

***Financial Accounting, 5e Static (Kemp/Waybright)***  
**Chapter 1 Business, Accounting, and You**

1.1 Understand the nature of business and the role of accounting in business

1) By taking accounting classes, the student is learning the "language of business."

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Discussion Question 1

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

2) To manage a business effectively, an owner or manager would benefit greatly from having some knowledge of accounting.

Answer: TRUE

Diff: 1

Question Type: Application

EOC Ref: Discussion Question 1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

3) Businesses primarily exist to generate sales.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Written Communication

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

4) The value of an item is determined by taking the revenue from a sale and deducting the cost of the sale.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Key Points/Summary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

5) Society is considered to be a stakeholder in a business.

Answer: TRUE

Diff: 2

Question Type: Concept

EOC Ref: Case 1, Case 2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

6) The grocery checker at Kroger is considered a stakeholder of the company.

Answer: TRUE

Diff: 2

Question Type: Concept

EOC Ref: Key Points/Summary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

7) Accounting information is used to help managers and decision makers understand risk.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Discussion Question 1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

8) Risk increases value for a business.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Discussion Question 1

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

9) What do we call the result obtained when revenue is less than cost?

- A) Loss
- B) Profit
- C) Value
- D) Risk

Answer: A

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

10) Which of the following is NOT part of the accounting process as it relates to information?

- A) Measuring
- B) Recognizing
- C) Understanding
- D) Reporting

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

11) According to the textbook, in order for an organization to be called a business it must:

- A) exchange a product with a customer.
- B) make money.
- C) be a corporation.
- D) provide a service.

Answer: A

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

- 12) Which of the following impacts the value of an item?
- A) Whether or not the item has sentimental value to the owner
  - B) How much the owner sold the item for in previous years
  - C) Whether the item is new or used
  - D) What the owner expects to receive in exchange for the item

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

- 13) When revenue exceeds cost, it is referred to as:

- A) loss.
- B) profit.
- C) value.
- D) risk.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

- 14) Tasha's Tutoring serves students in grades K-12. All of following would be considered a stakeholder in this business EXCEPT:

- A) students who receive tutoring.
- B) the publisher who sells workbooks to Tasha's.
- C) the tutors who work for Tasha.
- D) Tasha's competitor Tim's Tutoring.

Answer: D

Diff: 2

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

15) All of the following would be considered a stakeholder in a business EXCEPT:

- A) customers.
- B) lenders.
- C) competitors.
- D) society.

Answer: C

Diff: 2

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

16) The primary goal of any business is to:

- A) generate revenue.
- B) sell products for a profit.
- C) create value for its owners.
- D) avoid too much debt.

Answer: C

Diff: 2

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

## 1.2 Know how a business operates

1) Amounts owed to the business' owners as a result of an initial investment are called liabilities.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: S1-3

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

2) Net income and profit are the same thing.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

3) The only way for business to get money is to borrow it.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

4) Business owners expect to be compensated for both time and risk.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Industry/Sector Perspective

AICPA Functional: Decision Modeling

5) Business owners are paid interest on the money they have invested in the business.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Industry/Sector Perspective

AICPA Functional: Decision Modeling

6) Employees are economic resources owned by the company and used to operate the business.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

7) The cost of money is a function of owner risk.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

8) Liabilities are defined as:

- A) earnings retained in the business.
- B) amounts owed to lenders or creditors.
- C) stockholders' claims to assets.
- D) future economic benefits of a company.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: S1-3

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

9) Assets are defined as:

- A) earnings retained in the business.
- B) amounts owed to others.
- C) stockholders' claims to assets.
- D) economic resources of a company.

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: S1-3

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

10) Which of the following does NOT describe Stockholders' Equity?

- A) Profits retained in the business
- B) Money lent to a business
- C) The owners' claim on the assets of a company
- D) Money invested in a business by its owners

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

11) Which of the following is NOT an asset?

- A) Net income
- B) Inventory
- C) Buildings
- D) Cash

Answer: A

Diff: 1

Question Type: Concept

EOC Ref: S1-9

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

12) Net income is defined as:

- A) revenue plus expenses.
- B) revenue less assets.
- C) expenses less revenue.
- D) revenue less expenses.

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

13) The expense of using borrowed money for a period of time, is referred to as:

- A) net income.
- B) revenue.
- C) liability.
- D) interest.

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

14) What do we call amounts of money borrowed from lenders?

- A) Asset
- B) Liability
- C) Expense
- D) Revenue

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

15) Stockholder's Equity represents:

- A) money borrowed from lenders.
- B) a fair distribution of wealth in the firm.
- C) retention of profits by a firm.
- D) an economic resource owned by the firm.

Answer: C

Diff: 2

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

16) The cost of money is above all else a function of:

- A) interest rates.
- B) risk.
- C) exchange rates.
- D) rate of return.

