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| 1. An auto repair company is not an example of a manufacturer.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 4-5 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-01 - LO: 01-01 | | *KEYWORDS:* | Bloom's: Applying | |

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| 2. A department store is an example of a manufacturer.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 4-5 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-01 - LO: 01-01 | | *KEYWORDS:* | Bloom's: Applying | |

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| 3. The FASB is an external user that has the authority of the law to obtain certain accounting information.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 6-7 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-02 - LO: 01-02 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 4. A partnership is a business owned by two or more individuals.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 6-7 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-02 - LO: 01-02 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 5. Business entities and non-business entities are both organized to earn a profit.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 6-7 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-02 - LO: 01-02 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 6. Someone to whom a company has a debt is known as a creditor.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 7. Assets can be tangible or intangible in nature.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 8. An asset is a future economic benefit to a business.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 9. An expense is an inflow of assets resulting from the sale of goods and services.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Remembering | |
| 10. Capital stock indicates the owners’ ownership to a corporation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 11. Management accounting is the branch of accounting concerned with communication with internal management.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | p. 12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 12. External users of accounting information include present and potential stockholders, bankers and other creditors, and management.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 13. Bondholders are external users of company’s accounting information.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 14. The income statement is sometimes called the statement of profit and loss.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 15. The income statement is a statement that summarizes revenues and expenses for a period.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 16. Assets may be used to satisfy business obligations and to carry on business operations.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21-17 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 17. The amount of earnings distributed to stockholders can be found in the income statement.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 18. Profits from operating activities distributed to business owners are called bonuses.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |
| 19. An entity's liabilities come from three primary sources: creditors, investors, and profits retained in the business.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21-18 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 20. The balance sheet is linked to the retained earnings statement by the ending retained earnings balance.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21-19 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 21. A balance sheet provides information during a period of time, while the other basic financial statements provide information on activities that occur over a point in time.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21-18 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 22. When an entity's revenues exceed its expenses for a period of time, the entity will report net income.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 23. Owners' equity is the residual interest that remains after deducting liabilities from assets.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 24. If a company prepares a statement of stockholders' equity, net income is deducted to retained earnings on this statement.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 25. Stockholders’ equity is owners’ equity in a corporation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 26. The time period assumption assumes a company prepares financial statements every month.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | p. 25 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 27. GAAP stands for Generally Accepted Accounting Procedures.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Easy | | *REFERENCES:* | p. 25 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 28. Because market values are subjective, many assets are carried on the balance sheet at their acquisition cost.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | p. 24 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 29. The term used to refer to an asset’s original cost is “fair market value.”   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | p. 24 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 30. The going concern assumption infers that a company will continue to operate until a known date.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 24-25 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 31. A company in the process of liquidation meets the requirements under the going concern assumption.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 24-25 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Remembering | |
| 32. The International Accounting Standards Board (IASB) was created in order to develop worldwide accounting standards that must be used for all financial statements prepared regardless of country.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 33. The primary objective of external auditors is to provide assurance to stockholders and other users that the statements are fairly presented.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 34. The independent auditor's report conveys whether or not the business followed GAAP.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 35. The IASB is a branch of the FASB.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 36. Information must be timely to be relevant.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 37. According to the accounting profession, the purpose of financial reporting is to provide information about a company that investors, lenders, and other creditors can use when deciding whether to provide resources to the entity.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Remembering | |

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| Multiple Choice |

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| 38. Cross Country Busline is an example of a   |  |  |  | | --- | --- | --- | |  | a. | producer | |  | b. | supplier | |  | c. | retailer | |  | d. | service provider |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 4-5 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-01 - LO: 01-01 | | *KEYWORDS:* | Bloom's: Applying | |

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| 39. All of the following are examples of manufacturers **except**:   |  |  |  | | --- | --- | --- | |  | a. | Whirlpool | |  | b. | Boeing | |  | c. | Amazon.com | |  | d. | Ford |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 4-5 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-01 - LO: 01-01 | | *KEYWORDS:* | Bloom's: Applying | |

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| 40. The three forms of business entities are:   |  |  |  | | --- | --- | --- | |  | a. | Government, cooperatives, and philanthropic organizations | |  | b. | Financing, investing, and operating | |  | c. | Sole proprietorships, partnerships, and corporations | |  | d. | Wholesaler, manufacturer, and retailer |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 6-7 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-02 - LO: 01-02 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 41. Which of the following statements would be true if you own stock in a company?   |  |  |  | | --- | --- | --- | |  | a. | You are an owner of the retained earnings and capital stock of the company. | |  | b. | You have a claim to the assets of the business | |  | c. | You have the right to receive interest on an annual basis. | |  | d. | You have the right to a portion of the company’s revenues each accounting period. |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 6-7 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-02 - LO: 01-02 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 42. Which of the following statements best describes the term “revenues”?   |  |  |  | | --- | --- | --- | |  | a. | Revenues represent an outflow of assets resulting from the sale of goods or services. | |  | b. | Revenues represent the dollar amount of bonds sold to the public. | |  | c. | Revenues represent assets used or consumed in the sale of products or services. | |  | d. | Revenues represent assets received from the sale of products or services. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 43. Which one of the following events involves a liability for a business?   |  |  |  | | --- | --- | --- | |  | a. | Loans to be repaid to banks | |  | b. | Inventories purchased for cash | |  | c. | Amounts invested by the owners | |  | d. | Stock sold to the general public |  |  |  | | --- | --- | | *ANSWER:* | a | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 44. Which of the following best describes the term “expenses”?   |  |  |  | | --- | --- | --- | |  | a. | The amount of total profits earned by a business since it began operations. | |  | b. | The amount of interest or claim that the owners have in the business. | |  | c. | The future economic resources of a business entity. | |  | d. | The outflow of assets resulting from the sale of goods and services. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 45. The outflow of assets resulting from the sale of products and services is called a(n)   |  |  |  | | --- | --- | --- | |  | a. | asset | |  | b. | liability | |  | c. | revenue | |  | d. | expense |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | p. 10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 46. The costs of doing business through the sale of goods and services are called   |  |  |  | | --- | --- | --- | |  | a. | Net income | |  | b. | Expenses | |  | c. | Revenues | |  | d. | Dividends |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 47. Which of the following best describes the term “equity”?   |  |  |  | | --- | --- | --- | |  | a. | The amount of total profits earned by a business since it began operations. | |  | b. | The amount of interest or claim that the owners have in the business. | |  | c. | The economic resources of a business entity. | |  | d. | The cumulative profits earned by a business less any dividends distributed. |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 48. Which one of the following business decisions will **most** likely require financial information?   |  |  |  | | --- | --- | --- | |  | a. | The National Bank is reviewing the loan application from Petra’s Restaurant. | |  | b. | Petra’s Restaurant is attempting to sell its stock to the public. | |  | c. | The labor union representing Winn’s Fitness Spa employees is negotiating a pay raise as part of a new labor agreement. | |  | d. | All of these choices. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Applying | |

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| 49. Which of the following would be internal users of accounting information?   |  |  |  | | --- | --- | --- | |  | a. | Customers and vendors | |  | b. | Employees and managers | |  | c. | Government and banks | |  | d. | Employees and customers |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Easy | | *REFERENCES:* | p. 13 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 50. Which of the following would be classified as external users of financial statements?   |  |  |  | | --- | --- | --- | |  | a. | Stockholders and management of the company | |  | b. | The controller of the company and a company's stockholders | |  | c. | The company's marketing managers | |  | d. | The creditors and stockholders of the company |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 51. Which one of the following is **not** an external user of financial information?   |  |  |  | | --- | --- | --- | |  | a. | IRS | |  | b. | Company management | |  | c. | Creditors | |  | d. | Stockholders |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Understanding | |
| 52. Tavella Company is ready to sell its bonds. Which one of the following financial questions is most relevant to the issue of the bonds and that investors will most likely want answered before they purchase the bonds?   |  |  |  | | --- | --- | --- | |  | a. | How many product lines did Clip Joint Company have last year? | |  | b. | What will be Clip Joint Company’s cost to start operations in another city? | |  | c. | How much debt does Clip Joint Company already have? | |  | d. | Will Clip Joint Company pay dividends? |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Applying | |

