

Chapter 1—Introduction to Accounting and Business

TRUE/FALSE

1. The federal government is an example of an external user of accounting information.

ANS: T PTS: 1 DIF: Moderate OBJ: 01-01

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

ANS: F PTS: 1 DIF: Easy OBJ: 01-01

3. The Canadian Public Accountability Board was created to promote public confidence in the integrity of financial reporting.

ANS: T PTS: 1 DIF: Easy OBJ: 01-01

4. The main objective for all business is to maximize unrealized profits.

ANS: F PTS: 1 DIF: Easy OBJ: 01-01

5. Primary users of accounting information are accountants.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-01

6. Accounting is thought to be the “language of business” because business information is communicated to users.

ANS: T PTS: 1 DIF: Easy OBJ: 01-01

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

ANS: T PTS: 1 DIF: Moderate OBJ: 01-01

8. The basic difference between manufacturing and merchandising companies is the completion level of the products they purchase for resale to customers.

ANS: T PTS: 1 DIF: Easy OBJ: 01-01

9. Large corporations such as Shoppers Drug Mart, Coca-Cola, and Bank of Montreal operate as manufacturing businesses.

ANS: F PTS: 1 DIF: Easy OBJ: 01-01

10. Three accounting professions exist in Canada: Chartered Accountant (CA), Certified General Accountant (CGA), and Certified Management Accountant (CMA).

ANS: T PTS: 1 DIF: Easy OBJ: 01-01

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11. Accounting information users need reports about the economic activities and condition of businesses.
ANS: T PTS: 1 DIF: Easy OBJ: 01-01
12. Senior executives cannot be criminally prosecuted for the wrong-doings they commit on behalf of the companies where they work.
ANS: F PTS: 1 DIF: Easy OBJ: 01-01
13. The primary role of accounting is to determine the amount of taxes a business will be required to pay to taxing entities.
ANS: F PTS: 1 DIF: Moderate OBJ: 01-01
14. Stakeholders use only accounting reports as the source of information on which to base all of their business decisions.
ANS: F PTS: 1 DIF: Easy OBJ: 01-01
15. Accounting reports are designed with the information needs of the users in mind.
ANS: T PTS: 1 DIF: Easy OBJ: 01-01
16. Public accountants are normally hired by companies and the Canada Revenue Agency.
ANS: F PTS: 1 DIF: Easy OBJ: 01-01
17. Managerial accounting information is used by external and internal users equally.
ANS: F PTS: 1 DIF: Easy OBJ: 01-01
18. Financial accounting provides information to all users, while the main focus for managerial accounting is to provide information to management.
ANS: T PTS: 1 DIF: Moderate OBJ: 01-01
19. Proper ethical conduct implies that you consider only what's in your best interest.
ANS: F PTS: 1 DIF: Easy OBJ: 01-01
20. Some of the major fraudulent acts by senior executives started as what they considered to be small ethical lapses, which grew out of control.
ANS: T PTS: 1 DIF: Moderate OBJ: 01-01
21. CMA is an acronym that stands for Certified Manufacturing Accountant.
ANS: F PTS: 1 DIF: Easy OBJ: 01-01

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22. A business is an organization that provides goods or services to its customers in exchange for money or other items of value.
- ANS: T PTS: 1 DIF: Easy OBJ: 01-01
23. Managerial accounting is primarily concerned with the recording and reporting of economic data and activities of an entity for use by owners, creditors, governmental agencies, and the public.
- ANS: F PTS: 1 DIF: Easy OBJ: 01-01
24. A corporation is a business that is legally separate and distinct from its owners.
- ANS: T PTS: 1 DIF: Easy OBJ: 01-02
25. About 70% of the businesses in Canada are organized as corporations.
- ANS: F PTS: 1 DIF: Easy OBJ: 01-02
26. Proprietorships are owned by one owner and provide only services to their customers.
- ANS: F PTS: 1 DIF: Easy OBJ: 01-02
27. Only large companies such as Bombardier, JCP, General Motors, and the Bank of Montreal can be organized as corporations.
- ANS: F PTS: 1 DIF: Moderate OBJ: 01-02
28. The Accounting Standards Board (AcSB) is the authoritative body that has primary responsibility for developing accounting principles.
- ANS: T PTS: 1 DIF: Easy OBJ: 01-02
29. The cost principle is the basis for entering the purchase price into the accounting records.
- ANS: T PTS: 1 DIF: Moderate OBJ: 01-02
30. Without the cost principle, accounting reports would become unstable and unreliable.
- ANS: T PTS: 1 DIF: Easy OBJ: 01-02
31. The monetary unit principle requires that economic data be recorded in a common unit of measurement.
- ANS: T PTS: 1 DIF: Easy OBJ: 01-02
32. If a building is appraised for \$85,000, offered for sale at \$90,000, and the buyer pays \$80,000 cash for it, the buyer would record the building at \$85,000.
- ANS: F PTS: 1 DIF: Moderate OBJ: 01-02

33. GAAP stands for General Accepted Accounting Protocols.
ANS: F PTS: 1 DIF: Easy OBJ: 01-02
34. Generally accepted accounting principles regulate how and what financial information is reported by businesses.
ANS: T PTS: 1 DIF: Easy OBJ: 01-02
35. Relevance and reliability are fundamental qualitative characteristics that define the information in financial statements.
ANS: T PTS: 1 DIF: Easy OBJ: 01-02
36. Reliable information helps investors and others make financial decisions.
ANS: F PTS: 1 DIF: Easy OBJ: 01-02
37. Publicly accountable enterprises will be subject to International Financial Reporting Standards (IFRS).
ANS: T PTS: 1 DIF: Easy OBJ: 01-02
38. Both IFRS and Canadian GAAP seek to produce financial statements that help users make decisions.
ANS: T PTS: 1 DIF: Easy OBJ: 01-02
39. The accounting equation can be expressed as $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$.
ANS: T PTS: 1 DIF: Easy OBJ: 01-03
40. The rights or claims to the assets of a business may be subdivided into rights of creditors and rights of owners.
ANS: T PTS: 1 DIF: Difficult OBJ: 01-03
41. The owner's rights to the assets rank ahead of the creditors' rights to the assets.
ANS: F PTS: 1 DIF: Easy OBJ: 01-03
42. If the liabilities owed by a business total \$300,000 and owner's equity is equal to \$300,000, then the assets also total \$300,000.
ANS: F PTS: 1 DIF: Moderate OBJ: 01-03
43. If total assets decreased by \$30,000 during a specific period and owner's equity decreased by \$35,000 during the same period, the period's change in total liabilities was an \$65,000 increase.
ANS: F PTS: 1 DIF: Moderate OBJ: 01-03

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44. If the assets owned by a business total \$250,000, and owner's equity totals \$200,000, liabilities total \$50,000.
- ANS: T PTS: 1 DIF: Moderate OBJ: 01-03
45. If the assets owned by a business total \$75,000 and liabilities total \$50,000, the total for owner's equity is \$125,000.
- ANS: F PTS: 1 DIF: Moderate OBJ: 01-03
46. If total assets increased by \$190,000 during a specific period and liabilities decreased by \$10,000 during the same period, the period's change in total owner's equity was a \$200,000 increase.
- ANS: T PTS: 1 DIF: Moderate OBJ: 01-03
47. Revenues are decreases in economic resources either through a decrease in assets or an increase in liabilities caused by the normal activities of the business.
- ANS: F PTS: 1 DIF: Easy OBJ: 01-03
48. If net income for a proprietorship was \$50,000, the owner withdrew \$20,000 in cash, and the owner invested \$10,000 in cash, the capital of the owner increased by \$40,000.
- ANS: T PTS: 1 DIF: Difficult OBJ: 01-04
49. If net income for a business was \$180,000, withdrawals were \$20,000 in cash, and the owner made no investment, the owner's equity increased \$200,000.
- ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
50. An account receivable is a claim against a customer arising from a sale on account.
- ANS: T PTS: 1 DIF: Easy OBJ: 01-04
51. Paying an account payable increases liabilities and decreases assets.
- ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
52. Receiving payments on an account receivable increases both equity and assets.
- ANS: F PTS: 1 DIF: Difficult OBJ: 01-04
53. Cash investments by owners increase both equity and assets.
- ANS: T PTS: 1 DIF: Moderate OBJ: 01-04
54. Cash withdrawals by owners decrease assets and increase equity.
- ANS: F PTS: 1 DIF: Moderate OBJ: 01-04

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55. Purchasing supplies on account increases liabilities and decreases equity.
ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
56. The owner is only allowed to withdraw cash from the business.
ANS: F PTS: 1 DIF: Easy OBJ: 01-04
57. Receiving a bill or otherwise being notified that an amount is owed is recorded when the amount is paid.
ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
58. Revenue is earned only when money is received.
ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
59. Expenses are expired costs of doing business.
ANS: T PTS: 1 DIF: Easy OBJ: 01-04
60. The excess of revenue over the expenses incurred in earning the revenue is called capital.
ANS: F PTS: 1 DIF: Easy OBJ: 01-04
61. Expenses increase owner's equity.
ANS: F PTS: 1 DIF: Easy OBJ: 01-04
62. The excess of expenses over revenues is called net income.
ANS: F PTS: 1 DIF: Easy OBJ: 01-05
63. The principal financial statements of a proprietorship are the income statement, statement of owner's equity, and the balance sheet.
ANS: F PTS: 1 DIF: Easy OBJ: 01-05
64. A balance sheet is a list of the assets, liabilities, and owner's equity of a business for a period of time.
ANS: F PTS: 1 DIF: Easy OBJ: 01-05
65. An income statement is a summary of the revenues and expenses of a business as of a specific date.
ANS: F PTS: 1 DIF: Easy OBJ: 01-05
66. A statement of owner's equity reports the changes in the owner's equity for a period of time.
ANS: T PTS: 1 DIF: Easy OBJ: 01-05

67. The cash flow statement consists of an operating section, an income section, and an equity section.

ANS: F PTS: 1 DIF: Easy OBJ: 01-05

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

ANS: F PTS: 1 DIF: Moderate OBJ: 01-05

69. The balance sheet represents the accounting equation.

ANS: T PTS: 1 DIF: Easy OBJ: 01-05

70. Net income and net profit mean the same thing.

ANS: T PTS: 1 DIF: Easy OBJ: 01-05

MATCHING

Match the following terms with their definition.