Answer: B

Diff: 2

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

### 1.3 Know the different types and forms of businesses

1) All businesses are operated to generate a profit.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

2) A business may be either a for-profit business or a not-for-profit business.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

3) A business with one owner is called a sole proprietorship and it must be a service business.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: S1-3

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

4) PetSmart is an example of a corporate merchandising businesses.

Answer: TRUE

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

5) PricewaterhouseCoopers is an example of a service business.

Answer: TRUE

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

6) A pharmacy would be an example of a service business.

Answer: FALSE

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

7) Shareholders must pay income tax on the dividends they have received from a corporation.

Answer: TRUE

Diff: 1

Question Type: Application

EOC Ref: Discussion Question 6

AACSB: Analytical Thinking

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Measurement

8) A limited liability company (LLC) is a legal entity like a corporation, but the income is taxed like a sole proprietorship or partnership.

Answer: TRUE

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Decision Modeling

9) A tax preparation business is primarily a:

A) merchandising operation.

B) service operation.

C) not-for-profit operation.

D) manufacturing operation.

Answer: B

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

10) Which of the following types of organization would primarily sell goods?

- A) Merchandising business
- B) Service business
- C) Manufacturing business
- D) Both Merchandising and Manufacturing businesses sell goods.

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

11) Which of the following types of organizations would produce goods?

- A) Merchandising business
- B) Service business
- C) Manufacturing business
- D) Both merchandising and manufacturing businesses produce goods.

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

12) Which of the following is a disadvantage of the corporate form of business?

- A) Ease of raising capital
- B) Double taxation
- C) Limited resources
- D) Limited liability

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Decision Modeling

13) Which of the following is an advantage of a sole proprietorship?

- A) Ease of formation
- B) Limited liability of owner
- C) Ease of raising capital
- D) Unlimited life

Answer: A

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Decision Modeling

14) Which type of organization has stockholders?

- A) Partnerships
- B) Sole proprietorships
- C) Corporations
- D) Limited liability companies

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Decision Modeling

15) Which of the following business forms is similar to a corporation in regard to owner liability?

- A) All businesses are the same with regard to owner liability.
- B) Limited liability company
- C) Sole proprietorship
- D) Partnership

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Decision Modeling

16) Which of the following do NOT pay taxes on the business income through their individual owners?

- A) S-corporation
- B) Sole proprietorship
- C) Partnership
- D) Corporation

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Reporting

17) One of the newer forms of business is a:

- A) corporation.
- B) sole proprietorship.
- C) partnership.
- D) limited liability company.

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Decision Modeling

18) Target would primarily be considered a:

- A) manufacturing business.
- B) merchandising business.
- C) service business.
- D) not-for-profit business.

Answer: B

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

19) Which would NOT be an example of a for-profit business?

- A) Burger King
- B) PetCo
- C) Red Cross
- D) Kohls

Answer: C

Diff: 1

Question Type: Application

EOC Ref: S1-3

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

20) Which type of organization is typically NOT considered a not-for-profit?

- A) Charities
- B) Churches
- C) Law firms
- D) Community colleges

Answer: C

Diff: 1

Question Type: Application

EOC Ref: S1-3

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

21) A hybrid business entity with characteristics of both a corporation and a partnership is called:

- A) S-Corporation.
- B) P-Corporation.
- C) LLC.
- D) CP.

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: Exhibit 1-1

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Decision Modeling

22) Sassy's Spices sells bagged tea to grocery stores for resale—what type of business is this?

- A) Service business
- B) Wholesale business
- C) Retail business
- D) None of the above

Answer: B

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Analytical Thinking

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Decision Modeling

23) Dany Snow is the owner of Dragon Dog Tamer, a dog training facility. She reports the business income on her personal tax return. What type and legal form of business would Dragon's be considered?

- A) Retail and Sole proprietorship
- B) Service and Corporation
- C) Merchandising and Partnership
- D) Service and Sole proprietorship

Answer: D

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

24) Dick's Sporting Goods and Target are examples of:

- A) merchandising - specifically wholesale businesses.
- B) manufacturing businesses.
- C) merchandising - specifically retail businesses.
- D) service and manufacturing businesses.

Answer: C

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

25) Reflections, Inc. produces high-end chandeliers, which are sold in specialty boutiques throughout the country. What type and legal form of business is Reflections, Inc.?

- A) Manufacturing and Corporation
- B) Merchandising and Corporation
- C) Retail and Sole proprietorship
- D) Service and Sole proprietorship

Answer: A

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

26) Granny's Greens produces herbal supplements for pets, which are sold in specialty pet stores throughout the country. Granny's is owned and operated by Sally Smith — aka Granny. What type and legal form of business is Granny's?

- A) Manufacturing and Sole proprietorship
- B) Retail and Sole proprietorship
- C) Merchandising and Corporation
- D) Retail and Partnership

Answer: A

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

#### 1.4 Know the key accounting principles and concepts

1) Accounting is important because the process "keeps score" of the financial aspects of a business.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

2) The main role of accounting is to compile reports to determine the profit made by a company over a period of time.