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| 53. What is the name of the branch of accounting concerned with providing managers and administrators with information to facilitate the planning and control of business operations?   |  |  |  | | --- | --- | --- | |  | a. | Financial Accounting | |  | b. | Auditing | |  | c. | Management Accounting | |  | d. | Bookkeeping |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 54. Which of the following invests funds into a business and is considered an owner?   |  |  |  | | --- | --- | --- | |  | a. | Bankers | |  | b. | Creditors | |  | c. | Stockholders | |  | d. | Lenders |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 55. Which one of the following is **not** one of the three activities included in the definition of accounting?   |  |  |  | | --- | --- | --- | |  | a. | Communicating | |  | b. | Identifying | |  | c. | Measuring | |  | d. | Operating |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 56. Which one of the following is **not** an external user of financial statements?   |  |  |  | | --- | --- | --- | |  | a. | Suppliers | |  | b. | Creditors | |  | c. | The company's controller | |  | d. | None of these choices. |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 57. Which one of the following is **least** likely to be a user of financial information of a grocery store?   |  |  |  | | --- | --- | --- | |  | a. | The manager of the grocery store. | |  | b. | The supplier of milk to the grocery store. | |  | c. | A stockbroker looking for a possible investment. | |  | d. | A customer at the grocery store. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 58. Which one of the following groups is considered an internal user of financial statements?   |  |  |  | | --- | --- | --- | |  | a. | A bank reviewing a loan application from a corporation. | |  | b. | The labor union representing employees of a company that is involved in labor negotiations | |  | c. | The financial analysts for a brokerage firm who are preparing recommendations for the firm’s brokers on companies in a certain industry, | |  | d. | Factory managers that supervise production line workers. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Understanding | |
| 59. Which of the following is an organization that lends funds to a business entity and expects repayment of the funds?   |  |  |  | | --- | --- | --- | |  | a. | A creditor | |  | b. | A stockholder | |  | c. | An owner | |  | d. | A partner |  |  |  | | --- | --- | | *ANSWER:* | a | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 60. You are a potential stockholder and are concerned that a particular company you are ready to invest in might have too much debt. Which financial statement would provide you information needed in order to evaluate your concern?   |  |  |  | | --- | --- | --- | |  | a. | Income statement | |  | b. | Balance sheet | |  | c. | Statement of retained earnings | |  | d. | Statement of public accounting |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 61. Which financial statement would you analyze to determine if a company distributed any of its profits to its shareholders?   |  |  |  | | --- | --- | --- | |  | a. | Balance Sheet | |  | b. | Statement of Retained Earnings | |  | c. | Income Statement | |  | d. | Statement of Public Accounting |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 62. Which financial statement would you refer to in order to determine whether a company owed funds to creditors?   |  |  |  | | --- | --- | --- | |  | a. | Statement of public accounting | |  | b. | Statement of Retained Earnings | |  | c. | Income Statement | |  | d. | Balance sheet |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 63. Which one of the following is an economic obligation for a business entity?   |  |  |  | | --- | --- | --- | |  | a. | Salaries paid to employees for services rendered | |  | b. | Materials used in manufacturing products | |  | c. | Amount owed to creditors | |  | d. | Payment of rent for the next year |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 64. Which one of the following is a correct expression of the accounting equation?   |  |  |  | | --- | --- | --- | |  | a. | Assets + Liabilities = Owners’ Equity | |  | b. | Assets = Liabilities - Owners’ Equity | |  | c. | Assets + Owners’ Equity = Liabilities | |  | d. | Assets = Liabilities + Owners’ Equity |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 65. How is the balance sheet linked to the other financial statements?   |  |  |  | | --- | --- | --- | |  | a. | The amount of retained earnings reported on the balance sheet is equal to net income. | |  | b. | Retained earnings is added to total assets and reported on the balance sheet. | |  | c. | Net income increases retained earnings on the statement of retained earnings, which ultimately increases retained earnings on the balance sheet. | |  | d. | There is no link between the balance sheet and other statements, as each contains different accounts and provides different information. |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 66. Which of the following is the correct date format for the financial statement heading?   |  |  |  | | --- | --- | --- | |  | a. | Balance sheet for the year ended June 30, 2016 | |  | b. | Income statement at December 31, 2016 | |  | c. | Balance sheet at December 31, 2016 | |  | d. | Statement of retained earnings at December 31, 2016 |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 67. Which of the following best describes the term “retained earnings”?   |  |  |  | | --- | --- | --- | |  | a. | The amount of total profits earned by a business since it began operations. | |  | b. | The amount of interest or claim that the owners have on the assets of the business. | |  | c. | The future economic resources of a business entity. | |  | d. | The cumulative profits earned by the business less any dividends distributed. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 68. Which one of the following items is correct concerning the time element of financial statements?   |  |  |  | | --- | --- | --- | |  | a. | The balance sheet covers a period of time. | |  | b. | The statement of retained earnings explains changes during a particular period. | |  | c. | An income statement lists amounts at a specific point in time. | |  | d. | Both the income statement and the balance sheet cover a period of time. |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 69. Which one of the following items appears on a balance sheet?   |  |  |  | | --- | --- | --- | |  | a. | Accounts payable | |  | b. | Sales revenue | |  | c. | Utilities expense | |  | d. | Cost of goods sold |  |  |  | | --- | --- | | *ANSWER:* | a | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 70. Which one of the following financial statements reports an entity’s financial position at a specific date?   |  |  |  | | --- | --- | --- | |  | a. | Balance sheet | |  | b. | Statement of retained earnings | |  | c. | Income statement | |  | d. | Both the income statement and the balance sheet |  |  |  | | --- | --- | | *ANSWER:* | a | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 71. Which one of the following correctly represents one of the basic financial statement models?   |  |  |  | | --- | --- | --- | |  | a. | Assets - Liabilities = Net Income | |  | b. | Assets + Liabilities = Owners’ Equity | |  | c. | Revenues + Expenses = Net Income | |  | d. | Beginning Retained Earnings + Net Income - Dividends = Ending Retained Earnings |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 72. Which of the following statements is true?   |  |  |  | | --- | --- | --- | |  | a. | Profits distributed to the creditors are called dividends. | |  | b. | The balance sheet shows the assets, liabilities, and profits of a company. | |  | c. | Dividends are an expense, and are reported on the income statement as a deduction from net income. | |  | d. | The income statement reports the revenues and expenses of a company. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 73. Which of the following terms best describes a distribution of the net income of a business to its owners?   |  |  |  | | --- | --- | --- | |  | a. | Revenue | |  | b. | Monetary unit | |  | c. | Earnings | |  | d. | Dividends |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 74. Which statement summarizes the income earned and the dividends paid?   |  |  |  | | --- | --- | --- | |  | a. | Statement of cash flows | |  | b. | Statement of retained earnings | |  | c. | Balance sheet | |  | d. | Income statement |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 75. Harbor City Corporation’s end-of-year balance sheet consisted of the following amounts:  ​   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Cash | $ 15,000 | |  | | Accounts receivable | | $50,000 | | Property, plant, and equipment | 70,000 | |  | | Long-term debt | | 40,000 | | Capital stock | 100,000 | |  | | Accounts payable | | 20,000 | | Retained earnings | ? |  | | Inventory | | 35,000 | |   ​  What amount should Harbor City report on its balance sheet for **total** **assets***?*   |  |  |  | | --- | --- | --- | |  | a. | $110,000 | |  | b. | $155,000 | |  | c. | $170,000 | |  | d. | $190,000 |  |  |  | | --- | --- | | *ANSWER:* | c | | *RATIONALE:* | $15,000 + $50,000 + $70,000 + $35,000 = $170,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 76. Sun City Corporation’s end-of-year balance sheet consisted of the following amounts:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Cash | $ 25,000 |  | Accounts receivable | $ 70,000 | | Property, plant, and equipment | 70,000 |  | Long-term debt | 40,000 | | Capital stock | 100,000 |  | Accounts payable | 20,000 | | Retained earnings | ? |  | Inventory | 35,000 |   What amount should Sun City report on its balance sheet for **total** **assets***?*   |  |  |  | | --- | --- | --- | |  | a. | $100,000 | |  | b. | $95,000 | |  | c. | $165,000 | |  | d. | $200,000 |  |  |  | | --- | --- | | *ANSWER:* | d | | *RATIONALE:* | $25,000 + $48,000 + $69,000 + $33,000 = $175,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 77. Harbor City Corporation’s end-of-year balance sheet consisted of the following amounts:  ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Cash | $ 15,000 |  | Accounts receivable | $ 50,000 | | Property, plant, and equipment | 70,000 |  | Long-term debt | 40,000 | | Capital stock | 100,000 |  | Accounts payable | 20,000 | | Retained earnings | ? |  | Inventory | 35,000 |   ​  What is Harbor City’s **retained** **earnings** balance at the end of the current year?   |  |  |  | | --- | --- | --- | |  | a. | $10,000 | |  | b. | $110,000 | |  | c. | $160,000 | |  | d. | $170,000 |  |  |  | | --- | --- | | *ANSWER:* | a | | *RATIONALE:* | Assets: $15,000 + $70,000 + $50,000 + $35,000 = $170,000  Liabilities: $40,000 + $20,000 = $60,000  Owners’ equity: $170,000 – $60,000 = $110,000  Retained earnings: $110,000 – $100,000 = $10,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 78. Leary Corporation’s end-of-year balance sheet consisted of the following amounts:  ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Cash | $ 25,000 |  | Accounts receivable | $ 46,000 | | Property, plant, and equipment | 69,000 |  | Long-term debt | 41,000 | | Capital stock | 107,000 |  | Accounts payable | 22,000 | | Retained earnings | ? |  | Inventory | 33,000 |   ​  What is Leary’s **retained** **earnings** balance at the end of the current year?   |  |  |  | | --- | --- | --- | |  | a. | $10,000 | |  | b. | $3,000 | |  | c. | $66,000 | |  | d. | $110,000 |  |  |  | | --- | --- | | *ANSWER:* | b | | *RATIONALE:* | Assets: $25,000 + $69,000 + $46,000 + $33,000 = $173,000  Liabilities: $41,000 + $22,000 = $63,000  Owners’ equity: $173,000 – $63,000 = $110,000  Retained earnings: $110,000 – $107,000 = $3,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 79. Leary Corporation’s end-of-year balance sheet consisted of the following amounts:  ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Cash | $ 25,000 |  | Accounts receivable | $ 46,000 | | Property, plant & equipment | 69,000 |  | Long-term debt | 41,000 | | Capital stock | 107,000 |  | Accounts payable | 22,000 | | Retained earnings | ? |  | Inventory | 33,000 |   ​  What is Leary’s **total** **liabilities** balance at the end of the current year?   |  |  |  | | --- | --- | --- | |  | a. | $3,000 | |  | b. | $110,000 | |  | c. | $63,000 | |  | d. | $173,000 |  |  |  | | --- | --- | | *ANSWER:* | c | | *RATIONALE:* | Assets: $25,000 + $69,000 + $46,000 + $33,000 = $173,000  Liabilities: $41,000 + $22,000 = $63,000  Owners’ equity: $173,000 – $63,000 = $110,000  Retained earnings: $110,000 – $107,000 = $3,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 80. Murphy Corporation’s end-of-year balance sheet consisted of the following amounts:  ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Cash | $ 35,000 |  | Accounts receivable | $ 46,000 | | Property, plant & equipment | 69,000 |  | Long-term debt | 41,000 | | Capital stock | 107,000 |  | Accounts payable | 22,000 | | Retained earnings | ? |  | Inventory | 33,000 |   ​  ​  What is Murphy’s **owners’** **equity** balance at the end of the current year?   |  |  |  | | --- | --- | --- | |  | a. | $3,000 | |  | b. | $120,000 | |  | c. | $63,000 | |  | d. | $173,000 |  |  |  | | --- | --- | | *ANSWER:* | b | | *RATIONALE:* | Assets: $35,000 + $69,000 + $46,000 + $33,000 = $183,000  Liabilities: $41,000 + $22,000 = $63,000  Owners’ equity: $183,000 – $63,000 = $120,000  Retained earnings: $120,000 – $107,000 = $13,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 81. Marcos Company reported the following items on its financial statements for the year ending December 31, 2016:  ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Sales | $ 560,000 |  | Cost of goods sold | $400,000 | | Salary expense | 40,000 |  | Interest expense | 30,000 | | Dividends | 20,000 |  | Income tax expense | 25,000 |   ​  How much will be reported as **retained** **earnings** on Marcos’ balance sheet at December 31, 2016, if this is the first year of operations?   |  |  |  | | --- | --- | --- | |  | a. | $ 45,000 | |  | b. | $ 65,000 | |  | c. | $ 85,000 | |  | d. | Not enough information is provided. |  |  |  | | --- | --- | | *ANSWER:* | a | | *RATIONALE:* | $560,000 – $410,000 – $40,000 – $30,000 – $25,000 = $55,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 82. Las Palmas Company reported the following items on its financial statements for the year ending December 31, 2016:  ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Sales | $ 560,000 |  | Cost of goods sold | $400,000 | | Salary expense | 40,000 |  | Interest expense | 30,000 | | Dividends | 30,000 |  | Income tax expense | 25,000 |   ​  How much will be reported as **retained** **earnings** on Las Palmas’ balance sheet at December 31, 2016, if this is the first year of operations?   |  |  |  | | --- | --- | --- | |  | a. | $ 45,000 | |  | b. | $ 35,000 | |  | c. | $ 85,000 | |  | d. | Not enough information is provided. |  |  |  | | --- | --- | | *ANSWER:* | b | | *RATIONALE:* | Net income: $560,000 – $400,000 – $40,000 – $30,000 – $25,000 = $65,000  Retained earnings: $65,000 – $30,000 = $35,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 83. Lori Corporation reported the following information for the year ended December 31, 2016:   |  |  |  | | --- | --- | --- | |  | Net income | $ 10,000 | |  | Dividends | 6,000 | |  | Retained earnings at December 31, 2016 | 25,000 |   ​  What was the balance of Lewis’ retained earnings at January 1, 2016?   |  |  |  | | --- | --- | --- | |  | a. | $21,000 | |  | b. | $29,000 | |  | c. | $31,000 | |  | d. | $35,000 |  |  |  | | --- | --- | | *ANSWER:* | b | | *RATIONALE:* | $25,000 + $10,000 – $6,000 = $29,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 84. Lewis Corporation reported the following information for the year ended December 31, 2016:   |  |  |  | | --- | --- | --- | |  | Net income | $ 10,000 | |  | Dividends | 6,000 | |  | Retained earnings at December 31, 2016 | 25,000 |   ​  What was the economic effect of the payment of Lewis’ dividends?   |  |  |  | | --- | --- | --- | |  | a. | The dividend reduced net income for 2016. | |  | b. | The dividend should be equal to net income if the company’s accounting equation is in balance. | |  | c. | The dividends reduce total retained earnings for the year. | |  | d. | The dividends must be paid whenever Raymond Corp. reports net income. |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 85. Volt Corp. reported the following information for the year ended December 31, 2016:   |  |  |  | | --- | --- | --- | |  | Revenues | $ 50,000 | |  | Expenses | 20,000 | |  | Retained earnings at December 31, 2016 | 100,000 | |  | Retained earnings at December 31, 2015 | 105,000 |   ​  How much was paid out in dividends by Volt in 2016?   |  |  |  | | --- | --- | --- | |  | a. | $ 20,000 | |  | b. | $ 25,000 | |  | c. | $ 30,000 | |  | d. | $ 50,000 |  |  |  | | --- | --- | | *ANSWER:* | b | | *RATIONALE:* | $100,000 + $50,000 – $20,000 – X = $105,000  X = $25,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 86. Mobile Power Corp. reported the following information for the year ended December 31, 2016.   |  |  |  | | --- | --- | --- | |  | Revenue | $ 40,000 | |  | Expenses | 23,000 | |  | Dividends | 10,000 | |  | Retained earnings at December 31, 2016 | 175,000 |   ​  What was the retained earnings balance for Mobile Power at December 31, 2015?   |  |  |  | | --- | --- | --- | |  | a. | $ 165,000 | |  | b. | $ 168,000 | |  | c. | $ 182,000 | |  | d. | $ 192,000 |  |  |  | | --- | --- | | *ANSWER:* | b | | *RATIONALE:* | X + $17,000 – $10,000 = $175,000  X = $168,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 87. Native Dave’s Consultants had the following balance sheet amounts at the beginning of the year:   |  |  | | --- | --- | | Total assets | $400,000 | | Total owner's equity | 150,000 |   ​  During the year, total assets increased by $100,000 and total liabilities increased by $40,000. The company also paid $30,000 in dividends. No other transactions occurred except revenues and expenses. How much is net income for the year?   |  |  |  | | --- | --- | --- | |  | a. | $30,000 | |  | b. | $60,000 | |  | c. | $70,000 | |  | d. | $90,000 |  |  |  | | --- | --- | | *ANSWER:* | d | | *RATIONALE:* | Assets: $400,000 + $100,000 = $500,000  Liabilities: ($400,000 – $150,000) + $40,000 = $290,000  Owners’ Equity at Year End: $500,000 – $290,000 = $210,000  Net Income: $210,000 – $150,000 + 30,000 = $90,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 88. On January 1, 2016, A-Best Company's balance in retained earnings was $80,000. At the end of the year, December 31, 2016, the balance in retained earnings was $94,000. During 2016, the company earned net income of $40,000. How much were dividends?   |  |  |  | | --- | --- | --- | |  | a. | $16,000 | |  | b. | $24,000 | |  | c. | $26,000 | |  | d. | $64,000 |  |  |  | | --- | --- | | *ANSWER:* | c | | *RATIONALE:* | $80,000 + $40,000 – $94,000 = $26,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 89. On January 1, 2016, Francisco Company's balance in retained earnings was $80,000. During 2016, the company earned net income of $43,000 and paid $15,000 in dividends. Calculate the retained earnings balance at December 31, 2016.   |  |  |  | | --- | --- | --- | |  | a. | $42,000 | |  | b. | $90,000 | |  | c. | $98,000 | |  | d. | $108,000 |  |  |  | | --- | --- | | *ANSWER:* | d | | *RATIONALE:* | $70,000 + $43,000 – $15,000 = $108,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 90. The following information is provided by the Ferrara Corporation:   |  |  | | --- | --- | | Beginning retained earnings | $ 50,000 | | Ending retained earnings | 70,000 | | Dividends declared and paid | 10,000 | | Revenue | 50,000 |   What is the net income for Ferrara Corp.?   |  |  |  | | --- | --- | --- | |  | a. | $10,000 | |  | b. | $20,000 | |  | c. | $30,000 | |  | d. | Unable to tell from the information provided. |  |  |  | | --- | --- | | *ANSWER:* | c | | *RATIONALE:* | $50,000 + X – $10,000 = $70,000  X = $30,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 91. The following information is provided by the Ferrara Corporation:   |  |  |  | | --- | --- | --- | |  | Beginning retained earnings | $ 50,000 | |  | Ending retained earnings | 70,000 | |  | Dividends declared and paid | 10,000 | |  | Revenue | 50,000 |   Calculate Ferrara Corporation’s expenses.   |  |  |  | | --- | --- | --- | |  | a. | $20,000 | |  | b. | $30,000 | |  | c. | $40,000 | |  | d. | Cannot tell from the information provided. |  |  |  | | --- | --- | | *ANSWER:* | a | | *RATIONALE:* | $50,000 + X – $10,000 = $70,000  X = $30,000  Net Income $50,000 (Revenue) – $30,000 (Net Income) = $20,000 Expenses | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 92. If a company has $152,000 of revenues, declares and pays $55,000 in dividends, and has net income of $89,000, how much were expenses for the year?   |  |  |  | | --- | --- | --- | |  | a. | $ 8,000 | |  | b. | $ 63,000 | |  | c. | $144,000 | |  | d. | Unable to determine the amount due to incomplete information. |  |  |  | | --- | --- | | *ANSWER:* | b | | *RATIONALE:* | $152,000 (Revenues) – $89,000 (Net Income) = $63,000 (Expenses) | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 93. Aloha Company reports the following information at December 31, 2016:  ​   |  |  | | --- | --- | | Revenue | $150,000 | | Cash | 30,000 | | Accounts payable | 40,000 | | Dividends | 10,000 | | Expenses | 85,000 |   ​  What is Aloha Company’s net income?   |  |  |  | | --- | --- | --- | |  | a. | $ 15,000 | |  | b. | $ 45,000 | |  | c. | $ 55,000 | |  | d. | $ 65,000 |  |  |  | | --- | --- | | *ANSWER:* | d | | *RATIONALE:* | $150,000 (Revenue) – $85,000 (Expenses) = $65,000 (Net Income) | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 94. Cerrato Company has assets of $350,000, liabilities of $130,000, and retained earnings of $180,000. How much is total owners’ equity?   |  |  |  | | --- | --- | --- | |  | a. | $ 40,000 | |  | b. | $ 170,000 | |  | c. | $ 220,000 | |  | d. | $ 350,000 |  |  |  | | --- | --- | | *ANSWER:* | c | | *RATIONALE:* | $350,000 (Assets) – $130,000 (Liabilities) = $220,000 Owners’ Equity | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 95. Gyro’s Shop reported a net loss of $15,000 and total expenses of $80,000. How much are total revenues?   |  |  |  | | --- | --- | --- | |  | a. | $ 15,000 | |  | b. | $ 65,000 | |  | c. | $ 95,000 | |  | d. | The answer cannot be determined from the information given. |  |  |  | | --- | --- | | *ANSWER:* | b | | *RATIONALE:* | $80,000 Total Expenses + ($15,000) Net Loss = $65,000 Total Revenues | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 96. Marcos Inc. had net income for 2016 of $40,000. It declared and paid a $3,500 cash dividend in 2016. If the company’s retained earnings for the end of the year were $38,200, what was the company’s retained earnings balance at the beginning of 2016?   |  |  |  | | --- | --- | --- | |  | a. | $81,700 | |  | b. | $74,700 | |  | c. | $5,300 | |  | d. | $1,700 |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 97. Dimension Inc. had net income for 2016 of $24,000. It declared and paid a $13,000 cash dividend in 2016. If the company’s retained earnings for the end of the year were $39,600, what was the company’s retained earnings balance at the beginning of 2016?   |  |  |  | | --- | --- | --- | |  | a. | $28,600 | |  | b. | $50,600 | |  | c. | $76,600 | |  | d. | $2,600 |  |  |  | | --- | --- | | *ANSWER:* | a | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 98. At December 31, 2016, the accounting records of Tasty Foods Corporation contain the following:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts payable | $16,000 |  | Accounts receivable | $40,000 | | Land | $240,000 |  | Cash | ? | | Capital stock | ? |  | Equipment | $120,000 | | Building | $180,000 |  | Notes payable | $190,000 | | Retained earnings | $160,000 |  |  |  |   ​  If capital stock is $260,000, what is the December 31, 2016 cash balance?   |  |  |  | | --- | --- | --- | |  | a. | $46,000 | |  | b. | $506,000 | |  | c. | $94,000 | |  | d. | $86,000 |  |  |  | | --- | --- | | *ANSWER:* | a | | *RATIONALE:* | Cash + $40,000 + $120,000 + $180,000 + $240,000 = $16,000 + $260,000 + $160,000 + $190,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21-20 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |
| 99. At December 31, 2016, the accounting records of Tasty Foods Corporation contain the following:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts payable | $16,000 |  | Accounts receivable | $40,000 | | Land | $240,000 |  | Cash | ? | | Capital stock | ? |  | Equipment | $120,000 | | Building | $180,000 |  | Notes payable | $190,000 | | Retained earnings | $160,000 |  |  |  |   ​  If Cash is $26,000, what is the December 31, 2016 capital stock balance?   |  |  |  | | --- | --- | --- | |  | a. | $272,000 | |  | b. | $240,000 | |  | c. | $220,000 | |  | d. | $400,000 |  |  |  | | --- | --- | | *ANSWER:* | b | | *RATIONALE:* | $26,000 + $40,000 + $120,000 + $180,000 + $240,000 = $16,000 + $160,000 + $190,000 + Capital Stock | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21-20 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 100. Sawaddee Enterprises began the year with total assets of $450,000 and total liabilities of $230,000. If Sawaddee’s total assets increased by $80,000 and its total liabilities increased by $57,000 during the year, what is the amount of Sawaddee’s owners’ equity at the end of the year?   |  |  |  | | --- | --- | --- | |  | a. | $197,000 | |  | b. | $543,000 | |  | c. | $243,000 | |  | d. | $220,000 |  |  |  | | --- | --- | | *ANSWER:* | c | | *RATIONALE:* | ($450,000 + $80,000) = ($230,000 + $57,000) + SE | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21-20 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 101. Sawaddee Enterprises began the year with total assets of $450,000 and total liabilities of $230,000. If Sawaddee total liabilities increased by $31,000 and its owners’ equity decreased by $53,000 during the year, what was the amount of its total assets at the end of the year?   |  |  |  | | --- | --- | --- | |  | a. | $472,000 | |  | b. | $242,000 | |  | c. | $198,000 | |  | d. | $428,000 |  |  |  | | --- | --- | | *ANSWER:* | d | | *RATIONALE:* | A = ($230,000 + $31,000) + ($220,000\* – $53,000) = $428,000  \*Owners’ equity = $450,000 – $230,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21-20 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 102. The natural progression in items from one statement to another and preparation of financial statements is best represented by the following order:   |  |  |  | | --- | --- | --- | |  | a. | Balance sheet and statement of cash flows > statement of retained earnings > income statement | |  | b. | Balance sheet and statement of cash flows > income statement > statement of retained earnings. | |  | c. | Statement of retained earnings > income statement > balance sheet and statement of cash flows | |  | d. | Income statement > statement of retained earnings > balance sheet and statement of cash flows |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 103. All of the following are different expressions for net income **except**:   |  |  |  | | --- | --- | --- | |  | a. | Capital | |  | b. | Excess of revenues over expenses | |  | c. | Profits | |  | d. | Earnings |  |  |  | | --- | --- | | *ANSWER:* | a | | *DIFFICULTY:* | Easy | | *REFERENCES:* | p. 17 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 104. Sawaddee Enterprises began the year with total assets of $450,000 and total liabilities of $230,000. If Sawaddee’s total assets doubled to $1,000,000 and its owners’ equity remained the same during the year, what was the amount of its total liabilities at the end of the year?   |  |  |  | | --- | --- | --- | |  | a. | $220,000 | |  | b. | $680,000 | |  | c. | $780,000 | |  | d. | $900,000 |  |  |  | | --- | --- | | *ANSWER:* | c | | *RATIONALE:* | $900,000 = L + $220,000 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 105. The statement of retained earnings accomplishes which of the following?   |  |  |  | | --- | --- | --- | |  | a. | It summarizes income earned and dividends paid over a single period of the business. | |  | b. | It accumulates all revenues for the year. | |  | c. | It summarizes the balance sheet accounts. | |  | d. | It summarizes the capital stock accounts over the life of the business. |  |  |  | | --- | --- | | *ANSWER:* | a | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 106. Which concept is the reason the dollar is used in the preparation of financial statements?   |  |  |  | | --- | --- | --- | |  | a. | Going concern | |  | b. | Legal entity | |  | c. | Consistency | |  | d. | None of these choices. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 22-24 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 107. Which one of the following is an assumption made in the preparation of financial statements?   |  |  |  | | --- | --- | --- | |  | a. | Financial statements are prepared for a specific entity that is distinct from the entity owners. | |  | b. | Financial statements are prepared assuming that inflation has a distinct effect on the monetary unit | |  | c. | Preparation of financial statements for a specific time period assumes that the balance sheet covers a period of time. | |  | d. | Market values are always assumed to be irrelevant when preparing financial statements. |  |  |  | | --- | --- | | *ANSWER:* | a | | *DIFFICULTY:* | Hard | | *REFERENCES:* | pp. 22-24 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 108. Why is the time period assumption required?   |  |  |  | | --- | --- | --- | |  | a. | Inflation exists | |  | b. | External users of financial statements want statements that accurately reflect net income or earnings for a specific time period. | |  | c. | The dollar is the monetary unit in the United States. | |  | d. | The federal government requires it. |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 22-24 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 109. Which one of the following statements is true concerning assets?   |  |  |  | | --- | --- | --- | |  | a. | They are recorded at market value and then adjusted for inflation. | |  | b. | They are recorded at market value for financial reporting purposes as historical cost may be arbitrary. | |  | c. | Assets are used using the time-period approach. | |  | d. | Accountants use the term historical cost to refer to the original cost of an asset. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 22-24 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 110. Domenico Enterprises purchased land for $2,000,000 in 1999. In 2016, an independent appraiser assessed the value at $4,400,000. What amount should appear on the financial statements in 2016 with respect to the land?   |  |  |  | | --- | --- | --- | |  | a. | $2,400,000 | |  | b. | $2,000,000 | |  | c. | $4,400,000 | |  | d. | Whatever amount the company believes is the best indicator of the true value of the land. |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 22-24 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 111. Which of the following is a five-member body that has the authority from Congress to set standards for conducting audits?   |  |  |  | | --- | --- | --- | |  | a. | FASB | |  | b. | SEC | |  | c. | PCAOB | |  | d. | AICPA |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 112. Which the following organizations is primarily responsible for establishing GAAP today?   |  |  |  | | --- | --- | --- | |  | a. | IRS | |  | b. | Securities and Exchange Commission (SEC) | |  | c. | SEC | |  | d. | None of these choices. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 113. Which of the following organizations is responsible for setting auditing standards followed by public accounting firms in conducting independent audits of financial statements?   |  |  |  | | --- | --- | --- | |  | a. | Financial Accounting Standards Board (FASB) | |  | b. | Securities and Exchange Commission (SEC) | |  | c. | Public Company Accounting Oversight Board (PCAOB) | |  | d. | International Accounting Standards Board (IASB) |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 114. Which organization, in addition to the Financial Accounting Standards Board (FASB), occasionally issues authoritative rules for financial statements?   |  |  |  | | --- | --- | --- | |  | a. | The Accounting Profession | |  | b. | International Accounting Standards Board (IASB) | |  | c. | Securities and Exchange Commission (SEC) | |  | d. | Internal Revenue Service (IRS) |  |  |  | | --- | --- | | *ANSWER:* | c | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 115. The Securities and Exchange Commission (SEC) is concerned with   |  |  |  | | --- | --- | --- | |  | a. | Companies that issue securities to the general public. | |  | b. | All companies in the US regardless of size. | |  | c. | Accounting reports issued by government entities. | |  | d. | All domestic and international companies that issue accounting reports. |  |  |  | | --- | --- | | *ANSWER:* | a | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 116. To which of the following entities must a company report if it sells its stock on the organized stock market?   |  |  |  | | --- | --- | --- | |  | a. | American Institute of Certified Public Accountants (AICPA) | |  | b. | American Accounting Association (AAA) | |  | c. | International Accounting Standards Board (IASB) | |  | d. | Securities and Exchange Commission (SEC) |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 117. The reliability of the information in a company’s financial statements is the responsibility of which of the following?   |  |  |  | | --- | --- | --- | |  | a. | The Securities and Exchange Commission (SEC) | |  | b. | The Certified Public Accountant in charge of the audit of the company’s financial statements | |  | c. | Clients | |  | d. | None of these choices. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 118. In order for accounting information to be useful in making informed decisions, it must be   |  |  |  | | --- | --- | --- | |  | a. | relevant | |  | b. | reliable | |  | c. | Neither relevant nor reliable | |  | d. | Both relevant and reliable |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 119. The second step in the ethical decision-making model is to   |  |  |  | | --- | --- | --- | |  | a. | List alternatives and evaluate the impact of each on those affected | |  | b. | Select the best alternative | |  | c. | Recognize an ethical dilemma | |  | d. | Analyze the key elements in the situation |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 120. All of the following are important provisions of the Sarbanes-Oxley Act **except**:   |  |  |  | | --- | --- | --- | |  | a. | The establishment of a new Public Company Accounting Oversight Board. | |  | b. | The requirement to prepare both FASB and IASB financial statements. | |  | c. | A requirement that the external auditors report directly to the company’s audit committee. | |  | d. | A clause to prohibit public accounting firms that audit a company from providing any other services that could impair their ability to act independently in the course of their audit. |  |  |  | | --- | --- | | *ANSWER:* | b | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 121. When selecting between the best alternatives regarding an ethical dilemma in accounting all of the following should be considered **except**:   |  |  |  | | --- | --- | --- | |  | a. | which alternative provides the most relevant information. | |  | b. | which alternative provides the most accurate information. | |  | c. | which alternative provides the most neutral information. | |  | d. | which alternative provides the most profitable information. |  |  |  | | --- | --- | | *ANSWER:* | d | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Understanding | |

