Chapter 2
The Financial Statements

MULTIPLE CHOICE QUESTIONS

1. Current assets are:
   a. all assets except inventory.
   b. all assets that provide benefits extending beyond one year.
   c. cash, accounts receivable, and buildings.
   d. all assets that are expected to be converted to cash in the near future.
   Ans: D  KP 2  BT: K  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

2. Intangible assets are:
   a. goodwill, patents, copyrights, and trademarks.
   b. property, plant, and equipment.
   c. all assets except current assets.
   d. those assets that an owner can purchase with cash only.
   Ans: A  KP 2  BT: K  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

3. Long-term investments can include all of the following except:
   a. notes receivable maturing in nine months.
   b. equity securities of another company to be held for more than a year.
   c. ten-year debt securities of another company.
   d. land to be held beyond one year.
   Ans: A  KP 2  BT: K  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

4. Which one of the following is an asset?
   a. A patent of a company’s secret formula for reverse osmosis.
   b. Retained earnings.
   c. Notes payable.
   d. Accounts payable.
   Ans: A  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting
5. Which one of the following groups of accounts contains only assets?
   a. Equipment, patents, accounts receivable.
   b. Accounts receivable, building, retained earnings.
   c. Accounts payable, notes payable, contributed capital.
   d. Retained earnings, goodwill, and accounts payable.

   Ans: A  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Reporting

6. Which one of the following groups of accounts contains only assets?
   a. Contributed capital, retained earnings, revenues.
   b. Cash, contributed capital, retained earnings.
   c. Prepaid expenses, land, accounts receivable.
   d. Building, equipment, depreciation expense.

   Ans: C  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Reporting

7. Which one of the following is a liability?
   a. Interest receivable.
   b. Contributed capital.
   c. Retained earnings.
   d. Wages payable.

   Ans: D  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Reporting

8. Which one of the following groups of accounts contains only current assets?
   a. Inventory, accounts receivable, equipment.
   b. Cash, equipment, copyrights.
   c. Cash, accounts receivable, merchandise inventory.
   d. Patents, copyrights, and trademarks.

   Ans: C  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Reporting

9. Which one of the following creates a decrease in retained earnings?
   a. Prepaid assets.
   b. Equipment.
   c. Dividends.
   d. Merchandise inventory not sold.

   Ans: C  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Measurement
10. At the end of 2014, Campbell Company has total assets and liabilities at $42,000 and $11,000, respectively. Campbell reported net income for 2015 in the amount of $12,000. How much is shareholders’ equity at the end of 2015?
   a. $30,000
   b. $22,000
   c. $31,000
   d. $43,000

   Ans: D  KP 2  BT: AN  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Measurement

   Solution: $452,000 – $11,000 + $12,000 = $43,000

11. Which account is associated with the sale of inventory?
   a. Cost of goods sold.
   b. Depreciation.
   c. Inventory expense.
   d. Equipment.

   Ans: A  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

12. Which account is associated with borrowing money?
   a. Interest expense.
   b. Goodwill.
   c. Cost of goods sold.
   d. Depreciation.

   Ans: A  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

13. Which expense is associated with long-term assets?
   a. Dividends.
   b. Depreciation.
   c. Cost of goods sold.
   d. Interest.

   Ans: B  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

14. Which expense is associated with the use of patents?
   a. Interest.
   b. Amortization.
   c. Cost of goods sold.
   d. Depreciation.

   Ans: B  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting
15. The major accounting difference between interest expenses for creditors and dividends declared and paid to shareholders is that interest expenses:
   a. decrease retained earnings and dividends increase retained earnings.
   b. impact cash flows, while dividends do not.
   c. are not on the income statement while dividends declared and paid are.
   d. are on the income statement and dividends declared and paid are not.

   Ans: D  KP 2  BT: C  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

16. Desert Company has retained earnings of $11,000, total assets totaling $41,000, and total liabilities of $20,000. How much is total shareholders’ equity?
   a. $8,000
   b. $19,000
   c. $21,000
   d. $27,000

   Ans: C  KP 2  BT: AN  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Measurement

   Solution:  $41,000 – $20,000 = $21,000

17. Valley Company has cash, current liabilities, and long-term liabilities of $120,000, $30,000, and $31,000, respectively. Valley has no current assets other than cash. How much cash can Valley use to acquire equipment so that amount of current assets is double the amount of current liabilities?
   a. $30,000
   b. $60,000
   c. $15,000
   d. $90,000

   Ans: B  KP 2  BT: AN  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Measurement

   Solution:  $120,000 – [2 x $30,000] = $60,000

18. Favre Company has current assets, shareholders’ equity, current liabilities, and long-term liabilities of $10,000, $27,000, $4,000, and $8,000, respectively. How much are long-term assets?
   a. $12,000
   b. $29,000
   c. $32,000
   d. $46,000

   Ans: B  KP 2  BT: AN  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Measurement
Solution:  
\[
\begin{align*}
    \text{Solution:} & \quad 10,000 + \text{LTA} = 4,000 + 8,000 + 27,000 \\
    & \quad \text{LTA} = 29,000
\end{align*}
\]

19. Which one of the following equations represents retained earnings activity for a year?  
   a. \( \text{Beginning balance} + \text{expenses} - \text{dividends} = \text{ending balance} \)  
   b. \( \text{Beginning balance} + \text{cash receipts} - \text{cash payments} = \text{ending balance} \)  
   c. \( \text{Beginning balance} + \text{dividends} - \text{net income} = \text{ending balance} \)  
   d. \( \text{Beginning balance} + \text{net income} - \text{dividends} = \text{ending balance} \)  

   Ans: D  KP 2  BT: K  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Measurement

20. Which one of the following appears on the income statement?  
   a. Inventory  
   b. Retained earnings  
   c. Dividends  
   d. Interest revenue  

   Ans: D  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Reporting

21. Which one of the following groups of accounts contains only liabilities?  
   a. Accounts payable, retained earnings, notes payable  
   b. Supplies expense, cost of goods sold, interest expense  
   c. Wages payable, mortgage payable, taxes payable  
   d. Contributed capital, accounts payable, retained earnings  

   Ans: C  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Reporting

22. When an entrepreneur wishes to start a business, capital must be attracted in the form of:  
   a. net income  
   b. cost of goods sold  
   c. operating activities  
   d. equity or debt financing  

   Ans: D  KP 1  BT: K  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking, Industry  AICPA FN: Measurement

23. If the beginning and ending balances in retained earnings are $15,000 and $10,000, respectively, and dividends during the year are $8,000, then net income for the year is:  
   a. $10,000  
   b. $3,000  
   c. $18,000  
   d. $32,000  

   Ans: B  KP 2  BT: AN  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Measurement
**Solution:**  
$15,000 + \text{NI} - 8,000 = 10,000  
\text{NI} = 3,000$