- a. relevance
- b. GAAP
- c. business entity concept
- d. timeliness
- e. verifiability
- f. cost principle
- g. corporation
- h. partnership
- i. proprietorship
- j. monetary unit principle

- 1. economic data is recorded in dollars
- 2. information can be confirmed with source documents
- 3. ownership is divided into shares
- 4. business is viewed as an entity separate from its owners
- 5. interim financial statements possess this quality
- 6. combines the skills and resources of more than one person
- 7. characteristic of information that helps investors and others make financial decisions
- 8. amounts are initially recorded at their cost or purchase price
- 9. owner is personally liable for company debts
- 10. body of accounting principles used by financial accountants

- 1. ANS: J PTS: 1 DIF: Moderate OBJ: 01-02
- 2. ANS: E PTS: 1 DIF: Moderate OBJ: 01-02
- 3. ANS: G PTS: 1 DIF: Moderate OBJ: 01-02
- 4. ANS: C PTS: 1 DIF: Moderate OBJ: 01-02
- 5. ANS: D PTS: 1 DIF: Moderate OBJ: 01-02
- 6. ANS: H PTS: 1 DIF: Moderate OBJ: 01-02

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|-----|--------|--------|---------------|------------|
| 7. | ANS: A | PTS: 1 | DIF: Moderate | OBJ: 01-02 |
| 8. | ANS: F | PTS: 1 | DIF: Moderate | OBJ: 01-02 |
| 9. | ANS: I | PTS: 1 | DIF: Moderate | OBJ: 01-02 |
| 10. | ANS: B | PTS: 1 | DIF: Moderate | OBJ: 01-02 |

Match the following transactions with their effects to the accounting equation.

- increase assets, increase liabilities
 - increase liabilities, decrease owner's equity
 - increase assets, increase owner's equity
 - no effect
 - decrease assets, decrease liabilities
 - decrease assets, decrease owner's equity
- received cash for services provided
 - received utility invoice to be paid next month
 - investment of land by owner
 - paid part of an amount owed to a creditor
 - paid cash for the purchase of a 1-year insurance policy
 - received payment from a customer for an invoice that was billed last month
 - cash withdrawal by owner
 - provided a service to a customer on account
 - purchased supplies on credit
 - paid wages

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|-----|--------|--------|---------------|------------|
| 11. | ANS: C | PTS: 1 | DIF: Moderate | OBJ: 01-04 |
| 12. | ANS: B | PTS: 1 | DIF: Moderate | OBJ: 01-04 |
| 13. | ANS: C | PTS: 1 | DIF: Moderate | OBJ: 01-04 |
| 14. | ANS: E | PTS: 1 | DIF: Moderate | OBJ: 01-04 |
| 15. | ANS: D | PTS: 1 | DIF: Moderate | OBJ: 01-04 |
| 16. | ANS: D | PTS: 1 | DIF: Moderate | OBJ: 01-04 |
| 17. | ANS: F | PTS: 1 | DIF: Moderate | OBJ: 01-04 |
| 18. | ANS: C | PTS: 1 | DIF: Moderate | OBJ: 01-04 |
| 19. | ANS: A | PTS: 1 | DIF: Moderate | OBJ: 01-04 |
| 20. | ANS: F | PTS: 1 | DIF: Moderate | OBJ: 01-04 |

MULTIPLE CHOICE

- Profit is the difference between which of the following?
 - assets and liabilities
 - the incoming cash and outgoing cash
 - the assets purchased with cash contributed by the owner and the cash spent to operate the business
 - the assets received for goods and services and the amounts used to provide the goods and services

ANS: D PTS: 1 DIF: Easy OBJ: 01-01

2. Who uses financial reports?
- a. management
 - b. creditors
 - c. investors
 - d. management, creditors, and investors all use financial reports

ANS: D PTS: 1 DIF: Easy OBJ: 01-01

3. Which of the following **BEST** describes accounting?
- a. It records economic data but does not communicate the data to users according to any specific rules.
 - b. It is an information system that provides reports to users.
 - c. It is of no use by individuals outside the business.
 - d. It is used only for filling out tax returns and for financial statements for various types of governmental reporting requirements.

ANS: B PTS: 1 DIF: Moderate OBJ: 01-01

4. Which two common areas of accounting respectively provide information to internal and external users?
- a. forensic accounting and financial accounting
 - b. managerial accounting and financial accounting
 - c. managerial accounting and environmental accounting
 - d. financial accounting and tax accounting systems

ANS: B PTS: 1 DIF: Easy OBJ: 01-01

5. Which of the following is **BEST** describes a manufacturing business?
- a. It changes inputs to products that are sold to customers.
 - b. It sells products it purchases from other businesses.
 - c. Only a large business can be considered a manufacturing business.
 - d. It provide services rather than products to customers.

ANS: A PTS: 1 DIF: Moderate OBJ: 01-01

6. Which of the following are all examples of merchandising businesses?
- a. Air Canada, Holiday Inn, Gap
 - b. Gap, Chapters, Bombardier
 - c. Future Shop, Sony, Dell
 - d. Future Shop, Best Buy, Gap

ANS: D PTS: 1 DIF: Easy OBJ: 01-01

7. Which of the following would **NOT** normally operate as a service business?
- a. pet groomers
 - b. restaurant
 - c. video rentals
 - d. styling salon

ANS: B PTS: 1 DIF: Moderate OBJ: 01-01

8. Which of the following groups are considered to be **internal users** of accounting information?
- employees and customers
 - customers and vendors
 - employees and managers
 - government and banks

ANS: C PTS: 1 DIF: Easy OBJ: 01-01

9. Which of the following groups are considered to be external users of accounting information?
- employees and customers
 - customers and vendors
 - management and employees
 - managers, employees, and government

ANS: B PTS: 1 DIF: Easy OBJ: 01-01

10. Due to various fraudulent business practices and accounting cover-ups in the early 2000s, a new oversight board for public accountants was established. What is it called?
- Generally Accepted Accounting Practices for Public Accountants Board
 - Public Company Accounting Oversight Board
 - Accounting Standards Board
 - Canadian Public Accountability Board

ANS: D PTS: 1 DIF: Easy OBJ: 01-01

11. Which of the following **BEST** describes accounting's role in business?
- Accounting provides shareholders with information regarding the market value of the company's shares.
 - Accounting provides information to managers to operate the business and to other users to make decisions regarding the economic condition of the company.
 - Accounting provides creditors and banks with information regarding the credit risk rating of the company.
 - Accounting is not responsible for providing any form of information to users. That is the role of the Information Systems department.

ANS: B PTS: 1 DIF: Moderate OBJ: 01-01

12. What do managerial accountants provide?
- tax reports to government agencies
 - profit reports to owners and management
 - reports to management regarding expansion of a product line
 - consumer reports to customers

ANS: C PTS: 1 DIF: Moderate OBJ: 01-01

13. Which of the following are certifications for accountants?
- CA, CMA, and CGA
 - CMA, CGA, and AcSB
 - CGA, CPAB, and CA
 - GAAP, CA, and CGA.

ANS: A PTS: 1 DIF: Moderate OBJ: 01-01

14. Which of the following is **NOT** a role of accounting in business?
- a. providing reports to users about the economic activities and conditions of a business
 - b. personally guaranteeing loans of the business
 - c. providing information to other users to determine the economic performance and condition of the business
 - d. assessing the various informational needs of users and designing the organization's accounting system to meet those needs

ANS: B PTS: 1 DIF: Moderate OBJ: 01-01

15. Which of the following are guidelines for behaving ethically?
- I. Identify the consequences of a decision and its effect on others.
 - II. Consider your obligations and responsibilities to those affected by the decision.
 - III. Identify your decision based on personal standards of honesty and fairness.
- a. I and II.
 - b. II and III.
 - c. I and III.
 - d. I, II, and III.

ANS: D PTS: 1 DIF: Moderate OBJ: 01-01

16. How are most businesses in Canada set up?
- a. as sole proprietorships
 - b. as partnerships
 - c. as corporations
 - d. as separate entities

ANS: C PTS: 1 DIF: Easy OBJ: 01-02

17. Which of the following items is **NOT** a business entity?
- a. entrepreneurship
 - b. proprietorship
 - c. partnership
 - d. corporation

ANS: A PTS: 1 DIF: Easy OBJ: 01-02

18. Which entity is organized according to provincial or federal charters and has its ownership divided into shares?
- a. a proprietorship
 - b. a corporation
 - c. a partnership
 - d. a governmental unit

ANS: B PTS: 1 DIF: Easy OBJ: 01-02

19. Select the type of business that is most likely to obtain large amounts of resources by issuing shares.
- a. partnership
 - b. corporation
 - c. proprietorship
 - d. entrepreneurship

ANS: B PTS: 1 DIF: Easy OBJ: 01-02

20. Why do shareholders in a corporation have an interest in the company?
- a. They provide incentives for the company to market its products.
 - b. They are part of the Marketing Department that is responsible for promoting the products or services to increase business profits.
 - c. They help market the products to customers or find vendors to supply needed inputs.
 - d. They provide major financing for the business.

ANS: D PTS: 1 DIF: Moderate OBJ: 01-02

21. Which of the following is a characteristic of a corporation?
- a. Corporations are organized as a separate legal taxable entity.
 - b. The owner is personally liable for company debts.
 - c. The life of the entity is limited to the life of the partners.
 - d. A corporation's resources are limited to its individual owners' resources.

ANS: A PTS: 1 DIF: Moderate OBJ: 01-02

22. What does GAAP stand for?
- a. General Accounting Procedures
 - b. Generally Accepted Plans
 - c. Generally Accepted Accounting Principles
 - d. Generally Accepted Accounting Practices

ANS: C PTS: 1 DIF: Moderate OBJ: 01-02

23. Currently, the dominant body in the development of accounting principles is which of the following?
- a. Accounting Standards Board (AcSB)
 - b. Canadian Public Accountability Board (CPAB)
 - c. Ontario Securities Commission (OSC)
 - d. Society of Management Accountants (SMA)

ANS: A PTS: 1 DIF: Easy OBJ: 01-02

24. What does the business entity concept mean?
- a. The owner is part of the business entity.
 - b. An entity is organized according to provincial or federal charters.
 - c. An entity is organized according to the rules set by the AcSB.
 - d. The entity is an individual economic unit for which data are recorded, analyzed, and reported.