Answer: FALSE

Diff: 2

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

3) Generally Accepted Accounting Principles (GAAP) are the rules and guidelines governing accounting.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: S1-1

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

4) Due to the globalization of business, U.S. companies are no longer required to follow GAAP.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

5) The business entity concept requires that the owner's personal assets be separated from business assets.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: S1-1

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

6) Financial information that is verifiable violates the principle of objectivity.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

7) According to the cost principle, if an appraised value is known - it should be used for recording purposes.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: S1-1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

8) Actual cost refers to the replacement cost of an item, whereas historical cost refers to the original purchase price.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

9) Accountants should be highly ethical and must do everything they can to prevent fraud.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

10) Ronald owns a row-boat store. In his accounting records, he included his personal computer and all of his personal rowing gear. Ronald is violating what principle of accounting?

- A) Going concern
- B) Cost
- C) Reliability
- D) Business entity

Answer: D

Diff: 2

Question Type: Application

EOC Ref: S1-1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

11) Emily lists her building at current replacement value, rather than the price she paid for the building. What principle is Emily violating?

- A) Going concern
- B) Cost
- C) Reliability
- D) Business entity

Answer: B

Diff: 2

Question Type: Application

EOC Ref: S1-1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

12) Austin owns an antique store. In his accounting records, he includes his car—which is solely used for personal purposes. Which principle is Austin violating?

- A) Personal property
- B) Cost
- C) Reliability
- D) Business entity

Answer: D

Diff: 2

Question Type: Application

EOC Ref: S1-1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

13) Chris owns Comfy Cabins Campground. In his accounting records, he lists the cabins at their current market value. Which principle is Chris violating?

- A) Value entity
- B) Cost
- C) Reliability
- D) Business entity

Answer: B

Diff: 2

Question Type: Application

EOC Ref: S1-1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

14) Pete's Pizzeria recorded its delivery vehicle at its current replacement value, rather than the price paid for the vehicle. What principle did it violate?

- A) Cost
- B) Objectivity
- C) Reliability
- D) Going concern

Answer: A

Diff: 2

Question Type: Application

EOC Ref: S1-1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

15) Elle Wolfe, owner of Wolfe Winery, wrote a company check to pay her personal credit card bill. What accounting principle did she violate?

- A) Personal Property
- B) Reliability
- C) Business entity
- D) No principle is violated—the bank account belongs to her, so it's okay to write checks.

Answer: C

Diff: 2

Question Type: Application

EOC Ref: S1-1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

16) FASB is made up of how many members?

- A) 3
- B) 5
- C) 7
- D) 9

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

17) GAAP is the acronym for generally accepted \_\_\_\_\_ principles.

- A) auditing
- B) accounting
- C) averaging
- D) associated

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

18) Considering the reliability principle — what would a bank statement represent?

- A) Objective evidence
- B) Market value confirmation
- C) Current interest rates
- D) Subjective evidence

Answer: A

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

19) In the financial accounting records, most assets should be reported at:

- A) current replacement cost.
- B) current market value.
- C) historical cost.
- D) inflation-adjusted cost.

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: S1-1

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

20) GAAP tries to ensure that accounting information is:

- A) accurate, relevant, and factual.
- B) relevant, understandable, and reliable.
- C) understandable, realizable, and error-free.
- D) reliable, historical, and accurate.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

21) Which agency issues pronouncements that are guidelines for accounting practice?

- A) GAAP
- B) SEC
- C) FASB
- D) IRS

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

22) The guidelines that describe the rules of accounting are called:

- A) GAAS.
- B) GAAP.
- C) FASB.
- D) SEC.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

23) When an owner combines their personal assets with the assets of their business, what concept or principle of accounting is being violated?

- A) Going concern
- B) Objectivity
- C) Business entity
- D) Cost

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: S1-1

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

24) Taking an inventory of goods on hand would be representative of what accounting concept or principle?

- A) Going concern
- B) Objectivity
- C) Business entity
- D) Cost

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

25) Which accounting concept or principle specifically states that we should record transactions that can be verified?

- A) Going-concern concept
- B) Cost principle
- C) Reliability principle
- D) Business entity concept

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: S1-1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

26) Bank statements are an example of:

- A) objective evidence.
- B) going-concern principle.
- C) historical cost evidence.
- D) business-entity principle.

Answer: A

Diff: 1

Question Type: Concept

EOC Ref: S1-1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

27) IFRS stands for:

- A) Internal Financial Report Standards.
- B) International Financial Reports Study.
- C) Internal Financial Reports Study.
- D) International Financial Reporting Standards.