24. Kelly Company has total assets, liabilities, and shareholders’ equity of $32,000, $17,000, and $15,000, respectively at the beginning of 2015. If Kelly reports revenues of $130,000, expenses of $80,000, and pays dividends of $30,000, how much is shareholders’ equity at the end of 2015?  
a. $35,000  
b. $53,000  
c. $44,000  
d. Not enough information to determine.  
Ans: A  KP 2  BT: AN  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic  
AICPA BB: Critical Thinking  AICPA FN: Measurement  
**Solution:**  
$15,000 + \left[130,000 - 80,000\right] - 30,000 = 35,000$

25. Sanchez Corporation has total assets, current liabilities, and long-term liabilities of $40,000, $2,000, and $13,000, respectively. If Sanchez purchases equipment for $5,000 for cash, how much would shareholders’ equity be?  
a. $25,000  
b. $10,000  
c. $29,000  
d. $11,000  
Ans: A  KP 2  BT: AN  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic  
AICPA BB: Critical Thinking  AICPA FN: Measurement  
**Solution:**  
$40,000 - 2,000 - 13,000 + 5,000 - 5,000 = 25,000$

26. The acquisition of equity and debt financing is considered:  
a. a financing activity.  
b. net income.  
c. an investing activity.  
d. an operating activity.  
Ans: A  KP 1  BT: K  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
AICPA BB: Critical Thinking  AICPA FN: Reporting

27. Which one of the following is considered an operating activity?  
a. Payment to a vendor for supplies.  
b. Purchase of company trucks for cash.  
c. Payment of dividends to shareholders.  
d. Issuing stock to investors.  
Ans: A  KP 1  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
AICPA BB: Critical Thinking  AICPA FN: Reporting
28. Smith Corp. earned $300,000 profit during 2015. On which financial statement(s) will the exact dollar amount of the profit be clearly stated?
   a. Statement of shareholders’ equity and income statement.
   b. Income statement only.

   Ans: A  KP 1  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

29. On which financial statements will you find a company’s financial position at a specific point in time?
   a. All financial statements combined.
   b. Income statement and balance sheet.
   d. Balance sheet only.

   Ans: D  KP 2  BT: C  Difficulty: Moderate  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

30. Why are liabilities separated into current and long-term?
   a. Users want to know which amounts will be paid using current assets.
   b. Because current and long-term classifications are just common sense.
   c. This format helps a company determine how much profit was made.
   d. The SEC requires companies to do so.

   Ans: A  KP 2  BT: C  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Measurement

31. Which one of the following statements is true?
   a. A company’s own stock is its most liquid asset.
   b. Profits are normally kept in a company’s retained earnings until distributed as dividends.
   c. Long-term investments will be used to pay current liabilities.
   d. Current assets have no physical substance.

   Ans: B  KP 2  BT: K  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

32. Cash reported on a company’s balance sheet represents
   a. the profit a company made during the current year.
   b. the amount the President of the Company has in his or her personal account.
   c. the amount collected from customers during the current year less the amount paid for expenses.
   d. the currency a company has access to at the balance sheet date.

   Ans: D  KP 2  BT: K  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Measurement
33. The amount a company expects to collect from its customers is:
   a. accounts receivable.
   b. short-term equity securities.
   c. inventory.
   d. accounts payable.

   Ans: A  KP 2  BT: K  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

34. As used in accounting, “notes” may be reported:
   a. only as company debt offerings.
   b. only as assets on the balance sheet.
   c. as either assets or liabilities.
   d. on the income statement or the balance sheet.

   Ans: C  KP 2  BT: K  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

35. Property, plant and equipment may include which of the following?
   a. Intangible assets and land.
   b. Inventory and equipment.
   c. Buildings and cash.
   d. Land and office buildings.

   Ans: D  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

36. On the balance sheet, a company should report the cost of intangible assets:
   a. in the current assets section.
   b. as an amount owed to shareholders.
   c. as an amount that is estimated by the CFO.
   d. at acquired cost less any accumulated amortization.

   Ans: D  KP 2  BT: K  Difficulty: Moderate  TOT: 1 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting

37. A partnership and a corporation differ in that:
   a. a partnership is a legal entity, while a corporation is not.
   b. the equity sections of partnership and corporation balance sheets report different items.
   c. partnerships always have more cash than corporations.
   d. a corporation has an income statement and a partnership does not.

   Ans: B  KP 2  BT: K  Difficulty: Difficult  TOT: 2 min.  AACSB: Analytic
   AICPA BB: Critical Thinking  AICPA FN: Reporting
38. Below are several accounts from Norel Company’s accounting records.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets, end of year</td>
<td>$110,000</td>
</tr>
<tr>
<td>Total liabilities, end of year</td>
<td>36,000</td>
</tr>
<tr>
<td>Contributed capital, end of year</td>
<td>12,000</td>
</tr>
<tr>
<td>Retained earnings, beginning of year</td>
<td>18,000</td>
</tr>
<tr>
<td>Dividends for the period</td>
<td>31,000</td>
</tr>
<tr>
<td>Net income</td>
<td>75,000</td>
</tr>
</tbody>
</table>

The amount of retained earnings at the end of the year is:

a. $34,000.
b. $40,000.
c. $62,000.
d. $64,000.

Ans: C KP 2 BT: AN Difficulty: Moderate TOT: 2 min. AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement

Solution: $18,000 + 75,000 – $31,000 = $62,000
or $110,000 – $36,000 – $12,000 = $62,000

39. The most common revenue account is:

a. cash.
b. sales.
c. shareholders’ equity.
d. liabilities.

Ans: B KP 2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Reporting

40. Your bank loaned ten million dollars to Hamilton Stores to finance the construction of a manufacturing plant. In which section of Hamilton’s statement of cash flows would you be able to determine whether the company used the cash to build the new plant?

a. Operating activities
b. Owner activities
c. Financing activities
d. Investing activities

Ans: D KP 1 BT: C Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Reporting

41. Most investors believe that the statement of cash flows is

a. a useful source of information regarding the cash flow of an entity.
b. the only statement in an annual report whose results correlates to stock price value.
c. too complicated.
d. a useful measure of a company’s profit.

42. The amount reported on a company’s balance sheet as retained earnings is the same as the amount reported on the company’s:
   a. income statement as net income.
   b. statement of shareholders’ equity as beginning retained earnings.
   c. statement of cash flows as cash received from operating activities.
   d. statement of shareholders’ equity as ending retained earnings.

   Ans: D  KP 2  BT: C  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Measurement

43. Which one of the following is not an asset?
   a. A company’s equity in the common stock of another company.
   b. A company’s trademarked name for a process.
   c. Retained earnings.
   d. Notes receivable.