ANS: D PTS: 1 DIF: Easy OBJ: 01-02

25. For accounting purposes, the business entity should be considered separate from its owners if the entity is which of the following?
- a. a corporation
 - b. a proprietorship
 - c. a partnership
 - d. a corporation, a proprietorship, or a partnership

ANS: D PTS: 1 DIF: Moderate OBJ: 01-02

26. Darnell Company purchased \$88,000 of computer equipment from Joseph Company. Darnell Company paid for the equipment using cash that had been obtained from the initial investment by Donnie Darnell. The transaction involving the computer equipment should be recorded on the accounting records of which of the following entities?
- Darnell Company and Donnie Darnell's personal records
 - Joseph Company and Donnie Darnell's personal records
 - Darnell Company and Joseph Company
 - Joseph Company

ANS: C PTS: 1 DIF: Difficult OBJ: 01-02

27. What does the reliability characteristic require?
- Business transactions must be consistent with the objectives of the entity.
 - The Accounting Standards Board must be fair and unbiased in its deliberations over new accounting standards.
 - Accounting principles must meet the objectives of the provincial security regulatory body.
 - Amounts recorded in the financial statements must be based on independently verifiable evidence.

ANS: D PTS: 1 DIF: Moderate OBJ: 01-02

28. Recently, owner Denzel withdrew \$18,000 from his company, Crystal Cleaning, and he contributed \$14,000, in his name, to Habitat for Humanity. The contribution of the \$14,000 should be recorded on the accounting records of which of the following entities?
- Crystal Cleaning and Habitat for Humanity
 - Denzel Jones's personal records and Habitat for Humanity
 - Denzel Jones's personal records and Crystal Cleaning
 - Denzel Jones's personal records, Crystal Cleaning, and Habitat for Humanity

ANS: B PTS: 1 DIF: Difficult OBJ: 01-02

29. Equipment with an estimated market value of \$55,000 is offered for sale at \$75,000. The equipment is acquired for \$20,000 in cash and a note payable of \$40,000 due in 30 days. What is the amount used in the buyer's accounting records to record this acquisition?
- \$20,000
 - \$55,000
 - \$60,000
 - \$75,000

ANS: C PTS: 1 DIF: Difficult OBJ: 01-02

30. Which of the following authoritative body has the primary responsibility for developing accounting principles?
- AcSB
 - CRA
 - OSC
 - CMA

ANS: A PTS: 1 DIF: Easy OBJ: 01-02

31. Which of the following concepts relates to separating the reporting of business and personal economic transactions?
- a. cost principle
 - b. monetary unit concept
 - c. business entity concept
 - d. reliability characteristic

ANS: C PTS: 1 DIF: Easy OBJ: 01-02

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

ANS: B PTS: 1 DIF: Moderate OBJ: 01-02

33. Which of the following is **NOT** true of accounting principles?
- a. Financial accountants follow generally accepted accounting principles (GAAP).
 - b. Following GAAP allows accounting information users to compare one company to another.
 - c. A new accounting principle can be adopted with shareholders' approval.
 - d. Accounting principles develop from research, accepted accounting practices, and pronouncements of authoritative bodies.

ANS: C PTS: 1 DIF: Moderate OBJ: 01-02

34. Which of the following describes the monetary unit concept?
- a. It is used only in the financial statements of manufacturing companies.
 - b. It is not important when applying the cost principle.
 - c. It requires that different units be used for assets and liabilities.
 - d. It requires that economic data be reported in yen in Japan or dollars in Canada.

ANS: D PTS: 1 DIF: Easy OBJ: 01-02

35. What are the fundamental qualitative characteristics that define information in financial statements?
- a. verifiability and timeliness characteristics
 - b. business entity and the monetary unit concepts
 - c. cost principle and understandability characteristic
 - d. relevance and reliability characteristics

ANS: D PTS: 1 DIF: Easy OBJ: 01-02

36. What does the cost principle involve?
- a. the reliability characteristic and the monetary unit principle
 - b. relevance and verifiability characteristics
 - c. timeliness and understandability characteristics
 - d. relevance and reliability characteristics

ANS: A PTS: 1 DIF: Moderate OBJ: 01-02

37. What are the owned resources of a business?

- a. assets
- b. liabilities
- c. equities
- d. revenues

ANS: A PTS: 1 DIF: Easy OBJ: 01-03

38. Which of the following **BEST** describes assets?

- a. They are always greater than liabilities.
- b. They are either cash or accounts receivables.
- c. They are the same as expenses because they are acquired with cash.
- d. They are financed by the owner and/or creditors.

ANS: D PTS: 1 DIF: Easy OBJ: 01-03

39. What are the debts owed by a business?

- a. accounts receivables
- b. equities
- c. owner's equity
- d. liabilities

ANS: D PTS: 1 DIF: Easy OBJ: 01-03

40. How can the accounting equation be expressed?

- a. $\text{Assets} = \text{Equities} - \text{Liabilities}$
- b. $\text{Assets} + \text{Liabilities} = \text{Owner's Equity}$
- c. $\text{Assets} = \text{Revenues less Liabilities}$
- d. $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$

ANS: D PTS: 1 DIF: Moderate OBJ: 01-03

41. Which of the following is **NOT** an asset?

- a. investments
- b. cash
- c. inventory
- d. owner's equity

ANS: D PTS: 1 DIF: Easy OBJ: 01-03

42. The assets and liabilities of the company are \$175,000 and \$40,000, respectively. Owner's equity should equal which of the following?

- a. \$215,000
- b. \$175,000
- c. \$135,000
- d. \$40,000

ANS: C PTS: 1 DIF: Easy OBJ: 01-03

43. Suppose that total liabilities decreased by \$55,000 during a period of time and owner's equity increased by \$60,000 during the same period. What would be the amount and direction (increase or decrease) of the period's change in total asset?
- a. a \$115,000 increase
 - b. a \$115,000 decrease
 - c. a \$5,000 increase
 - d. a \$5,000 decrease

ANS: C PTS: 1 DIF: Moderate OBJ: 01-03

44. Which of the following is **INCORRECT** about the accounting equation and its elements?
- a. The accounting equation is $\text{Assets} = \text{Liabilities} - \text{Owners' Equity}$.
 - b. Assets are the resources a business possesses.
 - c. Liabilities represent debts of a business.
 - d. Examples of assets are cash, land, buildings, and equipment.

ANS: A PTS: 1 DIF: Moderate OBJ: 01-03

45. Which of the following is **NOT** a business transaction?
- a. Make a sales offer.
 - b. Sell goods for cash.
 - c. Receive cash for services to be rendered later.
 - d. Pay for supplies.

ANS: A PTS: 1 DIF: Moderate OBJ: 01-04

46. A business paid \$7,000 to a creditor in payment of an amount owed. What was the effect of the transaction on the accounting equation?
- a. It increased an asset and decreased another asset.
 - b. It decreased an asset and decreased a liability.
 - c. It increased an asset and increased a liability.
 - d. It increased an asset and increased owner's equity.

ANS: B PTS: 1 DIF: Moderate OBJ: 01-04

47. What does earning revenue do?
- a. It increases assets and increases owner's equity.
 - b. It increases assets and decreases owner's equity.
 - c. It increases one asset and decreases another asset.
 - d. It decreases assets and increases liabilities.

ANS: A PTS: 1 DIF: Moderate OBJ: 01-04

48. What is the monetary value charged to customers for the performance of services sold called?
- a. an asset
 - b. net income
 - c. capital
 - d. revenue

ANS: D PTS: 1 DIF: Easy OBJ: 01-04

49. When are revenues reported?
- a. when a contract is signed
 - b. when cash is received from the customer
 - c. when work is begun on the job
 - d. when work is completed on the job

ANS: D PTS: 1 DIF: Moderate OBJ: 01-04

50. When are expenses recorded?
- a. when cash is paid for services received
 - b. when a bill is received in advance of services received
 - c. when services are received
 - d. when creditors are paid on account

ANS: C PTS: 1 DIF: Moderate OBJ: 01-04

51. What are goods purchased on account for future use in the business, such as supplies, called?
- a. prepaid liabilities
 - b. revenues
 - c. prepaid expenses
 - d. liabilities

ANS: C PTS: 1 DIF: Easy OBJ: 01-04

52. What is the asset created by a business when it makes a sale on account ?
- a. accounts payable
 - b. prepaid expense
 - c. unearned revenue
 - d. accounts receivable

ANS: D PTS: 1 DIF: Easy OBJ: 01-04

53. What is the debt created by a business when it makes a purchase on account?
- a. an account payable
 - b. an account receivable
 - c. an asset
 - d. a prepaid expense

ANS: A PTS: 1 DIF: Easy OBJ: 01-04

54. Suppose total assets decreased by \$88,000 during a period of time and owner's equity increased by 65,000 during the same period. The amount and direction (increase or decrease) of the period's change in total liabilities is which of the following?
- a. a \$23,000 increase
 - b. an \$88,000 decrease
 - c. a \$153,000 increase
 - d. a \$153,000 decrease

ANS: D PTS: 1 DIF: Moderate OBJ: 01-04

55. What do owner's withdrawals do?
- They increase expenses.
 - They decrease expenses.
 - They increase cash.
 - They decrease owner's equity.

