here](#)

Question 200 ▾

**Essay**

**0 points**

[Modify](#)

[Remove](#)

**Question** Blackbeard's Restaurant began operations on January 1, 2011, with a total investment of \$100,000 by its stockholders. The restaurant had a net loss its first year of business of \$15,000. During 2012 and 2013, the business was profitable with net incomes of \$25,000 and \$50,000, respectively. The company paid \$5,000 per year in dividends to its shareholders in 2012 and 2013.

- A) In good form, prepare a statement of retained earnings for the year ended December 31, 2012.
- B) How much is total retained earnings on December 31, 2013?
- C) Explain the link between the statement of retained earnings and the balance sheet.

**Answer**

A)	Blackbeard's Restaurant	
	Statement of Retained Earnings	
	For the Year Ended December 31, 2012	
	Beginning balance, January 1, 2012	\$(15,000)*
	Add: Net income for 2012	25,000
	Less: Dividends paid during the year	(5,000)
	Ending balance, December 31, 2012	<u>\$ 5,000</u>
	* \$048,000 Net Loss for 2011 o \$0 Dividends paid = \$(16,000) Balance, January 1, 2012	
B)	Retained earnings at December 31, 2013 = \$50,000 (\$5,000 Beginning Balance, January 1, 2013 + \$50,000 Net Income for 2013 o \$5,000 Dividends paid during the year = \$50,000)	
C)	The ending balance of the retained earnings statement represents the cumulative earnings less all the dividends declared and paid for the life of the business. This amount appears on the balance sheet as a component of stockholders' equity.	

[◀ Add Question Here](#)

Question 201 ▾

**Essay**

**0 points**

[Modify](#)

[Remove](#)

**Question** Most annual reports contain the following list of basic elements. For each element identify the person(s) who prepared the element and describe the information a user would expect to find in each element. Some information is verifiable, while other information is subjectively chosen by management. Indicate whether the information in each element is verifiable.

Elements	Prepared By	Information Provided	Verifiable/ Yes or No?
Management Discussion & Analysis			
Financial Statements			
Notes to Financial Statements			
Report of Independent Accountants			

**Answer**



Elements	Prepared By	Information Provided	Verifiable/ Yes or No?
Management Discussion & Analysis	Mgmt.	Discussion of financial statements and explanation. Highlight favorable and unfavorable trends.	No
Financial Statements	Mgmt.	Income statement, balance sheet, statement of cash flows, statement of retained earnings	Yes
Notes to Financial Statements	Mgmt.	Clarifications and explanations that expand upon the information presented in the financial statements	Yes
Report of Independent Accountants	CPA firm.	Opinion that the financial statements are presented fairly in accordance with generally accepted accounting principles.	No

[◀ Add Question Here](#)

Question 202 ▾

Essay

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[Modify](#)

[Remove](#)

**Question** List three different groups of users of accounting information. Indicate the type of decisions each group typically makes from accounting information.

**Answer** The groups and their decisions are:

Stockholders:	Is the company profitable enough to pay dividends? Did the company make a profit for the period?
Management:	How should an item be priced? Should we continue operations? Can we give employees raises?
Bankers:	Can the company pay interest and principal when it comes due?
Creditors:	Can the company pay bills when they are due?
Government:	How much did the company earn? (i.e., how much taxes should be paid?)

[◀ Add Question Here](#)

Question 203 ▾

Essay

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[Modify](#)

[Remove](#)

**Question** What is the purpose of an income statement?

**Answer** An income statement reports the company's revenues and expenses for a period of time and shows the company's profitability (or lack of). The income statement is sometimes called the "profit or loss statement."

[◀ Add Question Here](#)

Question 204 ▾

Essay

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[Modify](#)

[Remove](#)

**Question** List the four financial statements. Explain the connection between these four statements.

**Answer**

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

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

[◀ Add Question Here](#)

Question 205 ▾

Essay

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[Remove](#)

**Question Baker's Pride Bakery**

Condensed data from the company's 2013 and 2012 financial statements are presented below. The figures are expressed in thousands.