   Ans: C  KP 2  BT: C  Difficulty: Easy  TOT: 1 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Reporting

44. Given below are several accounts from Caterpillar Company’s accounting records.

   Cash $15,000
   Accumulated depreciation 7,000
   Retained earnings, beginning of year 22,000
   Contributed capital 25,000
   Patents 2,000
   Dividends 5,000

   Net income for the year was $40,000. How much is total shareholders’ equity at the end of the year?
   a. $86,000.
   b. $88,000.
   c. $87,000.
   d. $82,000.

   Ans: D  KP 2  BT: AN  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Measurement

   Solution: $22,000 + $25,000 − $5,000 + $40,000 = $82,000

45. Seuss Company determined its total sales were $500,000, salaries expense was $210,000, dividends paid were $15,000, rent expense was $25,000, other operating expenses were $13,000, and customers still owed $4,000 at the end of the year. How much is net income for the year?
   a. $267,000.
   b. $252,000.
   c. $263,000.
   d. $530,000.

   Ans: B  KP 2  BT: AN  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic  
   AICPA BB: Critical Thinking  AICPA FN: Measurement

   Solution: $500,000 − $210,000 − $25,000 − $13,000 = $252,000
46. The information below was taken from the 2015 annual report of Jena Corporation.

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning cash balance</td>
<td>$12,000</td>
<td>?</td>
<td>$7,000</td>
</tr>
<tr>
<td>Net cash flow from operating activities</td>
<td>7,987</td>
<td>?</td>
<td>9,100</td>
</tr>
<tr>
<td>Net cash flow from investing activities</td>
<td>2,450</td>
<td>4,330</td>
<td>?</td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>?</td>
<td>(9,612)</td>
<td>(7,500)</td>
</tr>
<tr>
<td>Ending cash balance</td>
<td>$13,000</td>
<td>?</td>
<td>$12,500</td>
</tr>
</tbody>
</table>

Which of the following is the missing amount for the net cash flow from investing activities for 2013?

a. $3,900  
b. $9,950  
c. $19,830  
d. $2,450

Ans: A KP 1,2 BT: AN Difficulty: Moderate TOT: 2 min. AACSB: Analytic  
AICPA BB: Critical Thinking AICPA FN: Measurement

47. The information below was taken from the 2015 annual report of Jena Corp.

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning cash balance</td>
<td>$12,000</td>
<td>?</td>
<td>$7,000</td>
</tr>
<tr>
<td>Net cash flow from operating activities</td>
<td>7,987</td>
<td>?</td>
<td>9,100</td>
</tr>
<tr>
<td>Net cash flow from investing activities</td>
<td>2,450</td>
<td>4,330</td>
<td>?</td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>?</td>
<td>(9,612)</td>
<td>(7,500)</td>
</tr>
<tr>
<td>Ending cash balance</td>
<td>$13,000</td>
<td>?</td>
<td>$12,500</td>
</tr>
</tbody>
</table>

Which of the following is the missing amount for the beginning cash balance for 2014?

a. $5,925  
b. $8,741  
c. $12,500  
d. $5,282

Ans: C KP 1,2 BT: AN Difficulty: Moderate TOT: 2 min. AACSB: Analytic  
AICPA BB: Critical Thinking AICPA FN: Measurement
48. The information below was taken from the 2015 annual report of Jena Corp.

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning cash balance</td>
<td>$12,500</td>
<td>?</td>
</tr>
<tr>
<td>Net cash flow from operating activities</td>
<td>7,987</td>
<td>?</td>
</tr>
<tr>
<td>Net cash flow from investing activities</td>
<td>2,450</td>
<td>4,330</td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>?</td>
<td>(9,612)</td>
</tr>
<tr>
<td>Ending cash balance</td>
<td>$13,000</td>
<td>?</td>
</tr>
</tbody>
</table>

Which of the following is the missing amount for the net cash flow from operating activities for 2014?

a. $8,110  
   b. $4,782  
   c. $8,475  
   d. $3,874

Ans: B  KP 1,2  BT: AN  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic  
AICPA BB: Critical Thinking  AICPA FN: Measurement

49. The information below was taken from the 2015 annual report of Jena Corp.

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning cash balance</td>
<td>$12,000</td>
<td>?</td>
</tr>
<tr>
<td>Net cash flow from operating activities</td>
<td>7,987</td>
<td>?</td>
</tr>
<tr>
<td>Net cash flow from investing activities</td>
<td>2,450</td>
<td>4,330</td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>?</td>
<td>(9,612)</td>
</tr>
<tr>
<td>Ending cash balance</td>
<td>$13,000</td>
<td>?</td>
</tr>
</tbody>
</table>

Which of the following is the missing amount for the ending cash balance for 2014?

a. $2,759  
   b. $7,158  
   c. $12,703  
   d. $12,000

Ans: D  KP 1,2  BT: AN  Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic  
AICPA BB: Critical Thinking  AICPA FN: Measurement

50. The information below was taken from the 2015 annual report of Jena Corp.

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning cash balance</td>
<td>$12,000</td>
<td>?</td>
</tr>
<tr>
<td>Net cash flow from operating activities</td>
<td>7,987</td>
<td>?</td>
</tr>
<tr>
<td>Net cash flow from investing activities</td>
<td>2,450</td>
<td>4,330</td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>?</td>
<td>(9,612)</td>
</tr>
<tr>
<td>Ending cash balance</td>
<td>$13,000</td>
<td>?</td>
</tr>
</tbody>
</table>

Which of the following is the missing amount for the net cash flow from financing activities for 2015?

a. $(21,994)  
   b. $(9,437)  
   c. $(1,120)  
   d. $(14,085)
51. Garrison Corporation has the following transactions:

1. Dividends are paid to the shareholders.
2. A utility bill for July is paid in August.
3. A new warehouse facility is purchased.
4. Principal payments on outstanding debt are paid.
5. Employee wages are paid.
6. Forty-five units of inventory are sold for $100 each.
7. Common stock is issued for $230,000 in cash.
8. A delivery van used for 5-years is sold for $12,000, which is its book value.

Which of the above transaction(s) are examples of financing activities?

a. 1, 4, 7
b. 1, 7, 8
c. 3, 8
d. 1, 3, 4, 7, 8

Ans: A KP 1, 2 BT: C Difficulty: Moderate TOT: 2 min. AICPA BB: Critical Thinking AICPA FN: Measurement

52. Garrison Corporation has the following transactions:

1. Dividends are paid to the shareholders.
2. A utility bill for July is paid in August.
3. A new warehouse facility is purchased.
4. Principal payments on outstanding debt are paid.
5. Employee wages are paid.
6. Forty-five units of inventory are sold for $100 each.
7. Common stock is issued for $230,000 in cash.
8. A delivery van used for 5-years is sold for $12,000, which is its book value.