ANS: D PTS: 1 DIF: Easy OBJ: 01-04

56. Which of the following increases owner's equity?
- cash
 - revenue
 - accounts receivable
 - withdrawals

ANS: B PTS: 1 DIF: Easy OBJ: 01-04

57. How does the purchase of supplies on account affect the accounting equation?
- assets increase; owner's equity decreases
 - assets increase; liabilities increase
 - assets increase; liabilities decrease
 - liabilities increase; owner's equity decreases

ANS: B PTS: 1 DIF: Moderate OBJ: 01-04

58. How does the rendering of services on account affect the accounting equation?
- assets increase; owner's equity increases
 - assets decrease; owner's equity decreases
 - assets increase; owner's equity decreases
 - liabilities increase; owner's equity decreases

ANS: A PTS: 1 DIF: Moderate OBJ: 01-04

59. How does paying a liability in cash affect the accounting equation?
- assets increase; liabilities decrease
 - assets increase; liabilities increase
 - assets decrease; liabilities decrease
 - liabilities decrease; owner's equity increases

ANS: C PTS: 1 DIF: Moderate OBJ: 01-04

60. How does the owner's withdrawing cash from the business affect the accounting equation?
- assets decrease; owner's equity decreases
 - assets decrease; owner's equity increases
 - assets increase; liabilities decrease
 - there is no effect on the assets, liabilities, or owner's equity

ANS: A PTS: 1 DIF: Moderate OBJ: 01-04

61. How does receiving a bill to be paid next month for services rendered affect the accounting equation?
- a. assets decrease; owner's equity decreases
 - b. assets increase; liabilities increase
 - c. liabilities increase; owner's equity increases
 - d. liabilities increase; owner's equity decreases

ANS: D PTS: 1 DIF: Moderate OBJ: 01-04

62. How does the collection of cash from a customer who was previously put on account affect the accounting equation?
- a. assets decrease; owner's equity decreases
 - b. assets increase; owner's equity increases
 - c. assets increase; assets decrease
 - d. assets increase; liabilities increase

ANS: C PTS: 1 DIF: Moderate OBJ: 01-04

63. How does the purchase of equipment by signing a note affect the accounting equation?
- a. assets increase; assets decrease
 - b. assets increase; liabilities decrease
 - c. assets increase; liabilities increase
 - d. assets increase; owner's equity increases

ANS: C PTS: 1 DIF: Moderate OBJ: 01-04

64. On July 1 of the current year, the assets and liabilities of John Wong, DVM, are as follows: Cash, \$15,000; Accounts Receivable, \$12,300; Supplies, \$3,100; Land, \$35,000; Accounts Payable, \$8,700. What is the amount of owner's equity (John Wong's capital) as of July 1 of the current year?
- a. \$43,700
 - b. \$56,700
 - c. \$65,400
 - d. \$74,100

ANS: B PTS: 1 DIF: Moderate OBJ: 01-04

65. Allen Marks is the sole owner and operator of Great Marks Company. As of the end of its accounting period, December 31, 2011, Great Marks Company has assets of \$940,000 and liabilities of \$300,000. During 2012, Allen Marks invested an additional \$65,000 and withdrew \$45,000 from the business. What is the amount of net income during 2012, assuming that as of December 31, 2012, assets were \$995,000, and liabilities were \$270,000?
- a. \$50,000
 - b. \$65,000
 - c. \$105,000
 - d. \$370,000

ANS: B PTS: 1 DIF: Difficult OBJ: 01-04

66. The total assets and the total liabilities of a business at the beginning and at the end of the year appear below. During the year, the owner had withdrawn \$60,000 for personal use and had made an additional investment of \$45,000 in the business.

	Assets	Liabilities
Beginning of year	\$305,000	\$200,000
End of year	365,000	230,000

What was the amount of net income for the year?

- a. \$45,000
- b. \$60,000
- c. \$75,000
- d. \$90,000

ANS: A PTS: 1 DIF: Difficult OBJ: 01-04

67. Suppose that beginning capital was \$70,000, ending capital is \$48,000, and the owner's withdrawals were \$21,000. What is the amount of net income or net loss?

- a. net income of \$42,000
- b. net income of \$17,000
- c. net loss of \$22,000
- d. net loss of \$1,000

ANS: D PTS: 1 DIF: Difficult OBJ: 01-04

68. Transactions affecting owner's equity include which of the following?

- a. owner's investments and payment of liabilities
- b. owner's investments and owner's withdrawals, revenues, and expenses
- c. owner's investments, revenues, expenses, and collection of accounts receivable
- d. owner's withdrawals, revenues, expenses, and purchase of supplies on account

ANS: B PTS: 1 DIF: Easy OBJ: 01-04

69. Clifford Moore is starting his computer programming business and has deposited an initial investment of \$15,000 into the business cash account. How will the accounting equation be affected?

- a. Increase Assets (Cash); increase Liabilities (Accounts Payable).
- b. Increase Assets (Cash); increase Owner's Equity (Clifford Moore, Capital).
- c. Increase Assets (Accounts Receivable); decrease Liabilities (Accounts Payable).
- d. Increase Assets (Cash); increase Assets (Accounts Receivable).

ANS: B PTS: 1 DIF: Moderate OBJ: 01-04

70. Simpson Auto Body Repair purchased \$20,000 of Machinery. The company paid \$8,000 in cash at the time of the purchase and signed a promissory note for the remainder to be paid in four monthly installments. How will this transaction affect the accounting equation?

- a. Increase Assets (Machinery \$20,000); decrease Liabilities (Accounts Payable \$20,000).
- b. Increase Total Assets by a net amount of \$12,000 (increase Machinery \$20,000 and decrease Cash \$8,000); increase Liabilities (Notes Payable \$12,000).
- c. Increase Total Assets by a net amount of \$20,000 (increase Machinery \$12,000 and increase Cash \$8,000); and decrease Liabilities (Accounts Payable \$20,000).
- d. Increase Assets (Machinery \$12,000); increase Liabilities (Accounts Payable \$12,000).

ANS: B PTS: 1 DIF: Difficult OBJ: 01-04

71. Collins Landscape Company purchased various landscaping supplies on account to be used for landscape designs for its customers. How will this business transaction affect the accounting equation?
- Increase Assets (Supplies); increase Liabilities (Accounts Payable).
 - Increase Assets (Supplies); decrease Assets (Cash).
 - Increase Assets (Supplies); decrease Owner's Equity (Supplies Expense).
 - Increase Owner's Equity (Supplies Expense); increase Liabilities (Accounts Payable).

ANS: A PTS: 1 DIF: Moderate OBJ: 01-04

72. Four transactions affect owner's equity. Which are the two transactions that increase owner's equity?
- revenues and expenses
 - expenses and owner's withdrawals
 - revenues and owner's investments
 - owner's investments and expenses

ANS: C PTS: 1 DIF: Easy OBJ: 01-04

73. Four transactions directly affect owner's equity. Which are the two transactions that decrease owner's equity?
- owner's withdrawals and expenses
 - revenues and expenses
 - owner's investments and revenues
 - owner's investments and expenses

ANS: A PTS: 1 DIF: Easy OBJ: 01-04

74. Gomez Service Company has received \$7,500 in cash for services rendered. What effect does this transaction have on the accounting equation?
- Increase Assets (Cash); decrease Owner's Equity (Expenses).
 - Increase Assets (Cash); decrease Assets (Accounts Receivable).
 - Increase Assets (Accounts Receivable); increase Owner's Equity (Fees Earned).
 - Increase Assets (Cash); increase Owner's equity (Fees Earned)

ANS: D PTS: 1 DIF: Moderate OBJ: 01-04

75. Gomez Service Company paid its first installment on its Notes Payable in the amount of \$2,000. How will this transaction affect the accounting equation?
- Increase Liabilities (Notes Payable); decrease Assets (Cash).
 - Decrease Assets (Cash); decrease Owner's equity (Note Payable Expense).
 - Decrease Assets (Cash); decrease Assets (Notes Receivable).
 - Decrease Assets (Cash); decrease Liabilities (Notes Payable).

ANS: D PTS: 1 DIF: Moderate OBJ: 01-04

76. Ramirez Company received its first electric bill in the amount of \$60, which will be paid next month. How will this transaction affect the accounting equation?
- Increase Liabilities (Accounts Payable); decrease Owner's Equity (Utilities Expense).
 - Increase Liabilities (Accounts Receivable); decrease Owner's Equity (Utilities Expense).
 - Decrease Assets (Cash); decrease Liabilities (Accounts Payable).
 - Decrease Assets (Cash); decrease Owner's Equity (Utilities Expense).

ANS: A PTS: 1 DIF: Moderate OBJ: 01-04

77. Ramon Ramos has withdrawn \$750 from Ramos Repair Company's cash account to deposit in his personal account. How does this transaction affect Ramos Repair Company's accounting equation?
- Increase Assets (Accounts Receivable); decrease Assets (Cash).
 - Decrease Assets (Cash); decrease Owner's Equity (Owner's Withdrawal).
 - Decrease Assets (Cash); decrease Liabilities (Accounts Payable).
 - Increase Assets (Cash); decrease Owner's Equity (Owner's Withdrawal).

ANS: B PTS: 1 DIF: Moderate OBJ: 01-04

78. Which of the following is **NOT** a business transaction?
- Erin deposits \$15,000 in a bank account in the name of Erin's Lawn Service.
 - Erin provided services to customers earning fees of \$600.
 - Erin purchased hedge trimmers for her lawn service, agreeing to pay the supplier next month.
 - Erin pays her monthly personal credit card bill.

ANS: D PTS: 1 DIF: Difficult OBJ: 01-04

79. What is the financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or year?
- a prior-period statement
 - a statement of owner's equity
 - an income statement
 - a balance sheet

ANS: C PTS: 1 DIF: Easy OBJ: 01-05

80. Which of the following is **NOT** a financial statement of a proprietorship?
- the statement of retained earnings
 - the statement of owner's equity
 - the income statement
 - the cash flow statement

ANS: A PTS: 1 DIF: Easy OBJ: 01-05

81. Which of the following financial statements reports information as of a specific date?
- the income statement
 - the statement of owner's equity
 - the cash flow statement
 - the balance sheet

ANS: D PTS: 1 DIF: Easy OBJ: 01-05

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

ANS: A PTS: 1 DIF: Easy OBJ: 01-05

83. Where are liabilities reported?
- a. on the income statement
 - b. on the statement of owner's equity
 - c. on the cash flow statement
 - d. on the balance sheet

ANS: D PTS: 1 DIF: Easy OBJ: 01-05

84. Where are cash investments made by the owner to the business reported on the cash flow statement?
- a. in the Financing Activities section
 - b. in the Investing Activities section
 - c. in the Operating Activities section
 - d. in the Supplemental Statement

ANS: A PTS: 1 DIF: Easy OBJ: 01-05

85. Where does the year-end balance of the owner's capital account appear?
- a. in both the statement of owner's equity and the income statement
 - b. in only the statement of owner's equity
 - c. in both the statement of owner's equity and the balance sheet
 - d. in both the statement of owner's equity and the cash flow statement

ANS: C PTS: 1 DIF: Easy OBJ: 01-05

86. A financial statement user would determine if a company was profitable or not during a specific period of time by reviewing which of the following?
- a. the income statement
 - b. the balance sheet
 - c. the cash flow statement
 - d. cannot be determined

ANS: A PTS: 1 DIF: Easy OBJ: 01-05

87. If an owner wanted to know how money flowed into and out of the company, what financial statement would she use?
- a. income statement
 - b. cash flow statement
 - c. balance sheet
 - d. statement of owners equity

ANS: B PTS: 1 DIF: Easy OBJ: 01-05

88. How does the asset section of the balance sheet normally present assets?
- a. in alphabetical order
 - b. in order of largest to smallest dollar amounts
 - c. in the order that they will be converted into cash
 - d. in no particular order

ANS: C PTS: 1 DIF: Easy OBJ: 01-05

89. The cash flow statement is separated into three major sections. What are they?
- Operating, Investing, and Financing
 - Revenues, Expenses, and Net Income
 - Assets, Liabilities, and Owner's Equity
 - Investments, Withdrawals, and Income

ANS: A PTS: 1 DIF: Easy OBJ: 01-05

90. Which of the following is **NOT** a primary financial statement?
- income statement
 - statement of resources owned
 - statement of owner's equity
 - cash flow statement

ANS: B PTS: 1 DIF: Easy OBJ: 01-05

OTHER/EXERCISES

1. Why are ethics important to statement users?

ANS:

The information must be trustworthy and useful for decision making. If business managers and employees behave in an unethical manner, no one will be willing to invest in or loan money to the business.