Statement A	2013	2012
Assets:		
Total current assets	\$219,560	\$198,088
Property, plant & equipment (net of accumulated depreciation)	18,320	13,996
Investments	3,370	1,167
Other assets	<u>12,220</u>	<u>11,667</u>
Total assets	<u>\$253,470</u>	<u>\$224,918</u>
Liabilities:		
Total current liabilities	\$ 92,990	\$ 95,260
Long-term debt	<u>15,160</u>	<u>22,172</u>
Total liabilities	\$108,150	\$117,432
Stockholders' equity:		
Contributed capital	\$ 53,680	\$ 35,475
Retained Earnings	<u>91,640</u>	<u>72,011</u>
Total stockholders' equity	<u>\$145,320</u>	<u>\$ 107,486</u>
Total liabilities & stockholders' equity	<u>\$253,470</u>	<u>\$224,918</u>
<b>Statement B</b>	<b>2013</b>	<b>2012</b>
Net Sales	\$229,301	\$203,171
Cost of sales	<u>135,453</u>	<u>131,212</u>
Gross margin	\$93,848	\$71,959
Selling, general and administrative expenses	64,832	57,442
Other income (expense)	<u>693</u>	<u>(130)</u>
Income (loss) before income taxes	\$29,709	\$14,387
Income tax expense	<u>3,534</u>	<u>2,320</u>
Net income (loss)	<u>\$ 26,175</u>	<u>\$ 12,067</u>

Refer to Baker's Pride Bakery.

A) What is the name of Statement A?

B) What is the name of Statement B?

**Answer** A) Statement A is the Classified Balance Sheet

B) Statement B is the Multiple-Step Income Statement

[◀ Add Question Here](#)



Question 206

Essay

0 points

[Modify](#)[Remove](#)**Question Baker's Pride Bakery**

Condensed data from the company's 2013 and 2012 financial statements are presented below. The figures are expressed in thousands.

<b>Statement A</b>	<b>2013</b>	<b>2012</b>
Assets:		
Total current assets	\$219,560	\$198,088
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Total liabilities & stockholders' equity	<u>\$253,470</u>	<u>\$224,918</u>

<b>Statement B</b>	<b>2013</b>	<b>2012</b>
Net Sales	\$229,301	\$203,171
Cost of sales	135,453	131,212
Gross margin	\$93,848	\$71,959
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Other income (expense)	693	(130)
Income (loss) before income taxes	\$29,709	\$14,387
Income tax expense	3,534	2,320
Net income (loss)	<u>\$ 26,175</u>	<u>\$ 12,067</u>

Refer to Baker's Pride Bakery. Which statement indicates the financial position of the company? What information is provided on that statement that indicates the "financial position" of the company? Explain.

**Answer** The classified balance sheet provides information on the financial position of the company. It is expressed in terms of the accounting equation. When total liabilities are subtracted from total assets, the difference is stockholders' equity. This amount represents net worth or the financial position of a company at the balance sheet date.

[◀ Add Question Here](#)

Question 207

Essay

0 points

[Modify](#)[Remove](#)**Question Baker's Pride Bakery**

Condensed data from the company's 2013 and 2012 financial statements are presented below. The figures are expressed in thousands.

<b>Statement A</b>	<b>2013</b>	<b>2012</b>
Assets:		
Total current assets	\$219,560	\$198,088
Property, plant & equipment (net of accumulated depreciation)	18,320	13,996
Investments	3,370	1,167
Other assets	12,220	11,667
Total assets	<u>\$253,470</u>	<u>\$224,918</u>
Liabilities:		
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Total liabilities & stockholders' equity	<u>\$253,470</u>	<u>\$224,918</u>

<b>Statement B</b>	<b>2013</b>	<b>2012</b>
Net Sales	\$229,301	\$203,171
Cost of sales	135,453	131,212
Gross margin	\$93,848	\$71,959
Selling, general and administrative expenses	64,832	57,442
Other income (expense)	693	(130)
Income (loss) before income taxes	\$29,709	\$14,387
Income tax expense	3,534	2,320
Net income (loss)	<u>\$ 26,175</u>	<u>\$ 12,067</u>

Refer to Baker's Pride Bakery. Was the company profitable both years? What are the amounts of the total revenues and total expenses, respectively, for 2013? Which financial statement provides this information to you?

**Answer** The company was profitable in both 2013 and 2012.

For 2013, total revenues include net sales of \$229,301, and other income, \$693, for a total of \$229,994.