Which of the above transaction(s) are examples of investing activities?

a. 3, 4, 7, 8
b. 1, 4, 7
c. 4, 7
d. 3, 8

Ans: D KP 1, 2 BT: C Difficulty: Moderate TOT: 2 min. AICPA BB: Critical Thinking AICPA FN: Reporting

53. Garrison Corporation has the following transactions:

1. Dividends are paid to the shareholders.
2. A utility bill for July is paid in August.
3. A new warehouse facility is purchased.
4. Principal payments on outstanding debt are paid.
5. Employee wages are paid.
6. Forty-five units of inventory are sold for $100 each.
7. Common stock is issued for $230,000 in cash.
8. A delivery van used for 5-years is sold for $12,000, which is its book value.

Which of the above transaction(s) are examples of operating activities?

a. 2,3,5
b. 5,6,8
c. 2,3,5,6,8
d. 2,5,6

Ans: D KP 1,2 BT: C Difficulty: Moderate TOT: 2 min. AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Reporting

54. Baron Company has six major headings in its income statement, which include Sales, Fees earned, Other Revenues, Cost of Goods Sold, Operating Expenses, and Other Expenses. Below are some of the income statement accounts for Baron:

1. Sales of inventories
2. Depreciation expense
3. Income from interest on savings account
4. Income from dividends on investments
5. Advertising expense.
6. Loss on sale of building
7. Salespeople commission expense
8. Office salary expense
9. Gain on sale of short-term investments
10. Sales of services provided
11. Cost of sold inventories
12. Interest expense on outstanding loans

Which of these would be found under the heading “Other Revenues”?

a. 1,10
b. 1,3,4
c. 3,4,10
d. 3,4,9

Ans: D KP 2 BT: C Difficulty: Moderate TOT: 2 min. AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Reporting

55. Baron Company has six major headings in its income statement, which include Sales, Fees earned, Other Revenues, Cost of Goods Sold, Operating Expenses, and Other Expenses. Below are some of the income statement accounts for Baron:

1. Sales of inventories
2. Depreciation expense
3. Income from interest on savings account
4. Income from interest on investments
5. Advertising expense.
6. Loss on sale of building
7. Salespeople commission expense
8. Insurance expense
9. Gain on sale of short-term investments
10. Sales of services provided
11. Cost of sold inventories
12. Interest expense on outstanding loans

Which of these would be found under the heading “Operating Expenses”?
56. Hsu Company has eight major section headings in its balance sheet, which include Current Assets, Long-term investments, Property, Plant, and Equipment, Intangible Assets, Current Liabilities, Long-Term Liabilities, and Shareholders' Equity. Below are some of the balance sheet accounts for Hsu:

1. Dividends Payable
2. Prepaid Rent
3. Trademarks
4. Bonds Payable
5. Investment Funds for Plant Expansion
6. Inventories
7. Wages Payable
8. Deferred Revenues
9. Accumulated Depreciation - Building
10. Accounts Receivable
11. Accounts Payable

Which of these would be found under the heading “Current Assets”?

a. 2,10
b. 2,6,8,10
c. 2,6,10
d. 2,5,10

Ans: C KP 2 BT: C Difficulty: Moderate TOT: 2 min. AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Reporting

57. Hsu Company has eight major section headings in its balance sheet, which include Current Assets, Long-term investments, Property, Plant, and Equipment, Intangible Assets, Current Liabilities, Long-Term Liabilities, and Shareholders' Equity. Below are some of the balance sheet accounts for Hsu:

1. Dividends Payable
2. Prepaid Rent
3. Trademarks
4. Bonds Payable
5. Investment Funds for Plant Expansion
6. Inventories
7. Wages Payable
8. Deferred Revenues
9. Accumulated Depreciation - Building
10. Accounts Receivable
11. Accounts Payable

Which of these would be found under the heading “Property, Plant, and Equipment”?

a. 5,9
b. 5,6,9
c. 3,5,6,9
d. 9

Ans: D KP 2 BT: C Difficulty: Moderate TOT: 2 min. AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Reporting
MATCHING QUESTIONS

1. For items 1 through 3, select the appropriate section of the balance sheet in which the item would be reported.

<table>
<thead>
<tr>
<th>Section</th>
<th>Balance Sheet Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Long-term Investments</td>
</tr>
<tr>
<td>B</td>
<td>Property, Plant, &amp; Equipment</td>
</tr>
<tr>
<td>C</td>
<td>Current Liabilities</td>
</tr>
<tr>
<td>D</td>
<td>Long-term Liabilities</td>
</tr>
<tr>
<td>E</td>
<td>Shareholders’ Equity</td>
</tr>
</tbody>
</table>

1. Amounts owed for purchasing inventory from creditors (due next month).
2. Cumulative profits retained by the company since operations began.
3. Cost of a building expected to be used by the company for ten more years.


KP 2 BT: C Difficulty: Easy TOT: 2 min. AACSB: Analytic
AICPA BB: Critical Thinking AICPA FN: Reporting

2. For each item numbered 1 through 6 below, identify which accounting element(s) listed in A through H each statement describes. You may use each letter more than once or not at all.

<table>
<thead>
<tr>
<th>Accounting Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Assets</td>
</tr>
<tr>
<td>B. Liabilities</td>
</tr>
<tr>
<td>C. Contributed capital</td>
</tr>
<tr>
<td>D. Retained earnings</td>
</tr>
<tr>
<td>E. Revenues</td>
</tr>
<tr>
<td>F. Expenses</td>
</tr>
<tr>
<td>G. Net income</td>
</tr>
<tr>
<td>H. Dividends</td>
</tr>
</tbody>
</table>

1. Total past earnings not distributed to the owners
2. Inflow of assets from the regular operating activities
3. Obligations which must be met at some future date
4. That which will be used to generate future economic benefits
5. The net growth during a period of time measured as revenues less expenses
6. Amount invested by equity investors


KP 2 BT: K Difficulty: Easy TOT: 2 min. AACSB: Analytic
AICPA BB: Critical Thinking AICPA FN: Reporting
3. For each financial statement item listed in 1 through 5 below, identify the best description by selecting from items a through f below. You may use each letter more than once or not at all. Write the letter 'X' for each item for which no description is listed.

<table>
<thead>
<tr>
<th>Descriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Amount of net income or loss less distributions to the owners of the company</td>
</tr>
<tr>
<td>b. Must be settled within one year</td>
</tr>
<tr>
<td>c. Converted to cash within one year</td>
</tr>
<tr>
<td>d. Amount of owners’ investment</td>
</tr>
<tr>
<td>e. Portion of equity to which dividends reduce</td>
</tr>
<tr>
<td>f. Land used as a site for production</td>
</tr>
</tbody>
</table>

| Current liability |
| The property part of property, plant, and equipment |
| Retained earnings |
| Contributed capital |
| Current asset |

**Solution:**
1. b 2. f 3. a, e 4. d 5. c

KP 2 BT: K Difficulty: Easy TOT: 2 min. AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Reporting

4. For each statement listed in 1 through 5 below, state whether it is correct or not by writing ‘Yes’ or ‘No’ in the space provided.