PTS: 1 DIF: Easy OBJ: 01-01

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

ANS:

The three factors are (1) individual character, (2) firm culture, and (3) laws and enforcement. Individual characteristics of honesty, integrity, and fairness in the face of pressure to hide the truth are important in an ethical businessperson. By their behaviour and attitude, senior managers of a company set the firm culture. In firms such as Enron, the senior managers created a culture of greed and indifference to the truth that flowed down to lower-level managers, who took shortcuts and lied to cover their financial frauds. The lack of laws and enforcement has been blamed as a contributing factor to financial reporting abuses.

PTS: 1 DIF: Moderate OBJ: 01-01

3. Explain internal and external users of accounting information by presenting the area of accounting that provides each with information. In your answers, also give an example of each type of user along with a report that each might use.

ANS:

Internal users of accounting information include managers and employees. The area of accounting that provides internal users with information is called managerial accounting or management accounting. An example of a report that might be used internally by managers or employees is one that includes information about customers, prices, and plans to expand the business.

External users of accounting information include customers, creditors, banks, and the government. These users are not directly involved in managing or operating the business. Financial reports about the profitability of a company's operations are important to banks and creditors when deciding to lend money to the company or extend credit.

PTS: 1 DIF: Difficult OBJ: 01-01

4. What is the major disadvantage of disregarding the cost principle and constantly revaluing assets based on appraisals and opinions?

ANS:

Accounting reports become unstable and unreliable.

PTS: 1 DIF: Easy OBJ: 01-02

5. On May 7, Carpet Barn Company offered to pay \$95,000 for land with a selling price of \$110,000. On May 15, Carpet Barn accepted a counteroffer of \$103,000. On June 5, the land was assessed at a value of \$120,000 for property tax purposes. On December 10, Carpet Barn Company was offered \$145,000 for the land by another company. At what value should the land be recorded in Carpet Barn Company's records?

ANS:

\$103,000

PTS: 1 DIF: Easy OBJ: 01-02 TOP: Example Exercise 1-1

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

ANS:

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

PTS: 1 DIF: Moderate OBJ: 01-02

7. Doug Miller is the owner and operator of Miller's Arcade. At the end of its accounting period, December 31, 2011, Miller's Arcade has assets of \$450,000 and liabilities of \$125,000. Using the accounting equation, determine the following amounts:
- Owner's Equity as of December 31, 2011.
 - Owner's Equity as of December 31, 2012, assuming that assets increased by \$65,000 and liabilities increased by \$35,000 during 2012.

ANS:

- a. $\$450,000 = \$125,000 + \mathbf{\$325,000}$
 b. $(\$450,000 + \$65,000) = (\$125,000 + \$35,000) + \mathbf{\$355,000}$

PTS: 1 DIF: Moderate OBJ: 01-03 TOP: Example Exercise 1-2

8. Determine the missing amount "X" for each of the following:

Assets	Liabilities	Owner's Equity
a. \$85,700	\$40,000	X
b. X	\$66,570	\$145,000
c. \$57,900	X	\$34,000

ANS:

- a. $\$85,700 - 40,000 = \$45,700$
 b. $\$66,570 + 145,000 = \$211,570$
 c. $\$57,900 - 34,000 = \$23,900$

PTS: 1 DIF: Easy OBJ: 01-03

9. Krammer Company has liabilities equal to one-fourth of the total assets. Krammer's owner's equity is equal to \$30,000. Using the accounting equation, what is the amount of liabilities for Krammer?

ANS:

$$\begin{aligned} \text{Assets} &= \text{Liabilities} + \text{Owner's Equity} \\ 4x &= x + \$30,000 \\ 3x &= \$30,000 \\ x &= \$10,000 \text{ in liabilities} \end{aligned}$$

PTS: 1 DIF: Difficult OBJ: 01-03

10. Daniels Company is owned and operated by Thomas Daniels. The following selected transactions were completed by Daniels Company during May:

- Received cash from owner as additional investment \$55,000.
- Paid creditors on account \$7,000.
- Billed customers for services on account, \$2,565.
- Received cash from customers on accounts \$8,450.
- Paid cash to owner for personal use, \$2,500.
- Received the utility bill \$160, to be paid next month.

Indicate the effect of each transaction on the accounting equation:

- by account type: (A) assets, (L) liabilities, (OE) owner's equity, (R) revenue, and (E) expense
- name of account for the entry
- the amount by of the transaction
- indicate the specific item within the account equation element that is affected.

Note: Each transaction has two entries. The first transactions has been completed as an example.

Entry					Entry			
	Acct Type	Name of Acct	Amount	Increase or Decrease	Acct Type	Name of Acct	Amount	Increase or Decrease
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
1	A	Cash	\$55,000	Increase	OE	Capital	\$55,000	Increase
2								
3								
4								
5								
6								

ANS:

Entry					Entry			
	Acct Type	Name of Acct	Amount	Increase or Decrease	Acct Type	Name of Acct	Amount	Increase or Decrease
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
1	A	Cash	55,000	Incr	OE	Capital	55,000	Incr
2	A	Cash	7,000	Decr	L	Liab	7,000	Decr
3	A	Acct Rec	2,565	Incr	R	Fees Earned	2,565	Incr
4	A	Cash	8,450	Incr	A	Acct Rec	8,450	Decr
5	A	Cash	2,500	Decr	OE	Withdrawals	2,500	Incr
6	L	Acct Pay	160	Incr	E	Util Exp	160	Incr

PTS: 1 DIF: Difficult OBJ: 01-04

11. Use the accounting equation to answer each of the independent questions that follow:
- At the beginning of the year, Norton Company assets were \$75,000 and its owner's equity was \$38,000. During the year, assets increased by \$18,000 and liabilities increased by \$4,000. What was the owner's equity at the end of the year?
 - At the beginning of the year, Turpin Industries had liabilities of \$44,000 and owner's equity of \$66,000. If assets increased by \$10,000 and liabilities decreased by \$5,000, what was the owner's equity at the end of the year?

ANS:

a. $\$75,000 - \$38,000 = \$37,000$ beginning of year liabilities
 $(\$75,000 + 18,000) - (\$37,000 + 4,000) = \$52,000$ end of year owner's equity

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

PTS: 1 DIF: Moderate OBJ: 01-03 | 01-04

12. Shiny Kar Company had the following transactions. For each transaction, show the effect on the accounting equation by putting the amount and direction (plus, minus, or “NC” for no change) in each cell of the table that follows.

	Assets	Liabilities	Owner’s Equity
a. Don Kar withdrew \$500 cash for food.			
b. Shiny Kar Company sold 2 cars for a total of \$55,000 on account.			
c. The cost of the cars sold in (b) above was \$40,000.			
d. Shiny Kar received \$35,000 payment for a car previously sold on account.			
e. Shiny Kar paid \$450 for advertising.			
f. Shiny Kar purchased \$150 of cleaning supplies on account.			

ANS:

	Assets	Liabilities	Owner’s Equity
a.	-\$500	NC	-\$500
b.	+\$55,000	NC	+\$55,000
c.	-\$40,000	NC	-\$40,000
d.	NC	NC	NC
e.	-\$450	NC	-\$450
f.	\$150	\$150	NC

PTS: 1 DIF: Moderate OBJ: 01-04

13. Jonathan Martin is the owner and operator of Martin Consultants. At the end of its accounting period, December 31, 2011, Martin Consultants has assets of \$430,000 and liabilities of \$205,000. Using the accounting equation and considering each case independently, determine the following:

- Jonathan Martin, capital, as of December 31, 2011.
- Jonathan Martin, capital, as of December 31, 2012, assuming that assets increased by \$12,000 and liabilities increased by \$15,000 in 2012.
- Jonathan Martin, capital, as of December 31, 2012, assuming that assets decreased by \$8,000 and liabilities increased by \$14,000 during 2012.

ANS:

- $\$430,000 - 205,000 = \$225,000$
- $(\$430,000 + 12,000) - (\$205,000 + 15,000) = \$222,000$
- $(\$430,000 - \$8,000) - (\$205,000 + 14,000) = \$203,000$

PTS: 1 DIF: Moderate OBJ: 01-03 | 01-04

14. Kim Hsu is the owner of Hsu's Financial Services. At the end of its accounting period, December 31, 2011, Hsu's has assets of \$575,000 and owner's equity of \$335,000. Using the accounting equation and considering each case independently, determine the following amounts.
- Hsu's liabilities as of December 31, 2011.
 - Hsu's liabilities as of December 31, 2012, assuming that assets increased by \$56,000 and owner's equity decreased by \$32,000.
 - Net income or net loss during 2012, assuming that as of December 31, 2012, assets were \$592,000, liabilities were \$450,000, and there were no additional investments or withdrawals.

ANS:

- $\$575,000 - 335,000 = \$240,000$
- $(\$575,000 + 56,000) - (\$335,000 - 32,000) = \$328,000$
- $(\$592,000 - 450,000) = \$142,000$
 $\$335,000 - 142,000 = \$193,000$ net loss

PTS: 1 DIF: Difficult OBJ: 01-03 | 01-04

15. a. A vacant lot acquired for \$83,000 is sold for \$127,000 in cash. What is the effect of the sale on the total amount of the seller's (1) assets, (2) liabilities, and (3) owner's equity?
- b. Assume that the seller owes \$52,000 on a loan for the land. After receiving the \$127,000 cash in (a), the seller pays the \$52,000 owed. What is the effect of the payment on the total amount of the seller's (1) assets, (2) liabilities, and (3) owner's equity?

ANS:

- Total assets increased \$44,000.
 - No change in liabilities.
 - Owner's equity increased \$44,000.
- Total assets decreased \$52,000.
 - Total liabilities decreased \$52,000.
 - No change in owner's equity.