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

## 1.5 Know how accounting functions in a business

1) Cash accounting recognizes business transactions when they occur.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

2) Cash accounting recognizes business transactions when cash is received or paid.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

3) Accrual accounting recognizes business transactions when they occur.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

4) Accrual accounting recognizes business transactions when cash is received or paid.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

5) The fundamental accounting equation is Assets plus Liabilities equals Stockholders' Equity.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

6) Liabilities are obligations owed to third parties.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: S1-3

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

7) Stockholders' Equity consists of Retained Earnings and Common Stock.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

8) Assets consist of revenues, expenses, and dividends.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: S1-9

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

9) Payment of expenses will decrease an asset and increase stockholders' equity.

Answer: FALSE

Diff: 1

Question Type: Application

EOC Ref: S1-14

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

10) Purchasing supplies on account will increase both assets and liabilities.

Answer: TRUE

Diff: 1

Question Type: Application

EOC Ref: E1-19A

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

11) Purchasing a delivery truck for cash will have no net effect on the accounting equation.

Answer: TRUE

Diff: 1

Question Type: Application

EOC Ref: E1-19A

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

12) Performing services on account will increase cash and increase stockholders' equity.

Answer: FALSE

Diff: 1

Question Type: Application

EOC Ref: E1-19A

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

13) Payment of cash dividends will decrease an asset and increase stockholders' equity.

Answer: FALSE

Diff: 1

Question Type: Application

EOC Ref: S1-11

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

14) Which of the following events would be recorded in the financial accounting records of Marvin's Mowing, Inc.?

A) Marvin's mows 125 lawns.

B) Marvin's buys 5 new lawn mowers from Budget Lawn Equipment, Inc.

C) Budget Lawn Equipment, Inc. sells 2 mowers to Marvin's competitor, Great Lawns, Inc.

D) Events A and B should both be recorded in the financial accounting records of Marvin's

Answer: D

Diff: 1

Question Type: Application

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

15) The method of accounting that recognizes a transaction when cash is received or paid is:

- A) financial accounting.
- B) cash accounting.
- C) cost accounting.
- D) accrual accounting.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

16) The method of accounting that recognizes a transaction when it occurs is:

- A) financial accounting.
- B) cash accounting.
- C) cost accounting.
- D) accrual accounting.

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

17) Most businesses use:

- A) cash accounting.
- B) accrual accounting.
- C) cash and accrual accounting.
- D) profit accounting.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

18) Which of the following is considered an asset?

- A) Accounts Payable
- B) Sales
- C) Accounts Receivable
- D) Common Stock

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: S1-9

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

19) Consider Accounts Receivable and Accounts Payable. Which of the following statements is TRUE?

- A) Accounts Receivable is a liability and Accounts Payable is an asset.
- B) Accounts Receivable is an asset and Accounts Payable is an asset.
- C) Accounts Receivable is an asset and Accounts Payable is a liability.
- D) Accounts Receivable is a liability and Accounts Payable is a liability.

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: S1-9

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

20) Liabilities represent:

- A) items owned by the company.
- B) economic resources of the company.
- C) earnings kept in the business.
- D) amounts owed to third parties.

Answer: D

Diff: 2

Question Type: Concept

EOC Ref: S1-3

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

21) A business pays off a note payable. What effect does this have on the accounting equation?

- A) Assets increase, Liabilities decrease, and Stockholders' Equity remains the same.
- B) Assets decrease, Liabilities remain the same, and Stockholders' Equity increases.
- C) Assets decrease, Liabilities decrease, and Stockholders' Equity remains the same.
- D) Assets increase, Liabilities remain the same, and Stockholders' Equity increases.

Answer: C

Diff: 3

Question Type: Application

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

22) A business purchases a computer for cash. What effect does this have on the accounting equation?

- A) Stockholders' Equity and Assets increase.
- B) There is no change in Total Assets.
- C) Assets increase and Liabilities decrease
- D) Stockholders' Equity and Liabilities increase.

Answer: B

Diff: 3

Question Type: Application

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

23) Revenues, expenses and dividends are all a part of:

- A) Assets.
- B) Retained Earnings.
- C) Liabilities.
- D) Common Stock.

Answer: B

Diff: 2

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

24) Cash and Accounts Receivable are both a part of:

- A) Assets.
- B) Retained Earnings.
- C) Liabilities.
- D) Common Stock.

Answer: A

Diff: 2

Question Type: Concept

EOC Ref: S1-9

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

25) Sarina opens her business by investing \$14,000. How does this affect the accounting equation?

- A) Increase in Assets; increase in Stockholders' Equity
- B) Increase in Liabilities; increase in Stockholders' Equity
- C) Decrease in Assets; increase in Stockholders' Equity
- D) Increase in Assets; decrease in Stockholders' Equity

Answer: A

Diff: 2

Question Type: Application

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

26) Austin borrowed money for his business from a local bank. What accounts will be affected?

- A) Cash and Accounts Payable
- B) Cash and Notes Payable
- C) Accounts Payable and Revenue
- D) Accounts Receivable and Revenue

Answer: B

Diff: 2

Question Type: Application

EOC Ref: S1-12

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

27) An increase in revenues would have which of the following effects on the accounting equation?