<table>
<thead>
<tr>
<th>Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Property differs from plant and equipment in that property has no physical substance, while plant and equipment does.</td>
</tr>
<tr>
<td>2. Current assets of a major retailer, such as Sears, typically exceed 50 percent of total assets because of merchandise inventory.</td>
</tr>
<tr>
<td>3. Goodwill is common on many major U.S. companies’ balance sheets because of the numerous mergers and acquisitions that occur.</td>
</tr>
<tr>
<td>4. Yard Mart Company owes $4,700. If Yard Mart uses assets listed in the current asset section of the balance sheet to pay off this debt next year, Yard Mart must report the $4,700 in the current liability section of its balance sheet.</td>
</tr>
<tr>
<td>5. Haloid, Inc. issued common stock for cash. This is an investing activity.</td>
</tr>
</tbody>
</table>

**Solution:**

KP 1,2 BT: C Difficulty: Moderate TOT: 3 min. AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Reporting
5. For each financial statement item listed in 1 through 5 below, identify in which balance sheet category (listed in a through h) it should be reported. You may use each letter more than once or not at all.

<table>
<thead>
<tr>
<th>Financial Statement Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Current assets</td>
</tr>
<tr>
<td>b. Long-term investments</td>
</tr>
<tr>
<td>c. Property, plant, and equipment</td>
</tr>
<tr>
<td>d. Intangible assets</td>
</tr>
<tr>
<td>e. Current liabilities</td>
</tr>
<tr>
<td>f. Long-term liabilities</td>
</tr>
<tr>
<td>g. Shareholders’ equity</td>
</tr>
<tr>
<td>h. Not disclosed on the balance sheet</td>
</tr>
</tbody>
</table>

1. Contributed capital
2. Prepaid insurance
3. Accounts payable
4. Sales revenue
5. Delivery truck

Solution:
1. g
2. a
3. e
4. h
5. c

KP 2 BT: C Difficulty: Easy TOT: 2 min. AACSB: Analytic
AICPA BB: Critical Thinking AICPA FN: Reporting

6. For each statement listed in 1 through 5 below, state whether it is correct or not by writing ‘Yes’ or ‘No’ in the space provided.

| 1. Financing activities involve the sale of goods and services of a business. |
| 2. The income statement is often referred to as a statement of financial condition. |
| 3. The most liquid of all assets is cash. |
| 4. The asset sections found on a classified balance sheet include current assets, current liabilities, and owners’ equity. |
| 5. Dividends payable, Inventories, Contributed capital, and Accumulated Depreciation all appear on a company's balance sheet. |

Solution:
1. No
2. No
3. Yes
4. No
5. Yes

KP 2 BT: C Difficulty: Moderate TOT: 3 min. AACSB: Analytic
AICPA BB: Critical Thinking AICPA FN: Reporting
7. For each financial statement item listed in 1 through 7 below, identify in which balance sheet category (listed in a through h) it should be reported. You may use each letter more than once or not at all.

<table>
<thead>
<tr>
<th>Financial Statement Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Current assets</td>
</tr>
<tr>
<td>b. Long-term investments</td>
</tr>
<tr>
<td>c. Property, plant, and equipment</td>
</tr>
<tr>
<td>d. Intangible assets</td>
</tr>
<tr>
<td>e. Current liabilities</td>
</tr>
<tr>
<td>f. Long-term liabilities</td>
</tr>
<tr>
<td>g. Shareholders’ equity</td>
</tr>
<tr>
<td>h. Not disclosed on the balance sheet</td>
</tr>
</tbody>
</table>

| 1. Accumulated depreciation        |
| 2. Accounts receivable             |
| 3. Trademarks                      |
| 4. Investment in bonds             |
| 5. Retained earnings               |
| 6. Short-term investments          |
| 7. Prepaid insurance               |

Solution:
1. c  2. a  3. d  4. b  5. g  6. a  7. a

KP 2  BT: C  Difficulty: Easy  TOT: 2 min.  AACSB: Analytic  AICPA BB: Critical Thinking  AICPA FN: Reporting
1. Given below are several accounts from Kramer Company’s accounting records.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$12,500</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>8,000</td>
</tr>
<tr>
<td>Retained earnings, beginning of year</td>
<td>17,000</td>
</tr>
<tr>
<td>Contributed capital</td>
<td>14,000</td>
</tr>
<tr>
<td>Patents</td>
<td>3,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Net income for the year was $30,000. How much is total shareholders’ equity at the end of the year?

**Solution:**

\[
\text{Total shareholders’ equity} = \text{Cash} + \text{Accumulated depreciation} + \text{Retained earnings, beginning of year} + \text{Contributed capital} + \text{Patents} + \text{Dividends} - \text{Net income}
\]

\[
\text{Total shareholders’ equity} = 14,000 + 8,000 + 17,000 + 14,000 + 3,000 + 3,000 - 30,000 = 58,000
\]

KP 2 BT: AN Difficulty: Moderate TOT: 2 min. AACSB: Analytic AICPA BB: Critical Thinking AICPA FN: Measurement

2. Below are several amounts from Netcom Company’s accounting records. Answer the questions that follow.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets, end of year</td>
<td>$190,000</td>
</tr>
<tr>
<td>Total liabilities, end of year</td>
<td>88,000</td>
</tr>
<tr>
<td>Contributed capital, end of year</td>
<td>20,000</td>
</tr>
<tr>
<td>Retained earnings, beginning of year</td>
<td>65,000</td>
</tr>
<tr>
<td>Dividends for the period</td>
<td>15,000</td>
</tr>
<tr>
<td>Net income</td>
<td>32,000</td>
</tr>
</tbody>
</table>

A. Calculate the amount of retained earnings at the end of the year.

B. If revenue amounts to $200,000, how much is ‘total expenses’?

C. How do you know the company has been profitable since it began operations?

**Solution:**

A. \[
\text{Retained earnings} = \text{Retained earnings, beginning of year} + \text{Net income} - \text{Dividends for the period} = 65,000 + 32,000 - 15,000 = 82,000
\]

B. \[
\text{Total expenses} = \text{Revenue} - \text{Profit} = 200,000 - 32,000 = 168,000
\]

C. Retained earnings, which represents the total profits since the company began operations, less all amounts distributed as dividends, has a positive balance.