PTS: 1 DIF: Difficult OBJ: 01-04

16. The assets and liabilities of Amos Moving Services at December 31, 2012, the end of the current year, and its revenue and expenses for the year are listed below. The capital of the owner was \$180,000 at January 1, 2012, the beginning of the current year.

Accounts Payable	\$1,200	Miscellaneous Expense	\$230
Accounts Receivable	\$10,340	Office Expense	\$1,240
Cash	\$33,990	Supplies	\$1,670
Fees Earned	\$84,350	Wages Expense	\$23,550
Land	\$47,000	Withdrawals	\$16,570
Building	\$157,630		

Prepare an income statement for the current year ended December 31, 2012.

ANS:

Amos Moving Services
Income Statement
For the Year Ended December 31, 2012

Fees Earned		\$84,350
Expenses:		
	Wages Expense	\$23,550
	Office Expense	1,240
	Miscellaneous Expense	<u>230</u>
	Total Expenses	<u>25,020</u>
Net Income		<u>\$59,330</u>

PTS: 1 DIF: Moderate OBJ: 01-05 TOP: Example Exercise 1-3

17. The assets and liabilities of Amos Moving Services at December 31, 2012, the end of the current year, and its revenue and expenses for the year are listed below. The capital of the owner was \$180,000 at January 1, 2012, the beginning of the current year. Mr. Amos invested an additional \$25,000 in the business during the year.

Accounts Payable	\$1,200	Miscellaneous Expense	\$230
Accounts Receivable	\$10,340	Office Expense	\$1,240
Cash	\$33,990	Supplies	\$1,670
Fees Earned	\$84,350	Wages Expense	\$23,550
Land	\$47,000	Withdrawals	\$16,570
Building	\$157,630		

Prepare a statement of owner's equity for the current year ended December 31, 2012.

ANS:

Amos Moving Services
Statement of Owner's Equity
For the Year Ended December 31, 2012

Amos, capital, January 1, 2012		\$180,000
Additional investment by owner during year	\$25,000	
Net income for the year	<u>59,330</u>	
Subtotal	<u>\$84,330</u>	
Less withdrawals	<u>16,570</u>	
Increase in owner's equity		<u>67,760</u>
Amos, capital December 31, 2012		<u>\$247,760</u>

PTS: 1 DIF: Moderate OBJ: 01-05 TOP: Example Exercise 1-4

18. The assets and liabilities of Amos Moving Services at December 31, 2012, the end of the current year, and its revenue and expenses for the year are listed below. The capital of the owner was \$180,000 at January 1, 2012, the beginning of the current year. Mr. Amos made an additional investment of \$25,000 during the year.

Accounts Payable	\$1,200	Miscellaneous Expense	\$230
Accounts Receivable	\$10,340	Office Expense	\$1,240
Cash	\$33,990	Building	\$157,630
Fees Earned	\$84,350	Wages Expense	\$23,550
Land	\$47,000	Withdrawals	\$16,570

Prepare a balance sheet for the current year ended December 31, 2012.

ANS:

Amos Moving Services
Balance Sheet
December 31, 2012

Assets		Liabilities	
Cash	\$33,990	Accounts Payable	\$ 1,200
Accounts Receivable	10,340		
Land	47,000	Owner's Equity	
Building	<u>157,630</u>	Amos, capital	<u>247,760</u>
Total Assets	<u>\$248,960</u>	Total liab and Owner's Equity	<u>\$248,960</u>

PTS: 1 DIF: Moderate OBJ: 01-05 TOP: Example Exercise 1-5

19. What information does the income statement give to business users?

ANS:

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

PTS: 1 DIF: Easy OBJ: 01-05

20. What are the three sections of the cash flow statement?

ANS:

Operating Activities, Investing Activities, and the Financing Activities

PTS: 1 DIF: Easy OBJ: 01-05

21. Match the following accounts to the financial statement where they can be found. (Hint: Some of the accounts can be found in more than one financial statement.)

	Account		Financial Statements
___ 1.	Withdrawals	A.	Balance Sheet
___ 2.	Revenues	B.	Income Statement
___ 3.	Supplies	C.	Cash Flow Statement
___ 4.	Land	D.	Statement of Owner's Equity
___ 5.	Accounts Payable		
___ 6.	Accounts Receivable		
___ 7.	Operating Activities		
___ 8.	Wages Expense		
___ 9.	Net Income		
___ 10.	Cash		

ANS:

#	Answer	Account
1.	D (If Cash, also C.)	Withdrawals
2.	B	Revenues
3.	A	Supplies
4.	A	Land
5.	A	Accounts Payable
6.	A	Accounts Receivable
7.	C	Operating Activities
8.	B	Wages Expense
9.	D (If Indirect, also C.)	Net Income
10.	A & C	Cash

PTS: 1

DIF: Easy

OBJ: 01-05

PROBLEMS

1. For each of the following companies, identify whether they are a service, merchandising, or manufacturing business.

a.	Walmart
b.	Rogers Cable
c.	ebay.com
d.	Blockbuster
e.	Royal Bank
f.	General Motors
g.	Circuit City
h.	Winners
i.	H & R Block

ANS:

<i>a.</i>	Merchandising
<i>b.</i>	Service
<i>c.</i>	Service
<i>d.</i>	Service
<i>e.</i>	Service
<i>f.</i>	Manufacturing
<i>g.</i>	Merchandising
<i>h.</i>	Merchandising
<i>i.</i>	Service

PTS: 1 DIF: Moderate OBJ: 01-01

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

<i>a.</i>	Payroll Manager
<i>b.</i>	Bank
<i>c.</i>	President's Secretary
<i>d.</i>	Canada Revenue Agency
<i>e.</i>	Raw Material Vendors
<i>f.</i>	Customers
<i>g.</i>	Health Insurance Provider
<i>h.</i>	Managerial Accountant

ANS:

<i>a.</i>	Internal
<i>b.</i>	External
<i>c.</i>	Internal
<i>d.</i>	External
<i>e.</i>	External
<i>f.</i>	External
<i>g.</i>	External
<i>h.</i>	Internal

PTS: 1 DIF: Moderate OBJ: 01-01

3. Determine the missing amount for each of the following:

Assets	Liabilities	Owner's Equity
(a)	\$13,000	\$16,000
\$55,000	(b)	\$34,000
\$39,000	\$17,000	(c)

ANS:

- a. \$29,000
- b. \$21,000
- c. \$22,000

PTS: 1 DIF: Easy OBJ: 01-02

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

- a. accounts payable
- b. wages expense
- c. capital
- d. accounts receivable
- e. withdrawal
- f. land

ANS:

- a. liability
- b. owner's equity
- c. owner's equity
- d. asset
- e. owner's equity
- f. asset

PTS: 1 DIF: Easy OBJ: 01-02

5. Four independent situations follow:

- a. Monsour Company purchased a building for \$450,000. The building was originally listed for sale at \$480,000. The company's accountant believes the original listing price is a better indication of the market value of the building and has recorded this amount in the company's books of account.
- b. Hassan Company's accountant paid the lease for a truck for the owner's personal use and charged it to Lease Expense.
- c. In preparing its financial statements, Yasmin Company tried to estimate and record the impact of the recent death of its president.
- d. Smelt Company has very stable operations. In order to be more efficient, the company's owner has decided to issue financial statements every two years.

For each of the above situations, list the accounting principle that has been violated.

ANS:

- a. cost principle
- b. business entity concept
- c. monetary unit principle
- d. timeliness characteristic

PTS: 1 DIF: Moderate OBJ: 01-02

6. Identify each of the following as an (1) increase in owner's equity, or a (2) decrease in owner's equity.
- Fees Earned
 - Wages Expense
 - Withdrawal
 - Lawn Care Revenue
 - Investment
 - Supplies Expense

ANS:

- 1
- 2
- 2
- 1
- 1
- 2

PTS: 1 DIF: Easy OBJ: 01-03

7. Selected transactions completed by a proprietorship are described below. Indicate the effects of each transaction on assets, liabilities, and owner's equity by inserting "+" for increase and "-" for decrease in the appropriate columns at the right. If appropriate, you may insert more than one symbol in a column.

	<u>A</u>	<u>L</u>	<u>OE</u>
a. Received cash from owner as an additional investment.	_____	_____	_____
b. Purchased supplies on account.	_____	_____	_____
c. Paid rent for the current month.	_____	_____	_____
d. Received cash for services sold to customers.	_____	_____	_____
e. Returned some defective supplies purchased in (b).	_____	_____	_____
f. Paid insurance premiums in advance.	_____	_____	_____
g. Paid cash to creditor for purchases in (b).	_____	_____	_____
h. Charged customers for services sold on account.	_____	_____	_____
i. Paid cash to a customer as a refund for an overcharge.	_____	_____	_____
j. Received cash on account from customers.	_____	_____	_____
k. Owner withdrew cash for personal use.	_____	_____	_____
l. Recorded the cost of supplies used during the year.	_____	_____	_____
m. Received invoice for electricity used.	_____	_____	_____
n. Paid wages.	_____	_____	_____
o. Purchased a truck for cash.	_____	_____	_____

ANS:

	<u>A</u>	<u>L</u>	<u>OE</u>
a.	+		+
b.	+	+	
c.	-		-
d.	+		+
e.	-	-	
f.	+,-		
g.	-	-	
h.	+		+

	<u>A</u>	<u>L</u>	<u>OE</u>
i.	-		-
j.	+,-		
k.	-		-
l.	-		-
m.		+	-
n.	-		-
o.	+,-		

PTS: 1 DIF: Moderate OBJ: 01-04

8. Schultz Tax Services, a tax preparation business, had the following transactions during the month of June:

Example: Received cash from the owner Schultz, \$25,000.

- Received cash for providing accounting services, \$3,000.
- Billed customers on account for providing services, \$7,000.
- Paid advertising expense, \$800.
- Received cash from customers on account, \$3,800.
- Owner made a withdrawal, \$1,500.
- Received telephone bill, \$220.
- Paid telephone bill, \$220.

Required:

- In the table below, state the accounts affected by each transaction.
- Indicate the effect on the accounting equation of each transaction.

	Assets	= Liabilities	+ Owner's Equity
1.	Cash +25,000		+25,000
2.			
3.			
4.			
5.			
6.			
7.			
8.			

ANS:

	Assets	= Liabilities	+ Owner's Equity
Ex	Cash +25,000		+25,000
1.	Cash + 3,000		Revenues + 3,000
2.	A/R + 7,000		Revenues + 7,000
3.	Cash -800		Expenses - 800
4.	Cash + 3,800 A/R -3,800		
5.	Cash -1,500		Withdrawals -1,500
6.		A/P + 220	Expenses -220
7.	Cash -220	A/P -220	

PTS: 1 DIF: Moderate OBJ: 01-04

9. From the following list of accounts taken from Lamar's accounting records, identify those that would appear on the Income Statement.