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| Multiple Response |

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| 122. Choose the user group that is most likely to have the need listed below. (Select all that apply.)  The ability of the company to pay its debts as they become due.   |  |  |  | | --- | --- | --- | |  | a. | Stockholder | |  | b. | Company management | |  | c. | Supplier | |  | d. | Banker | |  | e. | Internal Revenue Service | |  | f. | Securities and Exchange Commission | |  | g. | Labor union |  |  |  | | --- | --- | | *ANSWER:* | c, d | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 123. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ consists of all activities necessary to provide the members of an economic system with goods and services.   |  |  | | --- | --- | | *ANSWER:* | Business | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 4-5 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-01 - LO: 01-01 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 124. A \_\_\_\_\_\_\_\_\_\_\_\_ is a certificate that represents a corporation’s promise to repay a certain amount of money and interest in the future.   |  |  | | --- | --- | | *ANSWER:* | bond | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 6-7 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-02 - LO: 01-02 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 125. \_\_\_\_\_\_\_\_\_\_\_\_\_ is the type of accounting used by external parties.   |  |  | | --- | --- | | *ANSWER:* | Financial accounting | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 6-7 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-02 - LO: 01-02 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 126. Owners of corporations are called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.   |  |  | | --- | --- | | *ANSWER:* | stockholders | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 127. The three types of business activities in which all corporations engage are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.   |  |  | | --- | --- | | *ANSWER:* | financing, investing, operating | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 128. The process of identifying, measuring, and communicating economic information to various users is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.   |  |  | | --- | --- | | *ANSWER:* | accounting | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 129. The names of the four financial statements are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_   |  |  | | --- | --- | | *ANSWER:* | income statement, balance sheet, statement of retained earnings, statement of cash flows | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 130. Another name for net income of a business is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.   |  |  | | --- | --- | | *ANSWER:* | profits or earnings | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 131. The various methods, rules, practices, and other procedures that have evolved over time in response to the need to regulate the preparation of financial statements are called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.   |  |  | | --- | --- | | *ANSWER:* | generally accepted accounting principles | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 22-24 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 132. The concept that assumes that assets are recorded at the amount to acquire them is called the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.   |  |  | | --- | --- | | *ANSWER:* | cost principle | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 22-24 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 133. The concept that assumes that an entity is **not** in the process of liquidation is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.   |  |  | | --- | --- | | *ANSWER:* | going concern | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 22-24 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 134. The federal government agency with the ultimate authority to determine the rules in preparing statements for companies whose stock is sold to the public is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.   |  |  | | --- | --- | | *ANSWER:* | Securities and Exchange Commission | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 135. The private sector group with authority to set accounting standards is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.   |  |  | | --- | --- | | *ANSWER:* | Financial Accounting Standards Board | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 136. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ means the presentation of information is free from bias toward a particular result.   |  |  | | --- | --- | | *ANSWER:* | Neutrality | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 137. In 2002, Congress passed the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Act to bring reform to corporate accountability and stewardship in the wake of a number of major corporate scandals.   |  |  | | --- | --- | | *ANSWER:* | Sarbanes-Oxley | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 138. Good quality information should be both \_\_\_\_\_\_\_\_\_\_\_\_\_ and present a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.   |  |  | | --- | --- | | *ANSWER:* | relevant  faithful representation | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Remembering | |
| Matching |
| *Match the following business forms with their characteristics below.*   |  |  | | --- | --- | | a. | Sole proprietorship | | b. | Partnership | | c. | Corporation |  |  |  | | --- | --- | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 6-7 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-02 - LO: 01-02 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 139. Must file articles of incorporation with the state   |  |  | | --- | --- | | *ANSWER:* | c | |

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| 140. Easy to raise large sums of money   |  |  | | --- | --- | | *ANSWER:* | c | |

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| 141. Single owner   |  |  | | --- | --- | | *ANSWER:* | a | |

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| 142. Need an agreement about contributions to the business   |  |  | | --- | --- | | *ANSWER:* | b | |

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| 143. Usually owned and operated by the same person   |  |  | | --- | --- | | *ANSWER:* | a | |

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| 144. Owned by two or more individuals   |  |  | | --- | --- | | *ANSWER:* | b | |

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| 145. Control most private resources in the U.S.   |  |  | | --- | --- | | *ANSWER:* | c | |

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| 146. A share of stock acts as evidence of ownership   |  |  | | --- | --- | | *ANSWER:* | c | |

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| *Provided below is a list of important users of accounting information. Below the list are descriptions of a major need of each of the various users. Fill in the blank with the one user group that is most likely to have the need described to the right of the blank. Some user groups may be used more than once or not at all.*   |  |  | | --- | --- | | a. | Stockholder | | b. | Company management | | c. | Supplier | | d. | Banker | | e. | Internal Revenue Service | | f. | Securities and Exchange Commission | | g. | Labor union |  |  |  | | --- | --- | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 147. The prospects for future dividend payments.   |  |  | | --- | --- | | *ANSWER:* | a | |

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| 148. The financial status of a company issuing securities to the public for the first time.   |  |  | | --- | --- | | *ANSWER:* | f | |

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| 149. The profitability of the company based upon the Internal Revenue Code.   |  |  | | --- | --- | | *ANSWER:* | e | |

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| 150. The profitability of each division of the company.   |  |  | | --- | --- | | *ANSWER:* | b | |

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| 151. The exact amount of profit on each product of the company.   |  |  | | --- | --- | | *ANSWER:* | b | |

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| 152. The company’s profitability since the last work force contract was signed.   |  |  | | --- | --- | | *ANSWER:* | g | |

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| *For each statement provided, choose the letter of the appropriate term from the list that each statement best describes. Some terms may be used more than once, while others are not used at all.*   |  |  | | --- | --- | | a. | Capital stock | | b. | Asset | | c. | Owners’ equity | | d. | Time period | | e. | Dividends | | f. | Economic entity concept | | g. | Expense | | h. | Retained earnings | | i. | Cost principle | | j. | Creditor | | k. | Liability | | l. | Revenue | | m. | Going concern | | n. | Monetary unit | | o. | Corporation |  |  |  | | --- | --- | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 pp. 22-24 pp. 11-12 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 FACC.PONO.13.01-05 - LO: 01-05 FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 153. The portion of owner’s equity that represents the net income less any dividends paid over the life of the entity.   |  |  | | --- | --- | | *ANSWER:* | h | |

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| 154. The owners’ claims on the assets of an entity.   |  |  | | --- | --- | | *ANSWER:* | c | |

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| 155. A distribution of the net income of a business to its owners.   |  |  | | --- | --- | | *ANSWER:* | e | |

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| 156. The sale of goods or the performance of services.   |  |  | | --- | --- | | *ANSWER:* | l | |

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| 157. A category on the balance sheet to indicate the owners’ direct investment in a corporation.   |  |  | | --- | --- | | *ANSWER:* | a | |

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| 158. The cost of doing business that results from the process of generating revenues.   |  |  | | --- | --- | | *ANSWER:* | g | |

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| 159. A future benefit.   |  |  | | --- | --- | | *ANSWER:* | b | |
| 160. An artificial segment on the calendar used as a basis for preparing financial statements.   |  |  | | --- | --- | | *ANSWER:* | d | |

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| 161. The assumption that an entity is **not** in the process of liquidation and that it will continue indefinitely.   |  |  | | --- | --- | | *ANSWER:* | m | |

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| 162. The principle or rule that specifies the amount recorded for an asset upon acquisition.   |  |  | | --- | --- | | *ANSWER:* | i | |

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| 163. An entity that lends a company money with the expectation of repayment.   |  |  | | --- | --- | | *ANSWER:* | j | |

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| 164. Claims of the creditors against the assets of a company.   |  |  | | --- | --- | | *ANSWER:* | k | |

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| *Several items from the financial statements of Standard Tires are listed below. Use the following answer choices to identify the type of account for each item listed. Place your answers in the space provided.*   |  |  | | --- | --- | | a. | Assets | | b. | Liabilities | | c. | Revenues | | d. | Expenses | | e. | Owners’ equity |  |  |  | | --- | --- | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 165. Property, plant, and equipment   |  |  | | --- | --- | | *ANSWER:* | a | |

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| 166. Sale of tires   |  |  | | --- | --- | | *ANSWER:* | c | |

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| 167. Accounts payable   |  |  | | --- | --- | | *ANSWER:* | b | |

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| 168. Interest income   |  |  | | --- | --- | | *ANSWER:* | c | |

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| 169. Selling expenses   |  |  | | --- | --- | | *ANSWER:* | d | |

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| 170. Accounts receivable   |  |  | | --- | --- | | *ANSWER:* | a | |

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| 171. Capital stock   |  |  | | --- | --- | | *ANSWER:* | e | |

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| 172. Long-term debt   |  |  | | --- | --- | | *ANSWER:* | b | |

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| 173. Cash   |  |  | | --- | --- | | *ANSWER:* | a | |

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| 174. Retained earnings   |  |  | | --- | --- | | *ANSWER:* | e | |

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| 175. Inventories   |  |  | | --- | --- | | *ANSWER:* | a | |

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| *Three organizations important to accounting are listed below. Select the organization that most closely achieves the role described.*   |  |  | | --- | --- | | a. | American Institute of Certified Public Accountants (AICPA) | | b. | Financial Accounting Standards Board (FASB) | | c. | Securities and Exchange Commission (SEC) |  |  |  | | --- | --- | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 25-26 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Remembering | |

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| 176. Issues financial accounting concepts that are used as a guide to accounting standard setting.   |  |  | | --- | --- | | *ANSWER:* | b | |

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| 177. Has the ultimate authority to set accounting standards, but has allowed the profession to do so.   |  |  | | --- | --- | | *ANSWER:* | c | |

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| 178. Prepares and grades the Uniform CPA Examination.   |  |  | | --- | --- | | *ANSWER:* | a | |

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| 179. An agency of the federal government.   |  |  | | --- | --- | | *ANSWER:* | c | |

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| 180. Is a professional organization of certified public accountants.   |  |  | | --- | --- | | *ANSWER:* | a | |

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| 181. Primarily responsible for setting accounting standards today.   |  |  | | --- | --- | | *ANSWER:* | b | |

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| 182. Requires that publicly traded companies file annual and quarterly financial statements on a timely basis.   |  |  | | --- | --- | | *ANSWER:* | c | |