KP 2 BT: AN Difficulty: Moderate TOT: 5 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Measurement
3. Following are several items from Arbor Company’s financial statements. Use this information to calculate the amounts for the questions that follow.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>$2,400</td>
</tr>
<tr>
<td>Sales revenue</td>
<td>8,600</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>500</td>
</tr>
<tr>
<td>Income taxes</td>
<td>600</td>
</tr>
<tr>
<td>Dividends</td>
<td>400</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>800</td>
</tr>
</tbody>
</table>

A. Calculate the dollar amount of net income.

B. How much is inventory expense?

C. Was the company profitable during the current year? How do you know?

Solution:

a. $8,600 – $2,400 – $500 – $600 = $5,100
b. $2,400
c. Yes. The amount of expenses is less than the amount of revenue.

KP 2 BT: AN Difficulty: Moderate TOT: 4 min. AACSB: Analytic, Communication
AICPA BB: Critical Thinking AICPA FN: Measurement

4. At the beginning of 2015, Kristol Company sold stock and began operations. Information from Kristol’s accounting records for the year ending December 31, 2015, follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$510,000</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>220,000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>190,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>100,000</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>50,000</td>
</tr>
<tr>
<td>Contributed capital</td>
<td>60,000</td>
</tr>
</tbody>
</table>

A. Circle the names of any accounts above that would not be reported on the income statement.

B. Determine the amount of net income.

Solution:

a. Circled accounts should be: Dividends and Contributed Capital
b. $510,000 – $220,000 – $190,000 – $50,000 = $50,000

KP 2 BT: AN Difficulty: Moderate TOT: 4 min. AACSB: Analytic
AICPA BB: Critical Thinking AICPA FN: Measurement
5. The following are account balances of Phineas Company on 12/31/15.

- Accounts payable $2,000
- Accounts receivable 7,000
- Buildings and equipment 54,000
- Contributed capital 20,000
- Bonds payable 15,300
- Cash 8,800
- Retained earnings 17,000
- Accumulated depreciation (24,000)
- Inventory 5,500
- Patents 3,000

Prepare a classified balance sheet for Phineas Company on December 31, 2015.

**Solution:**

Phineas Company  
Classified Balance Sheet  
December 31, 2015

**Assets**

Current assets:
- Cash $8,800
- Accounts receivable 7,000
- Inventory 5,500
  - Total current assets $21,300

Property, plant, and equipment:
- Buildings and equipment $54,000
  - Less: Accumulated depreciation (24,000)
  - Total property, plant, and equipment 30,000

Intangible assets:
- Patents 3,000

- Total assets $54,300

**Liabilities & Shareholders’ Equity**

Current liabilities:
- Accounts payable $2,000
  - Total current liabilities $2,000

Long-term liabilities:
- Bonds payable 15,300
  - Total long-term liabilities 15,300

Shareholders’ equity:
- Contributed capital $20,000
- Retained earnings 17,000
  - Total shareholders’ equity 37,000

- Total liabilities & shareholders’ equity $54,300

KP 2 BT: AP Difficulty: Difficult  TOT: 10 min.  AACSB: Analytic  
AICPA BB: Critical Thinking  AICPA FN: Reporting
6. The following is the balance sheet of Able Corporation immediately prior to deciding how to finance the purchase of a $300 addition to its building.

Able Corporation
Balance Sheet
December 31, 2015

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$310</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>260</td>
</tr>
<tr>
<td>Building</td>
<td>380</td>
</tr>
<tr>
<td>Land</td>
<td>370</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$1,320</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Shareholders’ Equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$190</td>
</tr>
<tr>
<td>Long-term bonds payable</td>
<td>620</td>
</tr>
<tr>
<td>Contributed capital</td>
<td>340</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>170</td>
</tr>
<tr>
<td><strong>Total liabilities &amp; shareholders’ equity</strong></td>
<td><strong>$1,320</strong></td>
</tr>
</tbody>
</table>

The bonds payable contract agreement requires current assets to be twice as much as current liabilities. Assume the $300 addition to the building is to be paid in cash and financed by issuing more stock. Calculate and explain the maximum cash that Able can pay and still honor its debt agreement.

**Solution:** Able’s current liabilities are $190. Under the bond agreement, its current assets must be at least $380. If Almond used $190 of cash to purchase the building addition, then it would have the $380 of current assets required by the debt covenant ($190 \times 2). Therefore, Able can pay $190 and issue stock for $110 in order to finance the building project.

KP 2 BT: AN Difficulty: Difficult TOT: 8 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Measurement, Decision modeling

*Use the information that follows concerning Ulrich Computer for the year ending December 31, 2015 for problems 7 through 10.*

Several accounts and amounts from the financial statements of Ulrich Computer appear below for the year ending December 31, 2015.

- Cash $11,000
- Sales Revenue 140,000
- Notes Receivable, 6-month 90,000
- Cost of goods sold 65,000
- Taxes Payable 31,000
- Salaries Expense 8,000
- Accounts Receivable 34,000
- Dividends 42,000
- Equipment 150,000
- Accounts Payable 8,000
- Contributed Capital 30,000
- Retained Earnings 40,000
- Rent and Utilities Expense 4,000
- Income Tax Expense 20,000
- Inventory 21,000
7. What is the total amount owed to Ulrich by its customers at the end of 2015?

Solution: $34,000

KP 2 BT: AN Difficulty: Easy  TOT: 1 min.  AACSB: Analytic
AICPA BB: Critical Thinking  AICPA FN: Measurement

8. Calculate total expenses for Ulrich.

Solution:
$65,000 + $8,000 + $4,000 + $20,000 = $97,000

KP 2 BT: AN Difficulty: Moderate  TOT: 3 min.  AACSB: Analytic
AICPA BB: Critical Thinking  AICPA FN: Measurement

9. Calculate Ulrich’s total current assets.

Solution:
$11,000 + $34,000 + $90,000 + $21,000 = $156,000

KP 2 BT: AN Difficulty: Moderate  TOT: 3 min.  AACSB: Analytic
AICPA BB: Critical Thinking  AICPA FN: Measurement

10. How much must Ulrich pay out during its next accounting period for amounts owed?

Solution:
$8,000 + $31,000 = $39,000

KP 2 BT: AN Difficulty: Moderate  TOT: 2 min.  AACSB: Analytic
AICPA BB: Critical Thinking  AICPA FN: Measurement

11. Below is all of the account information from Chamber Company’s balance sheet, with the exception of Retained Earnings.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$13,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>16,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>51,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>17,000</td>
</tr>
<tr>
<td>Long-term Payable</td>
<td>10,000</td>
</tr>
<tr>
<td>Contributed capital</td>
<td>30,000</td>
</tr>
</tbody>
</table>

Using this information, please calculate the following:

A. The total amount of retained earnings for Chamber Company.

Solution:

A. $(13,000 + 16,000 + 51,000) – 17,000 – 10,000 – 30,000 = 23,000

KP 2 BT: AN Difficulty: Moderate  TOT: 8 min.  AACSB: Analytic
AICPA BB: Critical Thinking  AICPA FN: Measurement
12. The following information is shown on Morris Company’s balance sheet. Answer the questions that follow.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$12,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>15,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>60,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>15,000</td>
</tr>
<tr>
<td>Bonds Payable</td>
<td>35,000</td>
</tr>
<tr>
<td>Contributed capital</td>
<td>25,000</td>
</tr>
</tbody>
</table>

A. How much did debt investors provide to Morris Company?
B. What is the amount of money provided by equity investors to Morris Company?
C. How much would be classified as property, plant, and equipment?

Solution:
A. $35,000
B. $25,000
C. $60,000

KP 2 BT: AN Difficulty: Easy TOT: 2 min. AACSB: Analytic
AICPA BB: Critical Thinking AICPA FN: Measurement

13. Autry Company determined its total sales were $400,000, salaries expense was $110,000, dividends paid were $8,000, rent expense was $14,000, other operating expenses were $20,000, and customers still owed $2,000 at the end of the year. How much is net income for the year?

Solution:  
$400,000 – $110,000 – $14,000 – $20,000 = $256,000

KP 2 BT: AN Difficulty: Moderate TOT: 2 min. AACSB: Analytic
AICPA BB: Critical Thinking AICPA FN: Measurement

14. If cash inflows from operating activities were $2,000, cash outflows for financing activities were $2,500, and the net increase in cash was $4,000, how much are cash flows from investing activities?

Solution:  
$4,000 – (-$2,500) - $2,000 = $4,500

KP 2 BT: AN Difficulty: Moderate TOT: 2 min. AACSB: Analytic
AICPA BB: Critical Thinking AICPA FN: Measurement
15. The following is the balance sheet of Columbus Corporation immediately prior to deciding how to finance the purchase of an additional $210,000 parcel of land. Answer the question that follows.

Columbus Corporation  
Balance Sheet  
December 31, 2015

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 180,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>270,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$510,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Shareholders’ Equity</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$ 90,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributed capital</td>
<td>250,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>170,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities &amp; shareholders’ equity</strong></td>
<td><strong>$510,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**REQUIRED:** Columbus will finance the $210,000 investment in land by issuing either $210,000 of common stock or using $210,000 of additional accounts payable that will be due in 90 days. Indicate which method of financing is preferable for Columbus. Consider the effects on short-term solvency positions.

**Solution:** If Columbus financed the land through accounts payable, its current liabilities would exceed its current assets by $60,000. This would question Columbus’s capability to pay its current liabilities when they are due. However, if Columbus financed the investment in land by issuing common stock, its current assets would exceed its current liabilities by $150,000. This would enhance its short-term solvency position. Therefore, Columbus should issue common stock to finance the purchase of land.

KP 2 BT: AN  Difficulty: Difficult  TOT: 8 min.  AACSB: Analytic, Communication, Reflective  AICPA BB: Critical Thinking  AICPA FN: Measurement, Decision modeling
SHORT ESSAY QUESTIONS

1. Describe operating activities.

Solution: Operating activities involve the sale of goods and services and the related cost of providing the goods and services. These activities produce additional capital that can be reinvested in producing assets, used to pay debt, or distributed to the owners in the form of dividends.

KP 1 BT: K Difficulty: Easy TOT: 2 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Reporting

2. Which business activity occurs first for a business? Why does this business activity occur first?

Solution: Financing activities typically occur first in a business. A business must acquire cash or other operating capital before any investments can be made.

KP 1 BT: C Difficulty: Easy TOT: 2 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Reporting

3. What business aspect does the income statement measure?

Solution: The income statement measures operating performance over a particular period.

KP 1 BT: C Difficulty: Easy TOT: 1 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Measurement

4. Which asset is more liquid, inventory or accounts receivable? Why?

Solution: Since amounts in the Accounts Receivable account represent inventory that is already sold, this account will generate cash more quickly than inventory that has not yet been sold. Therefore, accounts receivable is more liquid than inventory.

KP 2 BT: C Difficulty: Moderate TOT: 2 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Measurement

5. What business aspect does the statement of shareholders’ equity measure?

Solution: The statement of shareholders’ equity measures changes in 1) the contributed capital accounts, representing the value of owners’ investments in the business, and in 2) the retained earnings account, which measures the extent to which the business reinvests its earnings and pays dividends.

KP 1 BT: C Difficulty: Moderate TOT: 2 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Measurement
Use the information provided from Haloid Company’s accounting records to answer questions 6 and 7.

For the Years Ended December 31, 2015, and 2014

<table>
<thead>
<tr>
<th>Assets</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$  80</td>
<td>$60</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Short-term investment in property</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Property, plant, and equipment</td>
<td>350</td>
<td>310</td>
</tr>
<tr>
<td>Total assets</td>
<td>$510</td>
<td>$470</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Shareholders’ Equity</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$  85</td>
<td>$90</td>
</tr>
<tr>
<td>Contributed capital</td>
<td>310</td>
<td>300</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>115</td>
<td>80</td>
</tr>
<tr>
<td>Total liabilities &amp; shareholders’ equity</td>
<td>$510</td>
<td>$470</td>
</tr>
</tbody>
</table>

Income Statement:

- Sales revenue                        | $850   |
- Expenses                             | 800    |
- Net Income                           | $  50  |

6. How is it possible that Haloid reports “property” in two different places on its balance sheet?

**Solution:** ‘Short-term investment in property’ is property that Haloid owns with the intention of selling in the future. However, property in ‘property, plant, and equipment’ is space that is being used for “supporting” the operations in Haloid’s business.

KP 2 BT: C Difficulty: Moderate TOT: 5 min. AACSB: Analytic, Communication, Reflective AICPA BB: Critical Thinking AICPA FN: Reporting

7. Comment on the following statement: “On December 31, 2015, Haloid’s accounts payable exceeds its cash by $5. If Haloid needs additional money to pay its accounts payable, it can use the $115 stashed in its retained earnings”.

**Solution:** The amount in the retained earnings account does not represent stashes of money or other tangible items. This amount simply communicates that Haloid earned and retained $115 of income in its business since it began operations. The difference between assets and liabilities is total shareholders’ equity. Retained earnings is part of shareholders’ equity. It represents earnings retained in a business—a residual amount. It is not cash.

KP 2 BT: E Difficulty: Difficult TOT: 8 min. AACSB: Analytic, Communication, Reflective AICPA BB: Critical Thinking AICPA FN: Decision modeling

9. Explain the concept of liquidity.

**Solution:** Liquidity is a representation of how close an asset is to cash. Assets are listed in order of liquidity on the balance sheet, with the most liquid assets first. Since cash is the most liquid asset, it is presented as the first item in the asset section of the balance sheet.