- a. Rent Expense
- b. Land
- c. Capital
- d. Fees Earned
- e. Withdrawal
- f. Wages Expense
- g. Investment

ANS:

a, d, f.

PTS: 1 DIF: Easy OBJ: 01-05

10. Identify which of the following accounts appear on a balance sheet.

- a. Cash
- b. Fees Earned
- c. Joe Brown, Capital
- d. Wages Payable
- e. Rent Expense
- f. Prepaid Advertising
- g. Land

ANS:

a., c., d., f., g.

PTS: 1 DIF: Easy OBJ: 01-05

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

- a. Revenues for the year totalled \$88,500 and expenses totalled \$40,500. The owner made an additional investment of \$15,000 during the year.
- b. Revenues for the year totalled \$175,000 and expenses totalled \$220,500. The owner withdrew \$40,000 during the year.
- c. Revenues for the year totalled \$109,000 and expenses totalled \$46,000. The owner invested an additional \$12,000 and withdrew \$16,000 during the year.
- d. Revenues for Konner Co. totalled \$223,800 and expenses totalled \$221,300. Cash withdrawals of \$35,000 were paid during the year.

ANS:

- a. \$48,000 net income ($\$88,500 - \$40,500$)
- b. \$45,500 net loss ($\$175,000 - \$220,500$)
- c. \$63,000 net income ($\$109,000 - \$46,000$)
- d. \$2,500 net income ($\$223,800 - \$221,300$)

PTS: 1 DIF: Moderate OBJ: 01-05

12. The total assets and total liabilities of Paul's Pools, a proprietorship, at the beginning and at the end of the current fiscal year are as follows:

	<u>Jan. 1</u>	<u>Dec. 31</u>
Total assets	\$280,000	\$475,000
Total liabilities	205,000	130,000

- a. Determine the amount of net income earned during the year. The owner did not invest any additional assets in the business during the year and made no withdrawals.
- b. Determine the amount of net income during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the owner withdrew \$53,000 in cash during the year (no additional investments).
- c. Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the owner invested an additional \$35,000 in cash in the business in June of the current fiscal year (no withdrawals).
- d. Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the owner invested an additional \$12,000 in cash in August of the current fiscal year and made 12 monthly cash withdrawals of \$1,500 each during the year.

ANS:

a.	Owner's equity at end of year	\$345,000
	Owner's equity at beginning of year	<u>75,000</u>
	Net income	<u>\$270,000</u>
b.	Increase in owner's equity as in (a)	\$270,000
	Add withdrawals	<u>53,000</u>
	Net income	<u>\$323,000</u>
c.	Increase in owner's equity as in (a)	\$270,000
	Deduct additional investment	<u>35,000</u>
	Net income	<u>\$235,000</u>
d.	Increase in owner's equity as in (a)	\$270,000
	Add withdrawals	<u>18,000</u>
		\$288,000
	Deduct additional investment	<u>12,000</u>
	Net income	<u>\$276,000</u>

PTS: 1 DIF: Difficult OBJ: 01-05

13. Selected transaction data of a business for September are summarized below. Determine the following amounts for September: (a) total revenue, (b) total expenses, (c) net income.

Service sales charged to customers on account during September.	\$33,000
Cash received from cash customers for services performed in September.	28,000
Cash received from customers on account during September:	
Services performed and charged to customers prior to September.	13,000
Services performed and charged to customers during September.	18,000
Expenses incurred prior to September and paid during September.	6,500
Expenses incurred and paid in September.	36,250
Expenses incurred in September but not paid in September.	5,000
Expenses for supplies used and insurance (not included above) applicable to September.	2,000

ANS:

- a. \$61,000 (\$33,000 + \$28,000)
 b. \$43,250 (\$36,250 + \$5,000 + \$2,000)
 c. \$17,750 (\$61,000 – \$43,250)

PTS: 1 DIF: Difficult OBJ: 01-05

14. On March 1, 2011, the amount of Norton Cook's capital in Cook's Catering Company was \$150,000. During March, he withdrew \$31,000 from the business. The amounts of the various assets, liabilities, revenues, and expenses are as follows:

Accounts payable	\$ 10,250
Accounts receivable	45,950
Cash	19,390
Fees earned	60,500
Insurance expense	1,275
Land	85,400
Miscellaneous expense	1,210
Prepaid insurance	3,000
Rent expense	9,000
Salary expense	20,300
Supplies	900
Supplies expense	525
Utilities expense	2,800

Present, in good form, (a) an income statement for March, (b) a statement of owner's equity for March, and (c) a balance sheet as of March 31.

ANS:

a.

Cook's Catering Company
Income Statement
For the Month Ended March 31, 2011

Fees earned	\$60,500
Operating expenses:	
Salary expense	\$20,300
Rent expense	9,000
Utilities expense	2,800
Supplies expense	525
Insurance expense	1,275
Miscellaneous expense	<u>1,210</u>
Total operating expenses	<u>35,110</u>
Net income	<u>\$25,390</u>

b.

Cook's Catering Company
Statement of Owner's Equity
For the Month Ended March 31, 2011

Norton Cook, capital, March 1, 2011	\$150,000
Net income for the month	\$ 25,390
Less withdrawals	<u>31,000</u>
Decrease in owner's equity	<u>5,610</u>
Norton Cook, capital, March 31, 2011	<u>\$144,390</u>

c.

Cook's Catering Company
Balance Sheet
March 31, 2011

Assets		Liabilities	
Cash	\$ 19,390	Accounts payable	\$ 10,250
Accounts receivable	45,950		
Prepaid insurance	3,000	Owner's Equity	
Supplies	900	Norton Cook, capital	<u>144,390</u>
Land	<u>85,400</u>	Total liabilities and	
Total assets	<u>\$154,640</u>	owner's equity	<u>\$154,640</u>

PTS: 1 DIF: Difficult OBJ: 01-05

15. Simpson Designers began operations on April 1, 2011. The financial statements for Simpson Designers are shown below for the month ended April 30, 2011 (the first month of operations). Determine the missing amounts for letters (a) through (j).

Simpson Designers
Income Statement
For the Month Ended April 30, 2011

Fees earned	\$27,000
Operating expenses:	
Wages expense	\$5,250
Rent expense	(a)

Chapter 1

Supplies expense	4,600	
Utilities expense	400	
Miscellaneous expense	<u>1,250</u>	
Total operating expenses		<u>(b)</u>
Net income		<u>\$ (c)</u>

Simpson Designers
Statement of Owner's Equity
For the Month Ended April 30, 2011

Lori Simpson, capital, April 1, 2011		0
Investment on April 1, 2011	\$35,000	
Net income for April 30, 2011	<u>(d)</u>	
	\$ (e)	
Less withdrawals	<u>6,000</u>	
Increase in owner's equity		<u>(f)</u>
Lori Simpson, capital, April 30, 2011		<u>\$38,100</u>

Simpson Designers
Balance Sheet
April 30, 2011

Assets		Liabilities	
Cash	\$30,800	Accounts payable	\$ (h)
Supplies	8,100	Owner's Equity	
Land	<u>(g)</u>	Lori Simpson, capital	<u>(i)</u>
Total assets	<u>\$55,900</u>	Total liabilities and owner's equity	<u>\$(j)</u>

Place your answers in the space provided below. Hint: Use the interrelationships among the financial statements to solve this problem.

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____
- f. _____
- g. _____
- h. _____
- i. _____
- j. _____

ANS:

- a. \$ 6,400
- b. \$17,900
- c. \$ 9,100
- d. \$ 9,100
- e. \$44,100
- f. \$38,100

- g. \$17,000
- h. \$17,800
- i. \$38,100
- j. \$55,900

PTS: 1 DIF: Difficult OBJ: 01-05

16. Eric Wood, CGA, was organized on January 1, 2011, as a proprietorship. List the errors that you find in the following financial statements and prepare the corrected statements for the three months ended March 31, 2011.

Eric Wood, CGA Income Statement For the Three Months Ended March 31, 2011		
Fees earned		\$42,000
Operating expenses:		
Salary expense	\$9,735	
Rent expense	5,200	
Wages expense	3,950	
Utilities expense	3,225	
Miscellaneous expense	4,000	
Answering service expense	2,550	
Supplies expense	<u>4,000</u>	
Total operating expenses		<u>28,000</u>
Net income		<u>\$14,000</u>

Eric Wood, CGA Statement of Owner's Equity March 31, 2011		
Eric Wood, capital, January 1, 2011		\$ 0
Investment on January 1, 2011	\$20,000	
Net income for the 3 months	<u>14,000</u>	
	36,000	
Less withdrawals	<u>5,000</u>	
Increase in owner's equity		<u>31,000</u>
Eric Wood, capital, March 31, 2011		<u>\$31,000</u>

Balance Sheet For the Three Months Ended March 31, 2011			
Assets		Owner's Equity	
Land	\$13,000	Eric Wood, capital	\$31,000
Cash	10,860	Liabilities	
Accounts payable	2,670	Accounts receivable	<u>2,225</u>
Supplies	<u>925</u>	Total liabilities and	
Total assets	<u>\$33,225</u>	owner's equity	<u>\$33,225</u>

ANS:

Errors in the Eric Wood, CGA, financial statements include the following:

1. Miscellaneous expense is incorrectly listed after utilities expense in the income statement. Miscellaneous expense should be listed as the last expense, regardless of the amount.
2. The operating expenses are incorrectly added. Instead of \$28,000, the total should be \$32,660.
3. Because operating expenses are incorrectly added, the net income is incorrect. It should be listed as \$9,340.
4. The statement of owner's equity should be for a period of time instead of a specific date. That is, the statement of owner's equity should be reported "For the Three Months Ended March 31, 2011."
5. The amount of the owners' equity is incorrect. It should be \$24,340.
6. The name of the company is missing from the balance sheet heading.
7. The balance sheet should be as of "March 31, 2011," not "For the Three Months Ended March 31, 2011."
8. Cash, not Land, should be the first asset listed in the balance sheet.
9. Accounts Payable is incorrectly listed as an asset in the balance sheet. Accounts Payable should be listed as a liability.
10. Liabilities should be listed in the balance sheet ahead of owner's equity.
11. Accounts receivable is incorrectly listed as a liability in the balance sheet. Accounts receivable should be listed as an asset.
12. The total assets and the total liabilities and owner's equity do not foot.