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| Subjective Short Answer |

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| 183. Vick Corporation has been in the business of delivering small packages for local companies within the city of Atlanta, Georgia, since 1960. The following information concerning financial activities during 2016 is available at December 31, 2016:  ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Delivery revenue | $380,000 |  | Salary and wage expense | $82,000 | | Dividends declared and paid | 85,000 |  | Rent expense | 43,000 | | Buildings | 140,000 |  | Land | 60,000 | | Accounts payable | 30,000 |  | Accounts payable | 30,000 | | Capital stock | 105,000 |  | Retained earnings, |  | | Water, gas, and |  |  | January 1, 2016 | 42,000 | | electricity | 28,000 |  | Notes payable | 34,000 | | Cash | 56,000 |  | Income tax expense | 18,000 |   ​   |  |  | | --- | --- | | A. | Prepare an income statement for the year ended December 31, 2016. | | B. | If you were a bank loan officer and Vick Corporation wanted to borrow $100,000 from your bank, would you lend the money? Explain. | | C. | Calculate retained earnings at December 31, 2016. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | ​  ​A.   |  |  |  | | --- | --- | --- | | **Vick Corporation** | | | | **Income Statement** | | | | **Year Ended December 31, 2016** | | | | Revenues: | ​ | ​ | | Delivery revenue | ​ | $380,000 | | Expenses: | ​ | ​ | | Salary and wage expense | $82,000 | ​ | | Rent expense | 43,000 | ​ | | Water, gas, and electricity | 28,000 | ​ | | Income tax expense | 18,000 | 181,000 | | Net income | ​ | $99,000 |   ​   |  |  | | --- | --- | | B. | The company appears profitable. Basing the decision solely on profitability, it appears the company can generate operating income to enable it to repay the loan. But the company also had accounts payable and notes payable of $30,000 and $34,000, respectively, for which cash may not be available to pay when these amounts become due. | | C. | $42,000 + $99,000 – $85,000 = $76,000 |   ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 4-7 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-01 - LO: 01-01 FACC.PONO.13.01-02 - LO: 01-02 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 184. Meredith Corporation is in the business of providing dog and cat grooming services to customers within the city of New York. The following information concerning financial activities during 2016 is available at December 31, 2016:  ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Grooming revenue | $130,000 |  | Salary and wage expense | $44,000 | | Dividends declared and paid | 13,000 |  | Rent expense | 24,000 | | Equipment | 40,000 |  | Furniture | 60,000 | | Accounts payable | 30,000 |  | Accounts receivable | 23,000 | | Capital stock | 22,000 |  | Retained earnings, Jan. 1,2016 | 21,000 | | Utilities expense | 10,000 |  | Notes payable | 88,000 | | Cash | 33,000 |  | Income tax expense | 7,000 |   ​   |  |  | | --- | --- | | A. | Calculate net income for 2016. | | B. | Prepare a statement of retained earnings for the year ended December 31, 2016. | | C. | What information can you derive from the statement of retained earnings concerning this company? Explain. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | ​   |  |  |  |  | | --- | --- | --- | --- | | A. | $130,000 – $10,000 – $44,000 – $24,000 – $7,000 = $45,000 | | | | B. | |  | | | **Meredith Corporation**  **Statement of Retained Earnings**  **For the Year Ended December 31, 2016** | | | | | Beginning balance | | $21,000 |  | | Add: Net income for the year | | 45,000 |  | | Less: Dividends for the year | | (13,000) |  | | Ending balance | | $53,000 |  | |  | |  | | | C. | The statement of retained earnings provides information on the changes in retained earnings during 2016. Net income causes retained earnings to increase, and dividends cause it to decrease. Since net income exceeded dividends paid, the ending balance is larger than the beginning balance. | | |   ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 6-7 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-02 - LO: 01-02 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 185. Here is a list of accounts and their balances that appear on the Thomas Company’s income statement and balance sheet.   |  |  | | --- | --- | | Accounts payable | $ 800 | | Accounts receivable | 500 | | Building | 2,000 | | Cash | 3,300 | | Gas, utilities, and other expenses | 300 | | Land | 4,000 | | Lawn-care revenue | 1,500 | | Notes payable | 6,000 | | Salaries and wages expense | 900 | | Tools | 800 | | Tree-trimming revenue | 500 | | Truck | 2,000 |   ​  **REQUIRED:** Identify which of these are: (a) Assets (b) Liabilities (c) Expenses (d) Revenues   |  |  | | --- | --- | | *ANSWER:* | (a) Assets: Accounts receivable, Building, Cash, Land, Tools, Truck  (b) Liabilities: Accounts payable, Notes payable  (c) Expenses: Gas, utilities, and other expenses, Salaries and wages expense  (d) Revenues: Lawn-care revenue, Tree-trimming revenue | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 8-10 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-03 - LO: 01-03 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| **Taryn Corporation** The accountant for Taryn Corporation prepared the following list of account balances from the company’s records for the year ended December 31, 2016:  ​   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | Sales revenue | $165,000 |  | Cash | $ 30,000 | |  | Accounts receivable | 14,000 |  | Selling expenses | 44,000 | |  | Equipment | 42,000 |  | Common stock | 41,000 | |  | Accounts payable | 12,000 |  | Interest income | 3,000 | |  | Salaries and wages expense | 40,000 |  | Cost of sales | 51,000 | |  | Inventories | 22,000 |  | Prepaid expenses | 2,000 | |  | Income taxes payable | 5,000 |  | Income taxes expense | 18,000 | |  | Notes payable | 20,000 |  | Retained earnings | ? |   ​  ​ |

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| 186. Read the information for Taryn Corporation. Determine the following amounts for Taryn Corp.   |  |  |  | | --- | --- | --- | | A) | Total assets at the end of 2016 |  | |  |  |  | | B) | Total liabilities at the end of 2016 | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  | | | C) | What parties have a claim on Taryn Corporation’s assets? Explain you answer in the terms of the accounting equation. | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $110,000 | |  | ($30,000 Cash + $14,000 Accounts Receivable + $42,000 Equipment + $22,000 Inventories + 2,000 Prepaid Expenses = $110,000) | |  | |  |  | | B) | $37,000 | |  | ($12,000 Accounts Payable + $5,000 Income Taxes Payable + $20,000 Notes Payable = $37,000) | |  |  | | C) | Both the creditors and the owners have a claim on the assets of the corporation. The creditors have their claim arising from the liabilities of the corporation, while the owners have a claim through the owners’ (or stockholders’) equity. | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 187. Read the information for Taryn Corporation. Determine the following amounts for Taryn Corporation.   |  |  |  | | --- | --- | --- | | A) | The balance of retained earnings at the end of 2016. |  | |  |  |  | | B) | The total stockholders’ equity at the end of 2016. | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  | | | C) | Name the two events that might cause stockholders’ equity to increase. | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $32,000 | |  | ($110,000 Total Assets – $37,000 Total Liabilities – $41,000 Common Stock = $32,000) | |  |  | | B) | $73,000 | |  | ($110,000 Total Assets – $37,000 Total Liabilities = $73,000; OR $41,000 Common Stock + $32,000 Retained Earnings = $73,000) | |  | |  |  | | C) | Stockholders equity can increase when common (or capital) stock is issued to investors. It also can increase through increases to retained earnings when the net income of the business is greater than any dividends paid to the shareholders. | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 188. Read the information for Taryn Corporation. Prepare an income statement for Taryn Corporation in good form.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | ​   |  |  |  |  | | --- | --- | --- | --- | | **Taryn Corporation** | | | | | **Income Statement** | | | | | **For the Year Ended December 31, 2016** | | | | | Revenues: |  |  |  | |  | Sales revenue | $165,000 |  | |  | Interest income | 3,000 | $168,000 | | Expenses: |  |  |  | |  | Cost of sales | $ 51,000 |  | |  | Salaries and wages expense | 40,000 |  | |  | Selling expenses | 44,000 |  | |  | Income taxes expense | 18,000 | 153,000 | | Net income |  |  | $ 15,000 | |  |  |  |  |   ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 189. Read the information for Taryn Corporation. Prepare a balance sheet for Taryn Corporation in good form.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Taryn Corporation** | | | | | | **Balance Sheet** | | | | | | **December 31, 2016** | | | | | | Assets |  |  | Liabilities & Owners’ Equity | | | Cash | $ 30,000 |  | Accounts payable | $ 12,000 | | Accounts receivable | 14,000 |  | Income taxes payable | 5,000 | | Inventories | 22,000 |  | Notes payable | 20,000 | | Prepaid expenses | 2,000 |  | Common stock | 41,000 | | Equipment | 42,000 |  | Retained earnings | 32,000 | | ​  Total assets | ​  $ 110,000 |  | ​  Total liabilities and owners’ equity | ​  $ 110,000 | |  |  |  |  |  |   ​​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 190. Read the information for Taryn Corporation. Determine the following amounts for Taryn Corporation:   |  |  |  | | --- | --- | --- | | A) | Total revenues for 2016. |  | |  |  |  | | B) | Total expenses for 2016. | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  | | | C) | What is the purpose of the income statement? | | |  |  | | | D) | Is Taryn Corp. profitable? Explain your answer. | | |  |  | | | E) | Is this the first year of operations for Taryn Corp.? Explain your answer. | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $168,000 | |  | ($165,000 Sales Revenue + $3,000 Interest Income = $168,000) | |  |  | | B) | $153,000 | |  | ($51,000 Cost of Sales + $40,000 Salaries & Wages Expense + $44,000 Selling Expenses + $18,000 Income Taxes Expense = $153,000) | |  | |  |  | | C) | The purpose of the income statement is to provide information regarding the revenues and expenses of the entity. The difference shows the profitability of the company for a particular period of time. | |  |  | | D) | Taryn Corporation had net income for the period of $15,000. Since revenues exceeded expenses for the period, the company would be considered profitable. | |  |  | | E) | This would not be the first year of operations for Taryn Corporation. The reasons for this are that the ending Retained Earnings balance is greater than the net income of $15,000. Since the ending balance of Retained Earnings is $32,000, and Net Income for the period was $15,000 as well as apparently no dividends declared and paid to the stockholders during the year, Taryn Corporation began the year with a balance of $17,000 ($32,000 – 15,000) in Retained Earnings. | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| **Canyon Corporation** The accountant for the Canyon Corporation prepared the following list from the company’s accounting records for the year ended December 31, 2016:   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | Retained earnings | ? |  | Prepaid expenses | $ 3,000 | |  | Cash | $ 7,000 |  | Common stock | 40,000 | |  | Accounts payable | 15,000 |  | Accounts receivable | 17,000 | |  | Sales revenue | 125,000 |  | Interest income | 500 | |  | Cost of sales | 70,000 |  | Salary expense | 4,000 | |  | Land | 75,000 |  | Income tax expense | 200 | |  | Notes payable | 15,000 |  | Selling expense | 45,000 | |  | Inventory | 20,000 |  | Salaries payable | 5,000 |   ​  ​ |

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| 191. Read the information for Canyon Corporation. Determine the following amounts for Canyon Corporation.   |  |  |  | | --- | --- | --- | | A) | Total assets at the end of 2016. |  | |  |  |  | | B) | Total liabilities at the end of 2016. |  | |  |  |  | | C) | Total equity at the end of 2016. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $122,000 | |  | ($3,000 Prepaid Expenses + $7,000 Cash + $17,000 Accounts Receivable + $75,000 Land + $20,000 Inventory = $122,000) | |  |  | | B) | $35,000 | |  | ($15,000 Accounts Payable + $15,000 Notes Payable + $5,000 Salaries Payable = $35,000) | |  |  | | C) | $87,000 | |  | ($122,000 Total Assets – $35,000 Total Liabilities = $87,000) | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 192. Read the information for Canyon Corporation. Determine the following amounts for Canyon Corporation:   |  |  |  | | --- | --- | --- | | A) | Total revenues for 2016. |  | |  |  |  | | B) | Total expenses for 2016. |  | |  |  |  | | C) | Net income for 2016. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $125,500 | |  | ($125,000 Sales Revenue + $500 Interest Income = $125,500) | |  |  | | B) | $119,200 | |  | ($70,000 Cost of Sales + $4,000 Salary Expense + $200 Income Tax Expense | |  | + $45,000 Selling Expense = $119,200) | |  |  | | C) | $6,300 | |  | ($125,500 Total Revenue – $119,200 Total Expenses = $6,300) | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 193. Read the information for Canyon Corporation. Determine the following amounts for Canyon Corporation:   |  |  |  | | --- | --- | --- | | A) | Stockholders’ equity at the end of 2016. |  | |  |  |  | | B) | Retained earnings at the end of 2016. | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  | | | C) | Name two events that might cause stockholders’ equity to decrease. | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $87,000 | |  | ($122,000 Total Assets – $35,000 Total Liabilities = $87,000) | |  |  | | B) | $47,000 | |  | ($87,000 Total Stockholders’ Equity – $40,000 Common Stock = $47,000 | |  |  | | C) | Stockholders’ equity is decreased when dividends are declared and paid. Expenses or net losses also reduce stockholders’ equity. | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21-18 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 194. Read the information for Canyon Corporation. Using good form, prepare an income statement for Canyon Corporation.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | ​   |  |  |  |  | | --- | --- | --- | --- | | **Canyon Corporation** | | | | | **Income Statement** | | | | | **For the Year Ended December 31, 2016** | | | | | Revenues: |  |  |  | |  | Sales Revenue | $125,000 |  | |  | Interest Income | 500 | $125,500 | | Expenses: |  |  |  | |  | Cost of Sales | $ 70,000 |  | |  | Selling Expense | 45,000 |  | |  | Salary Expense | 4,000 |  | |  | Income tax Expense | 200 | 119,200 | | Net Income |  |  | $   6,300 | |  |  |  |  |   ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 195. Read the information for Canyon Corporation. Using good form, prepare a Balance Sheet for the Canyon Corporation.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Canyon Corporation** | | | | | | **Balance Sheet** | | | | | | **December 31, 2016** | | | | | |  |  |  | |  | | Assets |  | Liabilities and Owners’ Equity | |  | | Cash | $   7,000 |  | Accounts payable | $  15,000 | | Accounts receivable | 17,000 |  | Salaries payable | 5,000 | | Inventory | 20,000 |  | Notes payable | 15,000 | | Prepaid expenses | 3,000 |  | Common stock | 40,000 | | Land | 75,000 |  | Retained earnings | 47,000 | | Total assets | $122,000 |  | Total liabilities and owners’ equity | $122,000 |   ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 196. Assume that you have received copies of the financial statements for PepsiCo for the years ending December 31, 2016 and 2015. Answer the following questions:   |  |  | | --- | --- | | A) | If you were a banker, why would you need information from PepsiCo’s financial statements? | |  |  | | B) | If you were a potential investor in PepsiCo stock, what information would you want from their financial statements? | |  |  | | C) | If you were a labor negotiator for a union that represents a group of PepsiCo’s employees, which financial statement would provide you with the most useful information? |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | A banker wants to be assured that the company will make its interest payments and repay the principle of the loan in a timely manner. | |  |  | | B) | Investors want to know whether they should make an investment in the company’s stock, or continue to hold their investment. They will be looking at the company’s recent performance, whether the company has been profitable, how their profits compare with other companies, and how much the company has declared and paid in dividends. | |  |  | | C) | A labor negotiator needs to know how much profit the company has made. This information is found on the Income Statement. | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 197. Bullseye, Inc., started the year with total assets of $400,000 and total liabilities of $240,000. Net income for the year is $120,000 and dividends declared and paid during the year are $90,000.  A) What is the amount of Bullseye’s total stockholders’ equity at the end of the year?  B) Could Bullseye have paid additional dividends during the year? Explain your answer.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $190,000 | |  | ($400,000 Total Assets at the beginning of the year – $240,000 Total Liabilities | |  | at the beginning of the year = $160,000 Total Equity at the beginning of the year) | |  | ($160,000 Total Equity at the beginning of the year + $120,000 Net Income for the year – $90,000 Dividends declared and paid during the year = $190,000) | |  |  | | B) | Yes. Assuming the company has enough cash to do so, dividends can be paid. Net income exceeded the amount of dividends paid by $30,000 ($120,000 – $90,000), so the amount paid could have been increased. Also the company has total positive retained earnings. | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 198. Anthony Corp. started business at the beginning of the year, with assets of $650,000 and stockholders' equity of $240,000. By the end of the year, assets increased by $80,000 and liabilities increased by $60,000. Other than net income or loss, the only change in stockholders' equity was dividends declared and paid of $55,000.  A) What was the amount of Ramos Corp. stockholders’ equity at the end of the year?  B) What was the amount of Ramos Corp. net income or net loss for the year?   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | A)  ​   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | Assets |  | Liabilities | Stockholders’ Equity | | | Beginning of year | $650,000 |  | $360,000 | | $290,000 | | | Change during year | +80,000 |  | +60,000 | | +20,000 | | | End of year | $730,000 | = | $420,000 | | $310,000 | |   ​  B)  ​   |  |  |  | | --- | --- | --- | |  | Change in equity | $20,000 | |  | Add: Dividends | 55,000 | |  | Net Income | $75,000 | |  |  |  |   ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 199. Presented below are selected data from the balance sheet of Farmer Company for 2016. The figures are expressed in millions.   |  |  |  | | --- | --- | --- | |  | Total Current assets | $ 5,572 | |  | Property, plant, and equipment | 16,325 | |  | Other assets | ? | |  | Total Current liabilities | 3,274 | |  | Total Long-term debt | 5,632 | |  | Total Stockholders’ equity | 19,639 |   ​   |  |  | | --- | --- | | A) | Determine the amount of “Other assets” for Farmer’s 2016 balance sheet. (HINT: you must use the accounting equation concept to determine your answer.) | |  |  | | B) | How much of Farmer Company is financed by creditors? How much is financed by the owners? |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | ​   |  |  | | --- | --- | | A) | $6,648 | |  | ($3,274 Current liabilities + $5,632 Long-term debt + $19,639 Stockholders’  equity = $28,545 Total Assets) | |  | |  | ($28,545 Total Assets – $5,572 Current assets – 16,325 Property, plant &  equipment = $6,648) | |  | |  |  | | B) | Amount of financing by creditors: $8,906 or 31.2% | |  | ($3,274 Current liabilities + $5,632 Long-term debt = $8,906) | |  | Amount of financing by owners: $19,639 or 68.8% | |  | ($19,639 Stockholders’ equity) |   ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 200. Presented below are selected data from the accounting records for Micco’s Gift Store for 2016.   |  |  |  | | --- | --- | --- | |  | Net sales | $ 190,000 | |  | Income taxes | 30,000 | |  | Cost of sales | 80,000 | |  | Operating expenses | 45,000 | |  | Dividends | 12,000 |   ​   |  |  |  | | --- | --- | --- | | A) | Calculate the net income or loss for 2016. |  | |  |  | | | B) | Explain how the amount from part “A” will affect the financial position of Micco’s Gift Store. | | |  |  | | | C) | Is the company profitable? Explain your answer. | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $35,000 | |  | ($190,000 Net sales – $30,000 Income taxes – $80,000 Cost of sales – $45,000 Operating expenses = $35,000) | |  |  | | B) | Net income will improve the company’s financial position. | |  |  | | C) | Yes. The amount of revenues exceeds the amount of expenses by $35,000. | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 201. The following information comes from the records of Morton Corporation. Assume no additional investment by owners when answering the following questions:   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  |  | Assets | Liabilities | Owners’ Equity | |  | January 1, 2016 | $ 98,000 | $ 54,000 | $ | |  | December 31, 2016 | 131,000 | ​ | 84,000 |   ​   |  |  |  | | --- | --- | --- | | A) | What is the amount of owners’ equity at January 1, 2016? | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  |  | | B) | What is the amount of liabilities at December 31, 2016? | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  | | | C) | Assume that the company declared and paid dividends of $22,000 during the year. How much net income did it earn during the year? | | |  |  | | | D) | Assume that the company paid no dividends during the year. Without looking at the income statement, how can you tell if the company is profitable or not? | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $44,000 | |  | ($98,000 Assets – $54,000 Liabilities = $44,000) | |  |  | | B) | $47,000 | |  | ($131,000 Assets – $84,000 Owners’ Equity = $47,000) | |  |  | | C) | $62,000 | |  | ($44,000 Beginning Owners’ Equity + X – $22,000 Dividend = $84,000 Ending Owners’ Equity) | |  | (X = $106,000 – 44,000 = $62,000) | |  |  | | D) | Assuming that the increase in owners’ equity would come from net income, the company would have to be considered profitable. Net income will increase retained earnings which is a part of owners’ equity | | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 202. Avery Corporation began the year with total assets of $800,000 and total liabilities of $620,000. Use the accounting equation to answer the following questions. Assume no additional investment by owners when answering these questions.   |  |  | | --- | --- | | A) | What was the amount of Avery’s total assets at the end of the year if liabilities decreased by $60,000 and owners’ equity increased by $90,000? | |  |  | | B) | Was the company profitable? Explain your answer. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  |  |  |  | | --- | --- | --- | --- | --- | | A)  $830,000 | |  | | | |  |  | Assets | Liabilities | Owners’ Equity | |  | Beginning of the year | $800,000 | $620,000 | $180,000 | |  | Change during the year | 30,000 | (60,000) | 90,000 | |  | End of the year | $830,000 | $560,000 | $270,000 | |  | |  | | | | B) The company was profitable because the owners’ equity increased from the beginning of the year to the end of the year. | | | | | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 203. The beginning balance of retained earnings was $630,000, and the ending balance was $650,000. The company declared and paid dividends of $60,000.  ​  A) Determine the amount of net income for the year.  ​  B) What information would one find on the income statement in addition to net income?   |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $80,000 | |  | ($650,000 Ending Retained Earnings – $630,000 Beginning Retained Earnings = $20,000) | |  | ($20,000 + $60,000 Dividends = $80,000) | |  |  | | B) | The Income Statement will show the sources of amounts earned (Revenues) as well as the amount and type of costs incurred by the company (Expenses) during the period. | | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 204. The Trenton Corporation began 2016 with $390,000 in assets, $140,000 in liabilities, and $170,000 of retained earnings. Net income for the year was $120,000, and dividends of $110,000 were declared and paid.   |  |  | | --- | --- | | A) | Prepare a statement of retained earnings for 2016. | |  |  | | B) | What is the nature or purpose of the statement of retained earnings? | |  |  | | C) | What was the amount of capital stock for Trenton Corporation at the beginning of 2016? | |  |  | | D) | Identify what business events might occur in Trenton Corp.’s business operations that would cause the two stockholders’ equity items to increase. | |  |  | | E) | How do you identify whether Trenton was profitable during 2016 by examining the statement of retained earnings? |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | A)  ​   |  |  | | --- | --- | | **Trenton Corporation**  **Statement of Retained Earnings**  **For the Year Ended December 31, 2016** | | | Beginning balance | $170,000 | | Add: Net income for the year | 120,000 | | Deduct: Dividends for the year | (110,000) | | Ending balance | $180,000 |   ​​   |  |  | | --- | --- | | B) | The statement of retained earnings explains the change in retained earnings during a period. | |  |  | | C) | $80,000 | |  | ($390,000 Total Assets – $140,000 Total Liabilities – $170,000 Beginning | |  | Retained Earnings = $80,000) | |  |  | | D) | One way that the company can increase stockholders’ equity is to sell additional shares of stock. Retained earnings will increase when the company reports net income for the period greater than the dividends paid. | |  |  | | E) | The statement of retained earnings shows that the company was profitable for the year by reporting net income for the period. If the company were to experience an operating loss, then this would be shown as a deduction from the beginning balance of retained earnings. |   ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 205. Below are several accounts from Costello Company's accounting records. Answer the questions that follow.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Total liabilities, end of the year | $92,000 |  | Total assets, end of the year | $143,000 | | Capital stock, end of the year | 16,000 |  | Retained earnings, |  | |  |  |  | beginning of the year | 15,000 | | Dividends declared and paid for the period | 20,000 |  | Net income | 40,000 |   ​   |  |  | | --- | --- | | A) | How much is the balance of retained earnings at the end of the year? | |  |  | | B) | Show the accounting equation for Costello Company at the end of the year with the respective dollar amounts. | |  |  | | C) | If stockholders’ equity increases during the year, does that mean that the company is profitable? Explain your answer. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $35,000 | |  | ($15,000 Retained earnings, beginning of the year + $40,000 Net income – $20,000 | |  | Dividends for the period = $35,000) OR | |  | ($143,000 Total assets, end of the year – $92,000 Total liabilities, end of the | |  | year – $16,000 Capital stock, end of the year = $35,000) | |  |  | | B) | $143,000 Total assets, end of the year = $92,000 Total liabilities, end of the | |  | year + $51,000 Owners’ Equity, end of the year ($16,000 Capital stock, | |  | end of the year + $35,000 Retained earnings, end of the year) | |  |  | | C) | This would depend upon what causes the stockholders’ equity to increase. If the increase were due to an increase in retained earnings, then the company would have been profitable for the period. But if the increase were due to an increase in the amount of capital stock issued, this would not be a measure of profitability. | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 206. Classify the following items according to the financial statement on which each belongs, either the income statement (IS) or the balance sheet (BS). Also indicate whether each is a revenue (R), expense (E), asset (A), liability (L), or owners' equity (OE) item.   |  |  |  |  | | --- | --- | --- | --- | |  |  | Appears on Which Statement? | Type of Account | |  |  |  |  | | 1. | Retained earnings | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  |  |  | | 2. | Buildings | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  |  |  | | 3. | Common stock | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  |  |  | | 4. | Accounts payable | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  |  |  | | 5. | Football ticket sales | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  |  |  | | 6. | Salaries expense | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |  |  |  | | 7. | Accounts receivable | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  |  | | --- | --- | --- | | 1. | BS | OE | | 2. | BS | A | | 3. | BS | OE | | 4. | BS | L | | 5. | IS | R | | 6. | IS | E | | 7. | BS | A | | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Understanding | |