Total expenses for 2013 include cost of sales of \$135,453, selling, general and administrative expenses of \$64,832, and income tax expense of \$3,534, or a total of \$203,819.

Information about revenues, expenses, and profitability is reported on the income statement.

[◀ Add Question Here](#)

Question 208

Essay

0 points

[Modify](#)[Remove](#)**Question Baker's Pride Bakery**

Condensed data from the company's 2013 and 2012 financial statements are presented below. The figures are expressed in thousands.

<b>Statement A</b>	<b>2013</b>	<b>2012</b>
Assets:		
Total current assets	\$219,560	\$198,088
Property, plant & equipment (net of accumulated depreciation)	18,320	13,996

Investments	3,370	1,167
Other assets	<u>12,220</u>	<u>11,667</u>
Total assets	<u>\$253,470</u>	<u>\$224,918</u>
Liabilities:		
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Total stockholders' equity	<u>\$145,320</u>	<u>\$ 107,486</u>
Total liabilities & stockholders' equity	<u>\$253,470</u>	<u>\$224,918</u>

	<b>2013</b>	<b>2012</b>
<b>Statement B</b>		
Net Sales	\$229,301	\$203,171
Cost of sales	<u>135,453</u>	<u>131,212</u>
Gross margin	\$93,848	\$71,959
Selling, general and administrative expenses	64,832	57,442
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Income tax expense	<u>3,534</u>	<u>2,320</u>
Net income (loss)	<u>\$ 26,175</u>	<u>\$ 12,067</u>

Refer to Baker's Pride Bakery. How much of the company is financed by owners at the end of December 2013?

**Answer** The amount of financing by owners for 2013 is represented by the amount of stockholders' equity, \$145,320. Over time, sales of stock and earnings retained by the company (cumulative net income minus cumulative dividends) cause the amount of stockholders' equity to increase.

[Add Question Here](#)

Question 209 ▾

Essay

0 points

[Modify](#)

[Remove](#)

#### Question Baker's Pride Bakery

Condensed data from the company's 2013 and 2012 financial statements are presented below. The figures are expressed in thousands.

	<b>2013</b>	<b>2012</b>
<b>Statement A</b>		
Assets:		
Total current assets	\$219,560	\$198,088
Property, plant & equipment (net of accumulated depreciation)	18,320	13,996
Investments	3,370	1,167
Other assets	<u>12,220</u>	<u>11,667</u>
Total assets	<u>\$253,470</u>	<u>\$224,918</u>
Liabilities:		
Total current liabilities	\$ 92,990	\$ 95,260
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Total stockholders' equity	<u>\$145,320</u>	<u>\$ 107,486</u>
Total liabilities & stockholders' equity	<u>\$253,470</u>	<u>\$224,918</u>

	<b>2013</b>	<b>2012</b>
<b>Statement B</b>		
Net Sales	\$229,301	\$203,171
Cost of sales	<u>135,453</u>	<u>131,212</u>
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Income (loss) before income taxes	\$29,709	\$14,387
Income tax expense	<u>3,534</u>	<u>2,320</u>
Net income (loss)	<u>\$ 26,175</u>	<u>\$ 12,067</u>

Refer to Baker's Pride Bakery. How much of the company is financed by creditors at the end of December 2013? Evaluate the change from 2012 to 2013.

**Answer** The amount of financing provided by creditors for 2013 is the amount of liabilities reported on the balance sheet, \$108,150. For 2012, the amount was \$117,432. Total liabilities decreased by \$9,282, or about 8% from 2012 to 2013. The company was able to lower its debt while still increasing its assets and stockholders' equity. Of course, this decrease in liabilities must be examined relative to the company's entire financial position.

[Add Question Here](#)

Question 210 ▾

Essay

0 points

[Modify](#)

[Remove](#)

#### Question Baker's Pride Bakery

Condensed data from the company's 2013 and 2012 financial statements are presented below. The figures are expressed in thousands.

	<b>2013</b>	<b>2012</b>
<b>Statement A</b>		
Assets:		
Total current assets	\$219,560	\$198,088
Property, plant & equipment (net of accumulated depreciation)	18,320	13,996
Investments	3,370	1,167
Other assets	<u>12,220</u>	<u>11,667</u>
Total assets	<u>\$253,470</u>	<u>\$224,918</u>
Liabilities:		
Total current liabilities	\$ 92,990	\$ 95,260
Long-term debt	<u>15,160</u>	<u>22,172</u>
Total liabilities	<u>\$108,150</u>	<u>\$117,432</u>
Stockholders' equity:		
Contributed capital	\$ 53,680	\$ 35,475
Retained Earnings	<u>91,640</u>	<u>72,011</u>
Total stockholders' equity	<u>\$145,320</u>	<u>\$ 107,486</u>
Total liabilities & stockholders' equity	<u>\$253,470</u>	<u>\$224,918</u>

	<b>2013</b>	<b>2012</b>
<b>Statement B</b>		
Net Sales	\$229,301	\$203,171
Cost of sales	<u>135,453</u>	<u>131,212</u>

Gross margin	\$93,848	\$71,959
Selling, general and administrative expenses	64,832	57,442
Other income (expense)	693	(130)
Income (loss) before income taxes	\$29,709	\$14,387
Income tax expense	3,534	2,320
Net income (loss)	\$ 26,175	\$ 12,067

Refer to Baker's Pride Bakery. Based on the information provided, is the company considered a business or non-business entity? How do you know by examining the financial statements?

**Answer** This company is a business entity, because its purpose is to make a profit, not simply provide a service or product. Non-business entities have no owners but this company has owners, as evidenced by examining the stockholders' equity section of the balance sheet.

[◀ Add Question Here](#)

Question 211 ▾ **Essay** **0 points** [Modify](#) [Remove](#)

**Question** What financial statement items are investors and creditors most interested in and why?

**Answer** Investors are most interested in cash receipts from dividends and the cash they can receive upon selling their stock. Creditors are most interested in cash to be received for interest payments and the repayment of the principal. If a company does not have sufficient cash flows, investors and creditors could suffer as a result. The financial position, shown on the company's Balance Sheet, is also a concern for both investors and creditors because even though the company may have what appears to be sufficient cash flows for the current period, the long-term cash flow could be weak.

[◀ Add Question Here](#)

Question 212 ▾ **Essay** **0 points** [Modify](#) [Remove](#)

**Question** How is a classified balance sheet useful to decision makers?

**Answer** A classified balance sheet helps evaluate the liquidity of a company by separating the current assets from long-term assets and current liabilities from long-term liabilities. The user can then determine the amount of working capital and the current ratio, which are both useful measures of liquidity.

[◀ Add Question Here](#)

Question 213 ▾ **Essay** **0 points** [Modify](#) [Remove](#)

**Question** How does the definition of a current liability relate to that of a current asset?

**Answer** Current liabilities are obligations that will be satisfied within the operating cycle or within one year if the cycle is shorter than one year. Current assets will be realized in cash, or sold, or consumed during the operating cycle or within one year if the cycle is shorter. For most companies, both current assets and liabilities are reported on the balance sheet using a one-year time period.

[◀ Add Question Here](#)

Question 214 ▾ **Essay** **0 points** [Modify](#) [Remove](#)

**Question** Potential stockholders and lenders are interested in a company's financial statements. Several financial statement items appear below. Answer the questions that follow.

Accounts receivable	Accounts payable	Advertising expense
Cash	Depreciation expense	Income taxes
Common stock	Land held for future expansion	Dividends
Retained earnings	Loss on the sale of equipment	Service revenue
Office supplies	Patent amortization expense	Sales
Unearned revenue	Utilities expense	

A) List the two items from above in which stockholders would be most interested. Explain why the two you selected are important to stockholders.

B) In which one item would lenders be most interested? Explain why this item is important.

**Answer** A) Stockholders are interested in net income and dividends. They want to make sure the company is profitable. If a company is incurring losses, it may not pay dividends.

B) Lenders are most interested in the company's ability to pay bills when they become due. Cash can be a big problem if a company does not have enough to pay its bills. This includes the company's ability to repay the lender.

[◀ Add Question Here](#)

Question 215 ▾ **Essay** **0 points** [Modify](#) [Remove](#)

**Question** What information is provided in an annual report in addition to the financial statements?

**Answer** An annual report contains the reports of management, the auditor's report, management's discussion and analysis of the amounts appearing in the statements, footnotes to the financial statements, and a summary of selected financial data over a period of years.

[◀ Add Question Here](#)

Question 216 ▾ **Essay** **0 points** [Modify](#) [Remove](#)

**Question** Assume that you have received copies of the financial statements for Best Buy for the years ending December 31, 2013 and 2012. Answer the following questions:

A) If you were a banker, why would you need information from the company's financial statements?

B) If you were a potential investor in Best Buy stock, what information would you want from their financial statements?

C) If you were a labor negotiator for a union that represents a group of Best Buy employees, which financial statement would provide you with the most useful information?

**Answer** A) A banker wants to be assured that the company will make its interest payments and repay the principle of the loan in a timely manner. A banker would also want to know about the value of the assets that could be used to secure the loan or liquidated if company can't repay the loan.

B) Investors want to know whether they should make an investment in the company's stock, or continue to hold their investment. They will be looking at the company's recent performance, whether the company has been profitable, how their profits compare with other companies, and how much the company has paid in dividends.

C) A labor negotiator needs to know how much profit the company has made. This information is found on the Income Statement.

[◀ Add Question Here](#)

Question 217 ▾ **Essay** **0 points** [Modify](#) [Remove](#)

**Question You Decide Essay**

You are the chairman of the board of directors of NuWave Technology. You are in Vegas attending the company's annual meeting and it is now time for the question and answer session with shareholders. The very first question you take is this: "I own stock in a dozen companies. Everyone of them pays me dividends except NuWave. Why is that?" How do you respond?

**Answer** First, point out that retained earnings is an important source of financing for NuWave. Then explain that you believe that it is in the shareholders' best interest to reinvest the company's earnings into the many profitable growth opportunities available rather than pay dividends. Remind them that the reinvestment of the earnings hopefully will result in higher stock prices and increased wealth for them in the future as the company profits from its growth.

[◀ Add Question Here](#)

Question 218 ▾ **Essay** **0 points** [Modify](#) [Remove](#)

**Question You Decide Essay**

A friend of yours is seeking advice on which stocks to buy. Right now, she is looking for a stock that pays cash dividends on a regular basis. She has obtained six years worth of financial statements for the two stocks under consideration. Describe at least one item on each financial statement that she should study to determine which stock is more likely to pay future cash dividends.

**Answer**  
 Income statement: Trend of profitable operations  
 Retained earnings statement: The payment of cash dividends in the past  
 Balance sheet: The existence of sufficient cash from which to pay dividends  
 Cash flow statement: Trend of positive cash flows from operations

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Question 219 ▾ **Essay** **0 points** [Modify](#) [Remove](#)

**Question** Refer to Baker's Pride Bakery. Based on the information provided, is the company legally organized as a sole proprietorship, partnership, or corporation? How can you tell?

**Answer** The company is organized as a corporation as evidenced by the Stockholders' equity items.

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Question 220 ▾ **Essay** **0 points** [Modify](#) [Remove](#)

**Question** Each of the four statements that comprise a full set of financial statements has an underlying equation or formula. List the statements in the order they are prepared and the underlying equation of each.

**Answer**  
 1. Income statement: Revenues - Expenses = Net income (net loss)  
 2. Statement of retained earnings: Beginning retained earnings + net income (net loss) - dividends = ending retained earnings  
 3. Balance sheet: Assets = Liabilities + Stockholders' equity  
 4. Statement of cash flows: Beginning cash +- operating cash flows +- investing cash flows +- financing cash flows = ending cash

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Question 221 ▾ **Essay** **0 points** [Modify](#) [Remove](#)

**Question** Complete the following table to compare and contrast sole proprietorships and corporations

Item	Proprietorship	Corporation
Ease of formation		
Ability to raise large sums of capital		
Taxable entity		
Extent of owner liability		
Double taxation of profits?		

**Answer**

Item	Proprietorship	Corporation
Ease of formation	Easy	More difficult
Ability to raise large sums of capital	Limited	Easier
Taxable entity	No	Yes
Extent of owner liability	Unlimited	Limited
Double taxation of profits?	No	Yes

[◀ Add Question Here](#)

OK