- A) Decrease Stockholders' Equity
- B) Increase Common Stock
- C) Increase Liabilities
- D) Increase Stockholders' Equity

Answer: D

Diff: 2

Question Type: Application

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

28) Receiving a telephone bill to paid in 30 days would have which of the following effects on the accounting equation?

- A) Increase Liabilities
- B) Increase Stockholders' Equity
- C) Decrease Assets
- D) Increase Assets

Answer: A

Diff: 2

Question Type: Application

EOC Ref: S1-14

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

29) Paying cash on account would have which of the following effects on the accounting equation?

- A) Decrease Liabilities
- B) Increase Assets
- C) Increase Stockholders' Equity
- D) Decrease Retained Earnings

Answer: A

Diff: 2

Question Type: Application

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

30) Which of the following is a written promise to pay?

- A) Account receivable
- B) Account payable
- C) Note payable
- D) Dividend payable

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

31) A company has Liabilities of \$23,700 and Stockholders' Equity of \$56,800. How much does the company have in Assets?

- A) \$56,800
- B) \$33,100
- C) \$80,500
- D) \$23,700

Answer: C

Explanation:  $\text{Assets} = \text{Liabilities} + \text{SE}$ ;  $\text{Assets} = \$23,700 + \$56,800$

Diff: 2

Question Type: Application

EOC Ref: S1-4

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

32) A company has \$129,000 in Assets and \$65,000 in Liabilities. How much does the company have in Stockholders' Equity?

- A) \$194,000
- B) \$129,000
- C) \$65,000
- D) \$64,000

Answer: D

Explanation:  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$ ;  $\$129,000 = \$65,000 + \text{SE}$ ; for algorithmic solution,  $\text{Asset amount} - \text{Liabilities amount} = \text{answer for SE}$

Diff: 2

Question Type: Application

EOC Ref: S1-4

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

33) Danio, Inc. has \$79,000 in Assets and \$26,000 in Liabilities. How much does the company have in Stockholders' Equity?

- A) \$26,000
- B) \$53,000
- C) \$105,000
- D) \$79,000

Answer: B

Explanation:  $\text{Liabilities} + \text{SE}; \$79,000 = \$26,000 + \text{SE}$ ; for algorithmic solution,  $\text{Asset amount} - \text{Liabilities amount} = \text{answer for SE}$

Diff: 2

Question Type: Application

EOC Ref: S1-4

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

34) A company has \$72,000 in Assets and \$23,000 of Stockholders' Equity. How much does the company have in Liabilities?

- A) \$23,000
- B) \$49,000
- C) \$95,000
- D) Cannot be determined from the given information

Answer: B

Explanation:  $\text{Liabilities} + \text{SE}; \$72,000 = \text{Liabilities} + \$23,000$ ; for algorithmic -  $\text{Asset amount} - \text{SE amount} = \text{Liabilities}$

Diff: 2

Question Type: Application

EOC Ref: S1-4

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

35) Star Corporation has \$83,000 in Liabilities and \$118,000 in Stockholders' Equity. What is the value of the company's Assets?

- A) \$35,000
- B) \$118,000
- C) \$201,000
- D) Not enough information provided

Answer: C

Explanation:  $\text{Liabilities} + \text{SE}; \text{Assets} = \$83,000 + \$118,000$ ; for algorithmic -  $\text{answer for Assets is Liabilities amount} + \text{SE amount}$

Diff: 2

Question Type: Application

EOC Ref: S1-4

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

36) If Total Assets remain the same and Total Stockholders' Equity increases, Liabilities will:

- A) increase by the same amount.
- B) decrease by the same amount.
- C) remain the same.
- D) increase by a different amount.

Answer: B

Diff: 2

Question Type: Application

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

37) If Total Liabilities remain the same and Total Stockholders' Equity decreases, Assets will:

- A) decrease by the same amount.
- B) increase by the same amount.
- C) remain the same.
- D) increase by a different amount.

Answer: A

Diff: 2

Question Type: Application

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

38) A company purchases supplies for cash. What is the net result on the accounting equation?

- A) Total Assets will increase and total Liabilities will decrease.
- B) Total Assets will increase and Stockholders' Equity will increase.
- C) Total Assets will not change.
- D) Total Liabilities will increase.

Answer: C

Diff: 2

Question Type: Application

EOC Ref: S1-11

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

39) Sassycat, Inc. provided \$32,000 worth of services for cash. Which of the following best describes the effect on the expanded accounting equation?

- A) Total Assets and total Liabilities will increase.
- B) Total Assets and total Revenue will increase.
- C) Total Liabilities will increase and total Revenue will decrease.
- D) Total Assets will decrease and total Liabilities will increase.