10. Give an example of a prepaid expense. Why would a company use this account?

**Solution:** Prepaid expenses may include items such as prepaid rent, prepaid insurance, and other amounts of which payment must be made up front.

KP 2 BT: C Difficulty: Moderate TOT: 2 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Reporting

11. What type of assets are included in short-term investments?

**Solution:** Short-term investments include stock, bonds, and similar investments. Generally these securities are readily marketable and are intended by management to be sold within a short period of time, usually less than one year.

KP 2 BT: K Difficulty: Moderate TOT: 2 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Reporting

12. What is unique about the way plant and equipment appear on the balance sheet?

**Solution:** Plant and equipment includes the actual costs of acquiring assets such as warehouses, office buildings, equipment, machinery, vehicles, etc. In the balance sheet, total accumulated depreciation is shown as a deduction from the cost of the plant and equipment. The balance in the accumulated depreciation account represents the total cost of the plant and equipment that has been transferred to the income statement (expensed) as it represented an allocation of the cost used up that related to past accounting periods.

KP 2 BT: C Difficulty: Moderate TOT: 4 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Reporting

13. Describe how the equity sections of balance sheets differ for each of the three types of business entities.

**Solution:** The shareholders’ equity section of the balance sheet for corporations consists of two components—contributed capital and retained earnings. Partnerships have one capital account for each owner in the owners’ equity section of the balance sheet. A proprietorship has only one capital account. Neither a partnership nor a proprietorship has a retained earnings account.

KP 2 BT: C Difficulty: Moderate TOT: 5 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Reporting

14. Why would a company use a notes receivable account?

**Solution:** A notes receivable account arises because companies accept notes in exchange for a sale with extended credit terms. Notes represent amounts that customers or employees have agreed to repay. Notes typically have an interest component.

KP 2 BT: C Difficulty: Easy TOT: 2 min. AACSB: Analytic, Communication
15. What is the account, Accounts Payable, used for?

**Solution:** Accounts payable represents the amount of money a company expects to pay its vendors. The payables arise from the purchase of supplies from vendors/suppliers.

KP 2 BT: C Difficulty: Easy TOT: 2 min. AACSB: Analytic, Communication
AICPA BB: Critical Thinking AICPA FN: Reporting

16. Describe how the amount of net income relates to the balance sheet.

**Solution:** The balance sheet reports an item called retained earnings that represents an accumulation of all the profits earned by the company since operations began, less all the dividends paid out to shareholders. Net income for the current period is added and dividends declared are subtracted from the beginning retained earnings amount to determine the ending balance of retained earnings, which in turn is reported on the balance sheet.

KP 2 BT: C Difficulty: Moderate TOT: 4 min. AACSB: Analytic, Communication
AICPA BB: Critical Thinking AICPA FN: Reporting

17. Where in a company's financial statements would you locate the 'book value' of the company?

**Solution:** The dollar amount reported as total shareholders’ equity represents the net book value of the company. Shareholders’ equity is found on the balance sheet. To calculate the book value, subtract liabilities from assets.

KP 2 BT: C Difficulty: Moderate TOT: 3 min. AACSB: Analytic, Communication
AICPA BB: Critical Thinking AICPA FN: Reporting

18. Which group of financial statement users would be most concerned with the amount of a company's total current assets and current liabilities?

**Solution:** Creditors, such as bankers in other lenders, would be very interested in the liquidity of a company. Comparing the amount of current assets with current liabilities is a common analysis tool used by those interested in liquidity. If a company has more current liabilities than current assets, it is possible the company will not be able to pay its current bills when they come due.

KP 2 BT: C Difficulty: Moderate TOT: 3 min. AACSB: Analytic, Communication, Reflective AICPA BB: Critical Thinking AICPA FN: Measurement
19. Which assets on a company's balance sheet have no physical substance? Explain.

Solution: Intangible assets have no physical substance. They are reported as long-term assets on the balance sheet and represent the legal right to produce and sell certain products. Like other assets, they represent a potential future benefit for the company.

KP 2 BT: C Difficulty: Easy TOT: 2 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Reporting

20. A company sold 10 widgets. How will the amounts the company reports as ‘Sales’ differ from amounts reported as ‘Cost of Goods Sold’?

Solution: The amount reported as sales represents the dollar amount for which the widgets were sold to the customers. Cost of goods sold represents the original cost paid by the company to acquire the inventory item. The difference between the dollar amount of sales and the dollar amount of cost of goods sold represents gross profit for the company.

KP 2 BT: C Difficulty: Moderate TOT: 3 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Reporting

21. What concerns might you have if you examined a company's balance sheet and found a negative amount in retained earnings?

Solution: A negative amount in retained earnings is common for young companies because it often takes several years to become profitable. Retained earnings may also decline and produce a negative balance (if allowed under the respective state laws) if a company pays large dividends. If the dollar amount in retained earnings is negative because of continual losses, there should be a cause for concern.

KP 2 BT: E Difficulty: Difficult TOT: 7 min. AACSB: Analytic, Communication, Reflective AICPA BB: Critical Thinking AICPA FN: Decision modeling

22. Distinguish between the amounts reported on the income statement compared to the amounts reported on the statement of cash flows.

Solution: Amounts reported on the income statement are revenues and expenses. These amounts reflect general asset and liability inflows and outflows. The amounts reported on the statement of cash flows include only the cash received and the cash paid out.

KP 2 BT: C Difficulty: Moderate TOT: 3 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Reporting
23. Explain the difference between net income and cash flow from operations.

**Solution:** Net income, reported on the income statement, consists of revenues and expenses or more general asset and liability inflows and outflows, that may not necessarily include cash. Cash flows from operations, reported on the statement of cash flows, include only the cash inflows and outflows.

KP 2 BT: C Difficulty: Moderate TOT: 4 min. AACSB: Analytic, Communication AICPA BB: Critical Thinking AICPA FN: Reporting
1. Income statements prepared under IFRS sometimes use the term "turnover", which in GAAP income statements would equate to the term:
   a. Return on investment
   b. Revenue
   c. Expenses
   d. Net Income

   Ans. B KP 3 BT: C Difficulty: Easy TOT: 1 min. AICPA BB: Critical Thinking AICPA FN: Reporting

2. Many non-U.S. companies preparing a balance sheet present the accounts in the following order:
   a. Non-current assets + current assets – current liabilities = Non-current liabilities + shareholders’ equity
   b. Non-current assets + current assets + current liabilities = Non-current liabilities + shareholders’ equity
   c. Non-current assets + current liabilities + current assets = Non-current liabilities + shareholders’ equity
   d. Non-current assets + current assets – current liabilities = Non-current liabilities - shareholders’ equity

   Ans. A KP 3 BT: C Difficulty: Moderate TOT: 1 min. AICPA BB: Critical Thinking AICPA FN: Reporting