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| 207. Several amounts from Duggard Company at December 31, 2016 are listed below. Answer the questions.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Service revenue | $245,000 |  | Salaries expense | $109,000 | | Dividends declared and paid | 15,000 |  | Rent expense | 36,000 | | Buildings | 110,000 |  | Land | 100,000 | | Accounts payable | 40,000 |  | Accounts receivable | 28,000 | | Capital stock | 60,000 |  | Retained earnings, Jan. 1, 2016 | 40,000 | | Utilities expense | 19,000 |  | Notes payable | 30,000 | | Income tax payable | 4,000 |  | Income tax expense | 11,000 |   ​  A) Calculate net income for 2016.  B) How much is Duggard Company’s retained earnings at the end of 2016?  C) What primary asset account is missing?   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $70,000 | |  | ($245,000 Service Revenue – $109,000 Salaries Expense – $36,000 Rent | |  | Expense – $19,000 Utilities Expense – $11,000 Income Tax Expense = $70,000) | |  |  | | B) | $95,000 | |  | ($40,000 Retained Earnings, Jan 1, 2016 + $70,000 Net Income – $15,000 Dividends Paid = $95,000) | |  |  | | C) | The Cash account is missing. | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 208. Gym Corporation reported the following information at December 31, 2016:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts payable | $40,000 |  | Dividends declared and paid | $10,000 | | Cash | 75,000 |  | Expenses | 60,000 | | Inventories | 18,000 |  | Revenue | 75,000 |   A) Calculate Gym Corporation’s total assets.  B) Calculate Gym Corporations’ net income for 2016.  C) Calculate Gym Corporation’s total stockholders’ equity at the end of 2016.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | $93,000 | |  | ($75,000 Cash + $18,000 Inventories = $93,000) | |  |  | | B) | $15,000 | |  | ($75,000 Revenue – $60,000 Expenses = $15,000) | |  |  | | C) | $53,000 | |  | ($93,000 Total Assets – $40,000 Accounts Payable = $53,000) | | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |
| 209. Joseph is the president of Sunshine Enterprises. Sunshine Enterprises began business on January 1, 2016. The company’s controller is out of the country on business. Joseph needs a copy of the company’s balance sheet for a meeting tomorrow and asks his assistant to obtain the required information from the company’s records. She presents Joseph with the following balance sheet. He asks you to review it for accuracy.   |  |  |  |  | | --- | --- | --- | --- | | **Sunshine Enterprises Balance Sheet December 31, 2016** | | | | | **ASSETS** | | **LIABILITIES & STOCKHOLDERS’ EQUITY** | | | Accounts payable | $ 30,600 | Accounts receivable | $ 24,200 | | Building and equipment | 177,300 | Supplies | 12,200 | | Cash | 14,700 | Capital stock | 100,000 | | Cash dividends declared and paid | 16,000 | Net income for 2016 | 113,800 |   **Required:** 1. Prepare a corrected balance sheet. 2. Draft a memo explaining the major differences between the balance sheet Joseph’s assistant prepared and the one you prepared.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | 1.  ​   |  |  |  |  | | --- | --- | --- | --- | | **Sunshine Enterprises**  **Balance Sheet**  **December 31, 2016** | | | | | **ASSETS** | | **LIABILITIES & STOCKHOLDERS’ EQUITY** | | | Cash | $ 14,700 | Accounts payable | $ 30,600 | | Accounts receivable | 24,200 | Capital stock | 100,000 | | Supplies | 12,200 | Retained earnings | 97,800\* | | Building and equipment | 177,300 |  |  | | Total assets | $228,400 | Total liabilities and stockholders’ equity | $228,400 |   \* $113,800 – $16,000  ​  2.  ​  Memorandum to the company president:  ​  TO: Company president  FROM: Your name  DATE: January 1, 2017  SUBJECT: Corrected balance sheet  ​  Attached please find the original balance sheet your assistant prepared, along with a corrected version of that same statement. The differences can be explained as follows:  **1.** The balance sheet is always as of a certain date, in this case, December 31, 2016, rather than a period of time, such as a year.  **2.** Accounts payable should be classified as a liability.  **3.** Cash dividends declared and paid do not belong on the balance sheet; this amount should appear instead on the statement of retained earnings for the year.  **4.** Accounts receivable should be classified as an asset.  **5.** Net income for 2016 does not belong on the balance sheet; this amount should appear instead on the statement of retained earnings for the year.  **6.** Supplies should be classified as an asset.  **7.** Retained earnings should appear with capital stock as a component of stockholders’ equity on the balance sheet. Since this is the first year of operations, the retained earnings balance comprises the net income for the year less the cash dividends declared and paid.  **8.** Totals were added as necessary to provide summary information.  ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 210. The following items are available from the records of Ramos Corporation at the end of its fiscal year, June 30, 2016:  ​   |  |  | | --- | --- | | Accounts payable | $17,000 | | Advertising expense | 4,600 | | Accounts receivable | 5,700 | | Notes payable | 50,000 | | Buildings | 35,000 | | Office equipment | 12,000 | | Inventory | 12,100 | | Retained earnings (end of year) | 26,300 | | Capital stock | 25,000 | | Salary and wage expense | 8,230 | | Cash | 21,900 | | Sales revenue | 14,220 | | Computerized grinders | 25,800 | | Hand Tools | 5,800 |   ​  **Required:** (1) Prepare a balance sheet. (2) For each non-balance-sheet item, indicate where it should appear.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | **(1)**  ​   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **RAMOS CORPORATION** | | | | | | | **BALANCE SHEET** | | | | | | | **JUNE 30, 2016** | | | | | | | **Assets** |  | ​**Liabilities and Stockholders’ Equity** |  | |  | | Cash | $ 21,900 | Accounts payable | $ 17,000 | |  | | Accounts receivable | 5,700 | Notes payable | 50,000 | |  | | Inventory | 12,100 | Capital stock | 25,000 | |  | | Computerized grinders | 25,800 | Retained earnings | 26,300 | |  | | Office equipment | 12,000 |  |  | |  | | Buildings | 35,000 |  |  | |  | | Hand tools | 5,800 |  | \_\_\_\_\_\_\_ | |  | | ​  Total assets | ​  $118,300 | Total liabilities and      stockholders’ equity | ​  $118,300 |  |  |   ​  (2) Items not shown on a balance sheet and where they would appear:  Advertising expense—income statement  Salary and wage expense—income statement  Sales revenue—income statement  ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 211. **Tentco** reported the following amounts in various statements included in its 2016 annual report. (All amounts are stated in millions of dollars.)   |  |  | | --- | --- | | Net income for 2016 | $142 | | Cash dividends declared in 2016 | 15 | | Retained earnings, December 31, 2015 | $ 95 |   ​  **Required:** (1) Prepare a Statement of retained earnings for the year ended December 31, 2016. (2) Assume that Tentco presents a statement of stockholders’ equity rather than a statement of retained earnings in its annual report. Explain how the information differs between the two statements.   |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | **(1)**  ​   |  |  | | --- | --- | | **Tentco**  **Statement of Retained Earnings**  **For the Year Ended December 31, 2016**  **(amounts in millions)** | | | ​  Retained earnings, beginning of year | $   95 | | Add: Net income for the year | 142 | | Deduct: Dividends for the year | (15) | | Retained earnings, end of year | $ 222 |   **(2)** The statement of stockholders’ equity would include all changes in stockholders’ equity such as issuances and retirements of stock in addition to the information normally provided in a retained earnings statement. | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 212. The following information is available from the records of Focus Seascapes, Inc. at the end of the 2016 calendar year:  ​   |  |  | | --- | --- | | Accounts payable | $ 4,700 | | Service revenues | 28,000 | | Accounts receivable | 3,600 | | Office equipment | 9,200 | | Capital stock | **?** | | Rent expense | 2,500 | | Cash | 13,200 | | Retained earnings, beginning of year | 10,500 | | Dividends declared and paid during the year | 3,800 | | Salary and wage expense | 14,000 |   ​  ​  **Required:** (1) What is Focus’ net income for the year ended December 31, 2016? (2) What is Focus’ retained earnings balance for the year ended December 31, 2016?   |  |  | | --- | --- | | *ANSWER:* | 1. Revenue – Expenses = Net Income  $28,000 – ($2,500 + $14,000) = $11,500  ​  2. Retained Earnings + Net Income – Dividends = Retained Earnings  (Beginning) (Ending)  $10,500 + $11,500 – $3,800 = $18,200  ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 213. The following information is available from the records of Focus Seascapes, Inc. at the end of the 2016 calendar year:   |  |  | | --- | --- | | Accounts payable | $ 4,700 | | Service revenues | 28,000 | | Accounts receivable | 3,600 | | Office equipment | 9,200 | | Capital stock | **?** | | Rent expense | 2,500 | | Cash | 13,200 | | Retained earnings, beginning of year | 10,500 | | Dividends declared and paid during the year | 3,800 | | Salary and wage expense | 14,000 |   ​  **Required:** 1. What is the total amount of Focus’ assets at December 31, 2016? 2. What is the total amount of Owners’ Equity at December 31, 2016? 3. What is the capital stock balance at December 31, 2016?   |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | ​  1. Total Assets:  ​​   |  |  | | --- | --- | | Cash | $13,000 | | Accounts receivable | 3,600 | | Office equipment | 9,200 | | Total assets | $26,000 |   ​  2. $26,000 – $4,700 = $21,300  ​  3. $21,300 – $18,200 = $3,100  ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 214. Rogers Corporation starts the year with a Retained Earnings balance of $55,000. Net income for the year is $27,000. The ending balance in Retained Earnings is $70,000. What was the amount of dividends declared and paid for the year?   |  |  | | --- | --- | | *ANSWER:* | If Rogers has $55,000 in Retained Earnings to begin the year and net income for the year of $27,000, the ending balance in Retained Earnings would be $82,000 if no dividends were declared and paid during the year. Because the ending balance in Retained Earnings is $70,000, the company must have declared and paid $12,000 in dividends. | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Analyzing | |

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| 215. List the names of three companies with which you are familiar that are manufacturers or producers. Also list the names of three companies that are retailers. Finally, provide the names of three service providers.   |  |  | | --- | --- | | *ANSWER:* | Answers will vary. Students will provide a number of different examples of real companies that are manufacturers, retailers, and service providers. | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 4-5 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-01 - LO: 01-01 | | *KEYWORDS:* | Bloom's: Applying | |

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| 216. Presented below are condensed data from the financial statements of Gallo Factory for 2017 and 2016. The figures are expressed in thousands. Use this information to answer the questions that follow.   |  |  |  | | --- | --- | --- | | **Statement A** | **2017** | **2016** | |  |  |  | | Total current assets | $ 82,309 | $ 80,080 | | Property, plant & equipment |  |  | | (net of accumulated depreciation) | 63,451 | 62,724 | | Investments | 303 | 1,061 | | Other assets | 3,438 | 2,606 | | Total assets | $149,501 | $146,471 | |  |  |  | | Total current liabilities | $ 33,928 | $ 28,668 | | Long-term debt | 20,491 | 25,676 | | Deferred income taxes and contingencies | 4,174 | 5,208 | | Total liabilities | $ 58,593 | $ 59,552 | | Total stockholders' equity | 90,908 | 86,919 | | Total liabilities & stockholders' equity | $149,501 | $146,471 | |  |  |  | | **Statement B** | **2017** | **2016** | |  |  |  | | Net sales | $209,203 | $174,206 | | Cost of sales | 136,225 | 114,284 | | Gross profit | $ 72,978 | $ 59,922 | | Selling, general and administrative expenses | 63,895 | 53,520 | | Other income (expense) | 693 | (118) | | Income (loss) before income taxes | 9,776 | 6,284 | | Income tax expense | 3,534 | 2,388 | | Net income (loss) | $  6,242 | $  3,896 |   **Required:** Based on the information provided, is Gallo Factory considered a business or non-business entity? How do you know by examining the financial statements?   |  |  | | --- | --- | | *ANSWER:* | Gallo Factory is a business entity, because its purpose is to make a profit, not simply provide a service. Non-business entities have no owners, and Gallo Factory has owners, as evidenced by examining the stockholders' equity section of the balance sheet. | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 6-7 pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-02 - LO: 01-02 FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Applying | |
| 217. In 2016, you invested $12,000 along with 5 other investors in a new theatre, Rock-On, that offers Broadway play productions. Because you live out of state, you have **not** been actively involved in the daily affairs of the theatre. On January 10, 2017, you are excited because you received $12,000 as a dividend after the end of the 1st year of the theatre’s existence. Included with your $12,000 check are financial statements and some supplemental information regarding the accounting. The supplemental information explains:  (1) During the last three months of 2016, an aggressive advertising campaign resulted in the sale of 600 season tickets for the 2017 productions. Each season ticket cost $120 and the resulting $72,000 was included in 2016 income. (2) Along with the advertising campaign, the general manager was able to secure pledges of $7,500 for advertising by local merchants in the playbills for the first two productions for 2017. This amount is included as advertising revenue in the 2016 financial statements.  **Required:** Are there any problems related to the supplementary disclosures? If so, explain and indicate what effects (over- or understatements) these items will have on the financial statements.   |  |  | | --- | --- | | *ANSWER:* | ​  The recognition of the 2017 season ticket sales as revenue in 2016 should not be recognized as revenue in the current year, because Rock-On has not provided these ticketholders with any service yet.  ​  The recognition of $7,500 in advertising revenue is currently just a pledge for 2017 playbills. It is not clear whether a contract has been signed with the advertisers and it sounds as if no money has changed hands. In any event, this revenue will need to be matched with the period in which the playbills are used (or 2017) rather than the current year of 2016.  ​  As a result, the 2016 net income will be overstated by $79,500 and the 2017 net income will be understated by $79,500.  ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 11-21 pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 FACC.PONO.13.01-05 - LO: 01-05 FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Applying | |

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| 218. List three different groups of users of accounting information. Indicate the type of decisions each group typically makes from accounting information.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | The groups and their decisions are:  ​   |  |  | | --- | --- | | Stockholders: | Is the company profitable enough to pay dividends? | |  | Did the company make a profit for the period? | | Management: | How should an item be priced? Should we continue operations? Can we give employees raises? | | Bankers: | Can the company pay interest and principal when it comes due? | | Creditors: | Can the company pay bills when they are due? | | Government: | How much did the company earn? (i.e., how much taxes should be paid?) |   ​ | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 11-13 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-04 - LO: 01-04 | | *KEYWORDS:* | Bloom's: Applying | |

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| 219. What is the purpose of an income statement?   |  |  | | --- | --- | | *ANSWER:* | An income statement reports the company's revenues and expenses for a period of time and shows the company's profitability (or lack of). The income statement is sometimes called the "statement of income." | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Applying | |

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| 220. List the four financial statements. Explain the connection between these four statements.   |  |  | | --- | --- | | *ANSWER:* | 1. Balance sheet  2. Income statement  3. Statement of retained earnings  4. Statement of cash flows  ​  Net income on the income statement increases retained earnings on the statement of retained earnings. The ending balance in the statement of retained earnings goes to the balance sheet. Finally, the net increase in cash at the bottom of the statement of cash flows equals the amount shown in cash on the balance sheet. | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Applying | |

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| 221. Presented below are condensed data from the financial statements of Gallo Factory for 2017 and 2016. The figures are expressed in thousands. Use this information to answer the questions that follow.   |  |  |  | | --- | --- | --- | | **Statement A** | **2017** | **2016** | |  |  |  | | Total current assets | $ 82,309 | $ 80,080 | | Property, plant & equipment |  |  | | (net of accumulated depreciation) | 63,451 | 62,724 | | Investments | 303 | 1,061 | | Other assets | 3,438 | 2,606 | | Total assets | $149,501 | $146,471 | |  |  |  | | Total current liabilities | $ 33,928 | $ 28,668 | | Long-term debt | 20,491 | 25,676 | | Deferred income taxes and contingencies | 4,174 | 5,208 | | Total liabilities | $ 58,593 | $ 59,552 | | Total stockholders' equity | 90,908 | 86,919 | | Total liabilities & stockholders' equity | $149,501 | $146,471 | |  |  |  | | **Statement B** | **2017** | **2016** | |  |  |  | | Net sales | $209,203 | $174,206 | | Cost of sales | 136,225 | 114,284 | | Gross profit | $ 72,978 | $ 59,922 | | Selling, general and administrative expenses | 63,895 | 53,520 | | Other income (expense) | 693 | (118) | | Income (loss) before income taxes | 9,776 | 6,284 | | Income tax expense | 3,534 | 2,388 | | Net income (loss) | $  6,242 | $  3,896 |   ​  **Required:**   |  |  |  | | --- | --- | --- | | 1. | What is the name of Statement A? |  | |  |  |  | | 2. | What is the name of Statement B? |  |  |  |  | | --- | --- | | *ANSWER:* | 1. Statement A is the Balance Sheet  ​  2. Statement B is the Income Statement | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Applying | |

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| 222. Presented below are condensed data from the financial statements of Gallo Factory for 2017 and 2016. The figures are expressed in thousands. Use this information to answer the questions that follow.   |  |  |  | | --- | --- | --- | | **Statement A** | **2017** | **2016** | |  |  |  | | Total current assets | $ 82,309 | $ 80,080 | | Property, plant & equipment |  |  | | (net of accumulated depreciation) | 63,451 | 62,724 | | Investments | 303 | 1,061 | | Other assets | 3,438 | 2,606 | | Total assets | $149,501 | $146,471 | |  |  |  | | Total current liabilities | $ 33,928 | $ 28,668 | | Long-term debt | 20,491 | 25,676 | | Deferred income taxes and contingencies | 4,174 | 5,208 | | Total liabilities | $ 58,593 | $ 59,552 | | Total stockholders' equity | 90,908 | 86,919 | | Total liabilities & stockholders' equity | $149,501 | $146,471 | |  |  |  | | **Statement B** | **2017** | **2016** | |  |  |  | | Net sales | $209,203 | $174,206 | | Cost of sales | 136,225 | 114,284 | | Gross profit | 72,978 | 59,922 | | Selling, general and administrative expenses | 63,895 | 53,520 | | Other income (expense) | 693 | (118) | | Income (loss) before income taxes | 9,776 | 6,284 | | Income tax expense | 3,534 | 2,388 | | Net income (loss) | $ 6,242 | $ 3,896 |   ​  **Required:** Which statement indicates the financial position of the company? What information is provided on that statement that indicates the "financial position" of the company? Explain.   |  |  | | --- | --- | | *ANSWER:* | The balance sheet, Statement A, provides information on the financial position of the company. It is expressed in terms of the accounting equation. When total liabilities are subtracted from total assets, the difference is owners' or stockholders' equity. This amount represents net worth or the financial position of a company at the balance sheet date. | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Applying | |

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| 223. Presented below are condensed data from the financial statements of Gallo Factory for 2017 and 2016. The figures are expressed in thousands. Use this information to answer the questions that follow.   |  |  |  | | --- | --- | --- | | **Statement A** | **2017** | **2016** | |  |  |  | | Total current assets | $ 82,309 | $ 80,080 | | Property, plant & equipment |  |  | | (net of accumulated depreciation) | 63,451 | 62,724 | | Investments | 303 | 1,061 | | Other assets | 3,438 | 2,606 | | Total assets | $149,501 | $146,471 | |  |  |  | | Total current liabilities | $ 33,928 | $ 28,668 | | Long-term debt | 20,491 | 25,676 | | Deferred income taxes and contingencies | 4,174 | 5,208 | | Total liabilities | $ 58,593 | $ 59,552 | | Total stockholders' equity | 90,908 | 86,919 | | Total liabilities & stockholders' equity | $149,501 | $146,471 | |  |  |  | | **Statement B** | **2017** | **2016** | |  |  |  | | Net sales | $209,203 | $174,206 | | Cost of sales | 136,225 | 114,284 | | Gross profit | 72,978 | 59,922 | | Selling, general and administrative expenses | 63,895 | 53,520 | | Other income (expense) | 693 | (118) | | Income (loss) before income taxes | 9,776 | 6,284 | | Income tax expense | 3,534 | 2,388 | | Net income (loss) | $ 6,242 | $ 3,896 |   ​  **Required:** Was Gallo Factory profitable both years? What are the amounts of the total revenues and total expenses, respectively, for 2017? Which financial statement provides this information to you?   |  |  | | --- | --- | | *ANSWER:* | The company was profitable in both 2017 and 2016. For 2017, total revenues include net sales of $209,203, and other income, $693, for a total of $209,896. Total expenses are cost of sales of $136,225, selling, general and administrative expenses of $63,895, and income tax expense of $3,534, or a total of $203,654. This information is reported on the income statement, Statement B. | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Applying | |

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| 224. Presented below are condensed data from the financial statements of Gallo Factory for 2017 and 2016. The figures are expressed in thousands. Use this information to answer the questions that follow.   |  |  |  | | --- | --- | --- | | **Statement A** | **2017** | **2016** | |  |  |  | | Total current assets | $ 82,309 | $ 80,080 | | Property, plant & equipment |  |  | | (net of accumulated depreciation) | 63,451 | 62,724 | | Investments | 303 | 1,061 | | Other assets | 3,438 | 2,606 | | Total assets | $149,501 | $146,471 | |  |  |  | | Total current liabilities | $ 33,928 | $ 28,668 | | Long-term debt | 20,491 | 25,676 | | Deferred income taxes and contingencies | 4,174 | 5,208 | | Total liabilities | $ 58,593 | $ 59,552 | | Total stockholders' equity | 90,908 | 86,919 | | Total liabilities & stockholders' equity | $149,501 | $146,471 | |  |  |  | | **Statement B** | **2017** | **2016** | |  |  |  | | Net sales | $209,203 | $174,206 | | Cost of sales | 136,225 | 114,284 | | Gross profit | 72,978 | 59,922 | | Selling, general and administrative expenses | 63,895 | 53,520 | | Other income (expense) | 693 | (118) | | Income (loss) before income taxes | 9,776 | 6,284 | | Income tax expense | 3,534 | 2,388 | | Net income (loss) | $   6,242 | $   3,896 |   **Required**: How much of Gallo Factory is financed by owners at the end of December of 2017?   |  |  | | --- | --- | | *ANSWER:* | The financing by owners for 2017 is the amount of stockholders' equity, $90,908. Over time, sales of stock and earnings of the company cause this amount to increase. | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Applying | |

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| 225. Presented below are condensed data from the financial statements of Gallo Factory for 2017 and 2016. The figures are expressed in thousands. Use this information to answer the questions that follow.   |  |  |  | | --- | --- | --- | | **Statement A** | **2017** | **2016** | |  |  |  | | Total current assets | $ 82,309 | $ 80,080 | | Property, plant & equipment |  |  | | (net of accumulated depreciation) | 63,451 | 62,724 | | Investments | 303 | 1,061 | | Other assets | 3,438 | 2,606 | | Total assets | $149,501 | $146,471 | |  |  |  | | Total current liabilities | $ 33,928 | $ 28,668 | | Long-term debt | 20,491 | 25,676 | | Deferred income taxes and contingencies | 4,174 | 5,208 | | Total liabilities | $ 58,593 | $ 59,552 | | Total stockholders' equity | 90,908 | 86,919 | | Total liabilities & stockholders' equity | $149,501 | $146,471 | |  |  |  | | **Statement B** | **2017** | **2016** | |  |  |  | | Net sales | $209,203 | $174,206 | | Cost of sales | 136,225 | 114,284 | | Gross profit | 72,978 | 59,922 | | Selling, general and administrative expenses | 63,895 | 53,520 | | Other income (expense) | 693 | (118) | | Income (loss) before income taxes | 9,776 | 6,284 | | Income tax expense | 3,534 | 2,388 | | Net income (loss) | $   6,242 | $   3,896 |   **Required**: How much of Gallo Factory is financed by creditors at the end of December of 2017? Evaluate the change from 2016 to 2017.   |  |  | | --- | --- | | *ANSWER:* | The amount of financing by creditors for 2017 is the amount of liabilities reported on the balance sheet, $58,593. For 2016, the amount was $59,552. Total liabilities decreased by $959, or about 1.6%. The company must be keeping its debt at a steady position as stockholders' equity and assets have increased. The change must be examined relative to the entire financial position. | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 14-21 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-05 - LO: 01-05 | | *KEYWORDS:* | Bloom's: Applying | |

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| 226. The following accounting principles and assumptions are included in the conceptual framework of accounting:   |  |  |  | | --- | --- | --- | | Economic entity | Going concern | Cost principle | |  |  |  | | Monetary unit | Time period |  |   ​  For each situation in A through C below, identify which assumption or principle applies by selecting from the list provided above, and explain why that assumption or principle applies.   |  |  | | --- | --- | | A) | Global Corp. has divisions in several countries around the world. Each of these countries has a currency different from the U.S. dollar. Global Corp. is a U.S. company and must include the financial data of its worldwide divisions in its financial statements. | |  |  | | B) | Steve and Mike operate a security business as a partnership. They are considering the advantages of changing over to the corporate form of business. | |  |  | | C) | Island Pasta is a locally owned and operated fast-food business. The owners have decided to expand into nearby cities. Expansion will require more capital, but management doesn't expect it will stay in business for more than a year or so regardless if it expands or not. |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | *ANSWER:* | |  |  | | --- | --- | | A) | Monetary unit. Financial statements must be denominated in one currency--the standard monetary unit. In the United States, this unit is the dollar. | |  |  | | B) | Economic entity. A business can take three forms. Regardless of form, however, the unit itself is distinct from other units. | |  |  | | C) | Going concern. A business is assumed to continue indefinitely to more accurately reflect the valuation of assets and appropriately allocate costs to accounting periods. | | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | pp. 22-24 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-06 - LO: 01-06 | | *KEYWORDS:* | Bloom's: Applying | |

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| 227. What is meant by generally accepted accounting principles?   |  |  | | --- | --- | | *ANSWER:* | Generally accepted accounting principles (GAAP) are a set of guidelines that are based on a conceptual framework. They represent the various rules, practices, and other procedures used as a basis for accounting principles. GAAP was created in response to the need for some form of regulation over the preparation of financial statements. | | *DIFFICULTY:* | Easy | | *REFERENCES:* | p. 25 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-07 - LO: 01-07 | | *KEYWORDS:* | Bloom's: Applying | |

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| 228. Discuss the four steps in the ethical decision model used by accountants. Expand the discussion to include questions that you would ask to analyze the key elements in the situation.   |  |  | | --- | --- | | *ANSWER:* | The four steps in the ethical decision model include:  1. Identification: Recognize an ethical dilemma.  2. Analysis: Analyze the key elements in the situation.  3. Alternatives and Evaluation : List alternatives and evaluate the impact of each on those affected.  4. Resolution: Select the best alternative.  During the analysis phase, analyze the key elements in the situation by answering these questions in sequence:  a. Who may benefit or be harmed?  b. How are they likely to benefit or be harmed?  c. What rights or claims may be violated?  d. What specific interests are in conflict?  e. What are my responsibilities and obligations? | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Applying | |

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| 229. From an ethical standpoint, if various alternatives are available to report a transaction, what are some of the questions an accountant should ask about the alternatives?   |  |  | | --- | --- | | *ANSWER:* | As the text points out, when determining alternative methods for reporting transactions, situations, or events, an accountant should answer the following questions:  a. Which of the alternatives is most relevant and a faithful representation? Timeliness should be considered; potential bias must be identified.  b. Does the report accurately represent the situation it claims to describe?  c. Is the information free from bias? | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Applying | |

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| 230. Develop an ethical dilemma scenario that an accountant may face and give examples of key elements (listed below) that should be considered when analyzing the decision:  ​  1. Those who may benefit or be harmed  2. What potential benefits or harm could result from the situation  3. The rights or claims violated  4. The specific interests in conflict  5. The responsibilities and obligations   |  |  | | --- | --- | | *ANSWER:* | Student answers will vary but may include some of the following:  ​  1. Players in the scenario: Management, shareholders, potential investors, the auditor, creditors, and employees may benefit or be harmed.  2. Benefits including higher pay, promotion, increased status in the community and harm including loss of job, bankruptcy, customer’s failure to pay debt.  3. Rights or claims including payments to creditors and obligations to customers.  4. Conflicting interests including a member of the board of directors who is also a company employee or a manager whose bonus is based on the manipulation of sales and/or other reporting.  5. Responsibility of the accountant to provide the most accurate information and report fraud. | | *DIFFICULTY:* | Easy | | *REFERENCES:* | pp. 26-30 | | *LEARNING OBJECTIVES:* | FACC.PONO.13.01-08 - LO: 01-08 | | *KEYWORDS:* | Bloom's: Applying | |