Answer: B

Diff: 2

Question Type: Application

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

40) In the expanded accounting equation, revenues minus expenses are part of:

- A) Assets.
- B) Retained Earnings.
- C) Liabilities.
- D) Dividends.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

41) A net loss will:

- A) decrease Retained Earnings.
- B) increase Retained Earnings.
- C) force the company into bankruptcy.
- D) force the company to pay dividends.

Answer: A

Diff: 1

Question Type: Application

EOC Ref: S1-14

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

- 42) Cersei invested \$5,000 into her business. She would:
- A) increase Cash and increase Stockholders' Equity.
  - B) decrease Cash and increase Stockholders' Equity.
  - C) increase Liabilities and increase Stockholders' Equity.
  - D) increase Cash only.

Answer: A

Diff: 1

Question Type: Application

EOC Ref: S1-12

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

- 43) The payment of cash dividends would have which of the following effects on the accounting equation?

- A) Increase Liabilities
- B) Decrease Stockholders' Equity
- C) Increase Assets
- D) Increase Stockholders' Equity

Answer: B

Diff: 2

Question Type: Application

EOC Ref: E1-18A

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

- 44) Payment of expenses would have which of the following effects on the accounting equation?

- A) Increase Liabilities
- B) Decrease Stockholders' Equity
- C) Increase Assets
- D) Increase Stockholders' Equity

Answer: B

Diff: 2

Question Type: Application

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

45) Amounts owed to a company by its customers are classified as:

- A) payables.
- B) dividends.
- C) cash.
- D) receivables.

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

46) Splash is famous for their bottled water. Splash's Total Assets were \$350,000 and Total Liabilities were \$135,500. How much was Splash's Stockholders' Equity?

- A) \$485,500
- B) \$350,000
- C) \$214,500
- D) \$135,500

Answer: C

Explanation:  $\text{Assets} - \text{Liabilities} = \text{Equity}$  ( $\$350,000 - \$135,500 = \$214,500$ )

Diff: 1

Question Type: Application

EOC Ref: S1-4

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

47) Coyote, Inc. purchased office supplies on account for \$50,000. How would this transaction affect Coyote's accounting equation?

- A) Increase Assets and Stockholders' Equity by \$50,000
- B) Increase Liabilities and Stockholders' Equity by \$50,000
- C) Increase Assets by \$50,000 and decrease Liabilities by \$50,000
- D) Increase Assets by \$50,000 and increase Liabilities by \$50,000

Answer: D

Diff: 2

Question Type: Application

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

48) How would the purchase of a printer on account affect the accounting equation?

- A) Assets increase; Liabilities decrease.
- B) Assets increase; Stockholder Equity increases.
- C) Assets increase; Liabilities increase.
- D) Assets decrease; Liabilities increase.

Answer: C

Diff: 2

Question Type: Concept

EOC Ref: S1-13

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

49) Beginning Retained Earnings are \$78,000; sales are \$30,300; expenses are \$84,000 and dividends paid are \$4,500. How much is the net income or loss for the company?

- A) \$25,800
- B) (\$53,700)
- C) (\$58,200)
- D) \$0

Answer: B

Explanation: Net income = revenues - expenses ( $\$30,300 - \$84,000 = (\$53,700)$ )

Diff: 2

Question Type: Application

EOC Ref: S1-14

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

50) Beginning Retained Earnings are \$35,000; sales are \$52,000; expenses are \$44,500 and dividends paid are \$3,000. How much is the net income or loss for the company?

- A) \$7,500
- B) \$17,000
- C) \$9,500
- D) (\$7,500)

Answer: A

Explanation: Revenues - expenses = net income ( $\$52,000 - \$44,500 = \$7,500$ )

Diff: 2

Question Type: Application

EOC Ref: S1-14

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

51) Beginning Retained Earnings are \$75,000; sales are \$31,500; expenses are \$40,000; and dividends paid are \$3,800. How much is the amount in ending Retained Earnings?

- A) \$62,700
- B) \$71,200
- C) \$106,500
- D) \$75,000

Answer: A

Explanation: Beginning RE - net loss - dividends = ending RE ( $(\$75,000 + \$31,500) - \$40,000 - \$3,800 = \$62,700$ )

Diff: 2

Question Type: Application

EOC Ref: E1-29B

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

52) Beginning Retained Earnings are \$355,000; sales are \$469,000; expenses are \$43,800; and dividends paid are \$3,000. How much is the amount in ending Retained Earnings?

- A) \$355,000
- B) \$352,000
- C) \$780,200
- D) \$777,200

Answer: D

Explanation: Beginning RE + net income - dividends = Ending RE ( $(\$355,000 + (\$469,000 - \$43,800) - \$3,000 = \$777,200$ )

Diff: 2

Question Type: Application

EOC Ref: E1-29B

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

53) Which of the following is a FALSE statement?