Correctly prepared financial statements for Eric Wood, CGA, are shown below.

Eric Wood, CGA		
Income Statement		
For the Three Months Ended March 31, 2011		
Fees earned		\$42,000
Operating expenses:		
Salary expense	\$9,735	
Rent expense	5,200	
Wages expense	3,950	
Utilities expense	3,225	
Answering service expense	2,550	
Supplies expense	4,000	
Miscellaneous expense	<u>4,000</u>	
Total operating expenses		<u>32,660</u>
Net income		<u>\$9,340</u>

Eric Wood, CGA		
Statement of Owner's Equity		
For the Three Months Ended March 31, 2011		
Eric Wood, capital, January 1, 2011		\$ 0
Investment on January 1, 2011	\$20,000	
Net income for three months	<u>9,340</u>	
	\$29,340	
Less withdrawals	<u>5,000</u>	
Increase in owner's equity		<u>24,340</u>
Eric Wood, capital, March 31, 2011		<u>\$24,340</u>

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Eric Wood, CGA
Balance Sheet
March 31, 2011

Assets		Liabilities	
Cash	\$10,860	Accounts payable	\$ 2,670
Accounts receivable	2,225	Owner's Equity	
Supplies	925	Eric Wood, capital	<u>24,340</u>
Land	<u>13,000</u>	Total liabilities and	
Total assets	<u>\$27,010</u>	owner's equity	<u>\$27,010</u>

PTS: 1 DIF: Difficult OBJ: 01-05

17. Using the following accounts and their amounts, prepare in good format an income statement for Bright Futures Company, month ended August 31, 2011:

Telephone Expense	\$1,150
Cash	\$3,000
Accounts Payable	\$1,540
Jason Bright, Withdrawal	\$800
Fees Earned	\$15,700
Rent Expense	\$1,400
Supplies	\$140
Accounts Receivable	\$1,500
Computer Equipment	\$20,000
Jason Bright, Capital	\$14,320
Wages Expense	\$4,800
Utilities Expense	\$750
Notes Payable	\$2,400
Office Expense	\$420

ANS:

Bright Futures Company
Income Statement
For Month Ended August 31, 2011

Fees Earned		\$15,700
Expenses:		
Wages Expense	\$4,800	
Rent Expense	1,400	
Telephone Expense	1,150	
Utilities Expense	750	
Office Expense	<u>420</u>	
Total Expenses		<u>8,520</u>
Net Income		<u>\$ 7,180</u>

PTS: 1 DIF: Moderate OBJ: 01-05

18. Using the following accounts and their amounts, prepare in good format a balance sheet for Bright Futures Company, month ended August 31, 2011:

Telephone Expense	\$1,150
Cash	\$3,000
Accounts Payable	\$1,540
Jason Bright, Withdrawal	\$800
Fees Earned	\$15,700
Rent Expense	\$1,400
Supplies	\$140
Accounts Receivable	\$1,500
Computer Equipment	\$20,000
Jason Bright, Capital	\$14,320
Wages Expense	\$4,800
Utilities Expense	\$750
Notes Payable	\$2,400
Office Expense	\$420

ANS:

Bright Futures Company
Balance Sheet
August 31, 2011

Assets	
Cash	\$ 3,000
Accounts Receivable	1,500
Supplies	140
Computer Equipment	<u>20,000</u>
Total Assets	<u>\$ 24,640</u>

Total Liabilities and Owner's Equity	
Liabilities:	
Accounts Payable	\$ 1,540
Notes Payable	<u>2,400</u>
Total Liabilities	\$ 3,940
Jason Bright, Capital	<u>20,700</u>
Total Liabilities and Owner's Equity	<u>\$ 24,640</u>

PTS: 1 DIF: Difficult OBJ: 01-05

19. Using the following accounts and their amounts, prepare in good format a statement of owner's Equity for Bright Futures Company, month ended August 31, 2011:

Telephone Expense	\$1,150
Cash	\$3,000
Accounts Payable	\$1,540
Jason Bright, Withdrawal	\$800
Fees Earned	\$15,700
Rent Expense	\$1,400
Supplies	\$140
Accounts Receivable	\$1,500
Computer Equipment	\$20,000
Jason Bright, Capital	\$14,320
Wages Expense	\$4,800
Utilities Expense	\$750
Notes Payable	\$2,400
Office Expense	\$420

ANS:

Bright Futures Company
Statement of Owner's Equity
For Month Ended August 31, 2011

Jason Bright, Capital		\$ 14,320
Net Income		<u>7,180</u>
	Subtotal	\$ 21,500
Less: Withdrawals		<u>800</u>
Jason Bright, capital August 31, 2011		<u>\$ 20,700</u>

PTS: 1 DIF: Moderate OBJ: 01-05

20. The account balances of Trendsetter Travel Services at December 31, 2011 are listed below:

Accounts Payable	\$12,000	J. Trendsetter, Capital 1/1/11	\$10,000
Accounts Receivable	6,000	Supplies	1,000
Cash	18,000	Taxes Expense	1,300
Computer Equip	21,000	Utilities Expense	8,000
Fees Earned	70,000	Wages Expense	25,000
Rent Expense	10,000	Supplies Expense	1,700

Prepare and income statement, statement of owner's equity, and a balance sheet as of December 31, 2011.

ANS:

Trendsetter Travel Services
Income Statement
For the Year Ended December 31, 2011

Fees Earned		\$ 70,000
Operating Expenses:		
Wages Expense	\$ 25,000	
Rent Expense	10,000	
Utilities Expense	8,000	
Supplies Expense	1,700	
Taxes Expense	<u>1,300</u>	
	Total Operating Expenses	<u>\$46,000</u>
Net Income		<u>\$24,000</u>

Trendsetter Travel Services
Statement of Owner's Equity
For the Year Ended December 31, 2011

J. Trendsetter, Capital 1/1/11	\$10,000
Net Income for the year	<u>24,000</u>
J. Trendsetter, Capital, 12/31/11	<u>\$34,000</u>

Trendsetter Travel Services
Balance Sheet
December 31, 2011

Assets		Liabilities	
Cash	\$18,000	Accounts Payable	\$12,000
Accounts Receivable	6,000		
Computer Equipment	21,000		
Supplies	<u>1,000</u>	Owner's Equity	
Total Assets	<u>\$ 46,000</u>	J. Trendsetter, Capital	<u>34,000</u>
		Total Liabilities and Owner's Equity	<u>\$46,000</u>

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21. One item is omitted in each of the following summaries of balance sheet and income statement data for the following four different proprietorships:

	Oscar	Papa	Quebec	Romeo
Beginning of the year:				
Assets	\$540,000	\$125,000	\$200,000	(d)
Liabilities	324,000	65,000	152,000	\$120,000
End of the year:				
Assets	670,500	175,000	180,000	248,000
Liabilities	292,500	55,000	160,000	136,000
During the year:				
Additional investment in the business	(a)	25,000	20,000	40,000
Withdrawals from the business	36,000	8,000	(c)	60,000
Revenue	177,975	(b)	230,000	112,000
Expenses	97,200	32,000	245,000	128,000

Determine the missing amounts, identifying them by letter.

ANS:

In each case, solve for a single unknown, using the following equation:

Owner's equity (beginning) + Investments – Withdrawals + Revenues – Expenses = Owner's equity (ending)

Oscar	Owner's equity at end of year (\$670,500 – \$292,500).....	\$378,000
	Owner's equity at beginning of year (\$540,000 – \$324,000).....	<u>216,000</u>
	Increase in owner's equity.....	162,000
	Deduct increase due to net income (\$177,975 – \$97,200)	<u>80,775</u>
		81,225
	Add withdrawals.....	<u>36,000</u>
	Additional investment in the business..... (a)	<u>\$117,225</u>
Papa	Owner's equity at end of year (\$175,000 – \$55,000).....	\$120,000
	Owner's equity at beginning of year (\$125,000 – \$65,000).....	<u>60,000</u>
	Increase in owner's equity.....	60,000
	Add withdrawals.....	<u>8,000</u>
		\$68,000
	Deduct additional investment.....	<u>25,000</u>
	Increase due to net income	43,000
	Add expenses.....	<u>32,000</u>
	Revenue..... (b)	<u>\$75,000</u>
Quebec	Owner's equity at end of year (\$180,000 – \$160,000).....	\$20,000
	Owner's equity at beginning of year (\$200,000 – \$152,000).....	<u>48,000</u>
	Decrease in owner's equity.....	(28,000)
	Deduct decrease due to net loss (\$230,000 – \$245,000)	<u>(15,000)</u>
		(13,000)

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	Deduct additional investment	<u>20,000</u>
	Withdrawals from the business..... (c)	<u><u>\$(33,000)</u></u>
Romeo	Owner's equity at end of year (\$496,000 – \$272,000).....	\$224,000
	Add decrease due to net loss (\$224,000 – \$256,000).....	<u>32,000</u>
		256,000
	Add withdrawals.....	<u>120,000</u>
	Owner's equity at beginning of year	376,000
	Deduct additional investment	<u>80,000</u>
		296,000
	Add liabilities at beginning of year	<u>240,000</u>
	Assets at beginning of year..... (d)	<u><u>\$536,000</u></u>

PTS: 1 DIF: Difficult OBJ: 01-05

22. Financial information related to the proprietorship of Burst Interiors for March and April 2012 is as follows:

	March 31, 2012	April 30, 2012
Accounts payable	\$18,480	\$19,920
Accounts receivable	40,800	46,950
Gary Deming, capital	?	?
Cash	72,000	122,400
Supplies	3,600	3,000

- a. Determine the amount of net income for April, assuming that the owner made no additional investments or withdrawals during the month.
- b. Determine the amount of net income for April, assuming that the owner made no additional investments but withdrew \$15,000 during the month.

ANS:

Total assets April 30 (\$46,950 + \$122,400 + \$3,000).....	\$378,000
Liabilities	<u>19,920</u>
Gary Deming, capital April 30, 2012	152,430
Total assets March 31 (\$40,800 + \$72,000 + \$3,600).....	\$116,400
Liabilities	<u>18,480</u>
Gary Deming, capital March 31, 2012	97,920
a. Net income = increase in capital.....	<u>\$54,510</u>
b. Net income = increase in capital + withdrawals (\$54,510 + \$15,000).....	<u>\$69,510</u>

PTS: 1 DIF: Moderate OBJ: 01-05