- A) Revenues provide inward flows of assets.
- B) Revenue is categorized as an asset.
- C) Revenue is categorized as part of Retained Earnings.
- D) Revenues are generated from the sale of goods and services.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: S1-12

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

- 54) Which of the following is a TRUE statement?
- A) Purchasing office equipment for cash is a shift of Assets.
  - B) Buying something on account decreases total Liabilities.
  - C) Retained Earnings do not include payments of dividends.
  - D) Paying off an account increases the total of Assets.

Answer: A

Diff: 1

Question Type: Concept

EOC Ref: S1-12

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

55) Eddie's Engines buys a new machine for its shop on credit. The effect on the accounting equation is to:

- A) increase Liabilities and increase Assets.
- B) decrease Liabilities and increase Assets.
- C) increase Assets and increase Stockholders' Equity.
- D) increase Liabilities and decrease Stockholders' Equity.

Answer: A

Diff: 1

Question Type: Application

EOC Ref: S1-12

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

56) Glacier's Glass Company buys a new truck for the business using cash. The effect on the accounting equation is to:

- A) Increase assets and decrease liabilities
- B) Shift liabilities to stockholders' equity.
- C) Decrease assets.
- D) No effect.

Answer: D

Diff: 1

Question Type: Application

EOC Ref: S1-12

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

## 1.6 Understand and be able to prepare basic financial statements

1) Financial statements are historical reports of what has taken place financially in a business.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

2) The Income Statement details how cash changed over an accounting period or cycle.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

3) The Balance Sheet presents changes to assets and liabilities over a period of time.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: E1-20A

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

4) The Statement of Retained Earnings is prepared to determine the final amount of Retained Earnings shown on the Balance Sheet.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

5) The Income Statement is the first financial statement prepared.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

6) Financial statements are prepared primarily for internal company use.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

7) The Statement of Cash Flows is used to report sources and uses of cash for a specific date.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

8) The Statement of Cash Flows is used to report sources and uses of cash for a given period of time.

Answer: TRUE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

9) Purchasing equipment is considered an operating activity on the Statement of Cash Flows.

Answer: FALSE

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Decision Modeling

10) Financing activities on the Statement of Cash Flows represent decisions made by management to buy or sell long term assets.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory Perspective

AICPA Functional: Decision Modeling

11) If a business is planning on growth, it will generally issue additional dividends to shareholders.

Answer: FALSE

Diff: 1

Question Type: Concept

EOC Ref: Decision guidelines

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

12) Which of the following is TRUE regarding revenue and profit?

A) The terms *revenue* and *profit* mean the same thing.

B) Both revenue and profit are found on the Income Statement.

C) Profit equals liabilities plus Stockholders' Equity.

D) Revenue is found on the Balance Sheet and profit is found on the Income Statement.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

13) The first financial statement that is prepared is the:

A) Statement of Cash Flows.

B) Income Statement.

C) Statement of Retained Earnings.

D) Balance Sheet.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

14) The net income figure is needed to prepare:

- A) a Balance Sheet.
- B) a Statement of Retained Earnings.
- C) a Statement of Liabilities.
- D) some other report.

Answer: B

Diff: 1

Question Type: Application

EOC Ref: P1-33A

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement

15) A Statement of Cash Flows is usually prepared:

- A) first.
- B) second.
- C) third.
- D) last.

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

16) Net income or loss is originally shown on the:

- A) Statement of Cash Flows.
- B) Balance Sheet.
- C) Statement of Retained Earnings.
- D) Income Statement.

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

17) Which of the following financial statements illustrates the accounting equation?

- A) Statement of Retained Earnings
- B) Income Statement
- C) Balance Sheet
- D) Statement of Cash Flows

Answer: C

Diff: 2

Question Type: Concept

EOC Ref: E1-20A

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

18) Beginning Retained Earnings for the period would be shown on the:

- A) Statement of Retained Earnings.
- B) Income Statement.
- C) Balance Sheets.
- D) Statement of Cash Flows.

Answer: A

Diff: 1

Question Type: Concept

EOC Ref: P1-33A

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

19) Of the financial statements, which is dated as of a specific date?

- A) Statement of Cash Flows
- B) Income Statement
- C) Balance Sheet
- D) Statement of Retained Earnings

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: E1-28B

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

20) Which of the financial statements includes a listing of assets owned by the company?

- A) Statement of Cash Flows
- B) Income Statement
- C) Balance Sheet
- D) Statement of Retained Earnings

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: E1-28B

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

21) The correct order for the preparation of financial statements is:

1. Statement of Cash Flows
2. Income Statement
3. Balance Sheet
4. Statement of Retained Earnings

A) 4, 3, 2, 1.

B) 1, 2, 3, 4.

C) 2, 3, 4, 1.

D) 2, 4, 3, 1.

Answer: D

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

22) The Statement of Retained Earnings is used to report:

- A) accumulated dividends paid out to shareholders.
- B) accumulated net profits not paid out in dividends.
- C) beginning and ending cash balances.
- D) beginning and ending revenues for the period.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

- 23) The Balance Sheet is used to report:
- A) results of operations for a specific date.
  - B) the financial position on a specific date.
  - C) results of operations for a specific period.
  - D) the financial position for a specific period.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

- 24) The Income Statement is used to report:
- A) results of operations for a specific date.
  - B) the financial position on a specific date.
  - C) results of operations for a specific period.
  - D) the financial position for a specific period.

Answer: C

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Application of Knowledge

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

- 25) Which of the following would be reported in the Investing Activities section of the Statement of Cash Flows?

- A) Sale of common stock
- B) Purchase of equipment
- C) Payment of dividends
- D) Both A and C would be in this section.

Answer: B

Diff: 1

Question Type: Concept

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

26) Which of the following would NOT be reported in the Operating Activities section of the Statement of Cash Flows for Bella's Bakery?

- A) Purchase of new stove
- B) Purchase of butter and flour
- C) Sale of cookies
- D) Payment of baker's salary for the month

Answer: A

Diff: 1

Question Type: Application

EOC Ref: Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

27) Information for the Crunchy Cupcakes' first month of operations is presented below:

Revenues	\$22,000
Expenses	6,000
Retained Earnings 1/31/20XX	5,000

How much did Crunchy Cupcakes pay out in dividends?

- A) \$0
- B) \$11,000
- C) \$5,000
- D) Cannot be determined from given information

Answer: B

Explanation: beginning RE \$0 + net income (22,000 - 6,000) - dividends = ending RE 5,000; for also, since beginning RE is zero — just solve by revenue — expense - RE = dividends (\$22,000 - \$6,000 - \$5,000) = \$11,000

Diff: 2

Question Type: Application

EOC Ref: E1-29B

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

28) Information for Snow Inc.'s first year of operations is presented below:

Revenues	\$70,000
Retained Earnings 12/31/20XX	14,000
Dividends	7,000

What was Snow's net income for the year?

- A) \$21,000
- B) \$49,000
- C) \$70,000
- D) Cannot be determined from the information given.

Answer: A

Explanation: beginning RE \$0 + net income – dividends \$7,000 = ending RE \$14,000; for algo – solve for X with net income in all variations (or dividends plus ending RE since beginning RE is \$0) = (\$14,000 + \$7,000 = \$21,000)

Diff: 2

Question Type: Application

EOC Ref: E1-29B

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

29) Information for Mozart Company's first year of operations is presented below:

Expenses	\$50,000
Retained Earnings 12/31/20XX	20,000
Dividends	10,000

What was Mozart's net income for the year?

- A) \$20,000
- B) \$30,000
- C) \$60,000
- D) Cannot be determined from the information given.

Answer: B

Explanation: beginning RE \$0 + net income – dividends \$10,000 = ending RE \$20,000; for algo – solve for X with net income in all variations (or dividends plus ending RE since beginning RE is \$0) = (\$20,000 + \$10,000 = \$30,000)

Diff: 2

Question Type: Application

EOC Ref: E1-29B

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

30) Select balance sheet data for Bach, Inc. is presented below:

	Mar 31, 20XX	Apr 30, 20XX
Assets	\$116,000	\$192,000
Liabilities	47,000	53,000
Common Stock	14,000	14,000

Bach did not pay any dividends during this period. What is the net income for April?

- A) \$14,000
- B) \$70,000
- C) \$55,000
- D) Cannot be determined from the information given.

Answer: B

Explanation: multiple step process — using accounting equation, determine beginning and ending retained earnings, then complete statement of RE to solve for net income:

Step 1) beginning RE:  $\$116,000 = \$47,000 + \$14,000 + X$ ; beginning RE = \$55,000

Step 2) ending RE:  $\$192,000 = \$53,000 + \$14,000 + X$ ; ending RE = \$125,000

Step 3) beginning RE \$55,000 + net income = ending RE \$125,000

Diff: 3

Question Type: Application

EOC Ref: E1-26B

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

31) Select balance sheet data for Caesar, Inc. is presented below:

	Mar 31, 20XX	Apr 30, 20XX
Assets	\$116,000	\$198,000
Liabilities	41,000	88,000
Common Stock	9,000	9,000

Caesar paid \$1,000 in dividends during this period. What is the net income for April?

- A) \$9,000
- B) \$116,000
- C) \$36,000
- D) Cannot be determined from the information given.

Answer: C

Explanation: multiple step process – using accounting equation, determine beginning and ending retained earnings, then complete statement of RE to solve for net income:

Step 1) beginning RE:  $\$116,000 = \$41,000 + \$9,000 + X$ ; beginning RE = \$66,000

Step 2) ending RE:  $\$198,000 = \$88,000 + \$9,000 + X$ ; ending RE = \$101,000

Step 3) beginning RE \$66,000 + net income - \$1,000 dividends = ending RE \$101,000

Diff: 3

Question Type: Application

EOC Ref: E1-26B

AACSB: Analytical Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling