## Chapter 1

**Accounting and Business**

**MATCHING**

1. Match the following with the descriptions below.

A. Assets

B. Liability

C. Net Assets

D. Owners’ Equity

E. Revenue

F. Expense

G. Net Income

\_\_\_\_\_ 1. Assets minus liabilities

\_\_\_\_\_ 2. The obligation to transfer economic resources to suppliers of goods and

services at some point in the future

\_\_\_\_\_ 3. A company's total revenues less its total expenses for a period of time

\_\_\_\_\_ 4. An amount incurred from using resources or services in an effort to generate

revenues

\_\_\_\_\_ 5. The rights to use resources that have expected future economic benefits

\_\_\_\_\_ 6. An amount earned from rendering services or transferring resources to

customers

\_\_\_\_\_ 7. Represents the claims on the business to transfer the residual interest (net assets

of the business) to the owners

Answer: 1. C; 2. B; 3. G; 4. F; 5. A; 6. E; 7. D

2. Match the following balance sheet classifications with the accounts listed below.

A. Current Assets

B. Investments

C. Property, Plant, and Equipment

D. Intangible Assets

E. Current Liabilities

F. Long-Term Liabilities

G. Stockholders’ Equity

H. Does not appear on the Balance Sheet

\_\_\_\_\_ 1. Accounts Receivable

\_\_\_\_\_ 2. Note Payable due in 60 days

\_\_\_\_\_ 3. Cash

\_\_\_\_\_ 4. Advertising Expense

\_\_\_\_\_ 5. Inventory

\_\_\_\_\_ 6. Interest Payable

\_\_\_\_\_ 7. Equipment

\_\_\_\_\_ 8. Patent

\_\_\_\_\_ 9. Land

\_\_\_\_\_ 10. Accounts Payable

\_\_\_\_\_ 11. Note Payable (due in 10 years)

\_\_\_\_\_ 12. Investment in Nike Common Stock

\_\_\_\_\_ 13. Retained Earnings

\_\_\_\_\_ 14. Note Receivable from customer due in 5 years

\_\_\_\_\_ 15. Prepaid Rent

Answers: 1. A; 2. E; 3. A; 4. H; 5. A; 6. E; 7. C; 8. D; 9. C; 10. E; 11. F;

12. B; 13. G; 14. B; 15. A

3. Match the following balance sheet classifications with the accounts listed below.

A. Current Assets

B. Investments

C. Property, Plant, and Equipment

D. Intangible Assets

E. Current Liabilities

F. Long-Term Liabilities

G. Stockholders’ Equity

H. Does not appear on the Balance Sheet

\_\_\_\_\_ 1. Salary Expense

\_\_\_\_\_ 2. Note Receivable due in 60 days

\_\_\_\_\_ 3. Accounts Payable

\_\_\_\_\_ 4. Cash

\_\_\_\_\_ 5. Building

\_\_\_\_\_ 6. Interest Payable

\_\_\_\_\_ 7. 1,000 shares of Microsoft stock

\_\_\_\_\_ 8. Land

\_\_\_\_\_ 9. Patent

\_\_\_\_\_ 10. Interest Receivable

\_\_\_\_\_ 11. Note Payable (due in 10 years)

\_\_\_\_\_ 12. Common Stock

\_\_\_\_\_ 13. Inventory

\_\_\_\_\_ 14. Note Receivable from customer due in 5 years

\_\_\_\_\_ 15. Interest Expense

Answers: 1. H; 2. A; 3. E; 4. A; 5. C; 6. E; 7. B; 8. C; 9. D; 10. A; 11. F; 12. G;13. A;14. B;15. H

4. Match the following with the descriptions below.

A. Return on Sales Ratio

B. Balance Sheet

C. Current Liability

D. Statement of Cash Flows

E. Statement of Owners' Equity

F. Current Ratio

G. Debt-to-Equity Ratio

H. Current Asset

I. Net Income

\_\_\_\_\_ 1. A measure of company solvency and its ability to meet its long-term

obligations

\_\_\_\_\_ 2. An asset likely to be used or consumed within one year

\_\_\_\_\_ 3. The financial statement designed to show the ending amounts of a company's

assets, liabilities, and owners’ equity

\_\_\_\_\_ 4. A liability likely to be paid or otherwise discharged within one year

\_\_\_\_\_ 5. A measure of company liquidity; the relationship between current assets and

current liabilities

\_\_\_\_\_ 6. A measure of company profitability; the relationship between net income and

sales

\_\_\_\_\_ 7. The financial statement designed to show the cash inflows and cash outflows of

the company for a period of time

\_\_\_\_\_ 8. An increase in the owners’ equity as a result of the firm’s ongoing operations

\_\_\_\_\_ 9. The financial statement designed to show the changes to owners' equity during

a specified time period

Answer: 1. G; 2. H; 3. B; 4. C; 5. F; 6. A; 7. D; 8. I; 9. E

5. Match the following acronyms to the descriptions below.

* 1. IASB
  2. FASB
  3. SEC
  4. GAAP
  5. SFAC

\_\_\_\_\_ 1. Sets accounting standards for businesses not in the United States

\_\_\_\_\_ 2. Describes the accounting concepts used in the United States

\_\_\_\_\_ 3. Regulates the financial markets in the United States

\_\_\_\_\_ 4. Sets the accounting standards for all companies (public and private) in the

United States

\_\_\_\_\_ 5. Are the accounting standards used by companies (public and private) in the

United States

Answer: 1. A; 2. E; 3. C; 4. B; 5. D

6. Match the following with the descriptions below.

A. Accrual Basis of Accounting

B. Business Entity Concept

C. Going Concern Concept

D. Monetary Unit Concept

E. Periodicity Concept

F. Limited Liability

\_\_\_\_\_ 1. The concept that requires an accounting system to reflect only information

about the economic events that pertain to a particular entity

\_\_\_\_\_ 2. The concept that asserts money is the common measurement unit

\_\_\_\_\_ 3. A system in which income is measured as the difference between the revenues

earned and the expenses incurred during the period, regardless of when cash is

paid or received

\_\_\_\_\_ 4. A legal concept that says the money invested in a corporation is at risk but

investors’ personal possessions are not at risk if the business fails

\_\_\_\_\_ 5. The concept that assumes that, absent any information to the contrary, the

business entity will continue into the foreseeable future

\_\_\_\_\_ 6. The concept that requires that the success or failure of the business be

determined at regular intervals

Answer: 1. B; 2. D; 3. A; 4. F; 5. C; 6. E

7. Match the following with the descriptions below.

A. Corporation

B. Limited Liability Company

C. Limited Liability Partnership

D. Limited Partnership

E. Mutual Agency

F. Limited Liability

G. Partnership

H. S Corporation

I. Sole Proprietorship

\_\_\_\_\_ 1. A partnership composed of one or more general partners and one or more

limited partners; only the general partners' personal possessions are at risk if

the business should fail

\_\_\_\_\_ 2. A small business corporation owned by no more than 75 individuals; its profits

are taxed at the individual level rather than the corporate level

\_\_\_\_\_ 3. A business entity that is legally separate and distinct from its owners

\_\_\_\_\_ 4. The business entity eliminates the impact of unlimited liability for all the

owners, does not limit the number of owners, and does not limit participation in

the management of the firm

\_\_\_\_\_ 5. A situation whereby each partner has the power to act for all and legally

obligate all partners

\_\_\_\_\_ 6. A partnership in which the individual partners are liable only for their own

actions and the actions of those individuals under their control

\_\_\_\_\_ 7. A business entity owned by one person whose personal possessions are at risk

if the business fails

\_\_\_\_\_ 8. A situation in which the money invested in a corporation is at risk but investors'

personal possessions are not at risk if the business fails

\_\_\_\_\_ 9. A business owned by two or more individuals whose personal possessions are

at risk if the business fails

Answer: 1. D; 2. H; 3. A; 4. B; 5. E; 6. C; 7. I; 8. F; 9. G

8. Match the type of firms with the companies below.

A. Service Firm

B. Manufacturing

C. Merchandising

\_\_\_\_\_ 1. Deloitte (accounting firm)

\_\_\_\_\_ 2. Xerox

\_\_\_\_\_ 3. Macy’s

\_\_\_\_\_ 4. Southwest Airline

\_\_\_\_\_ 5. Pepsi Cola

\_\_\_\_\_ 6. Wendy’s

\_\_\_\_\_ 7. Union Pacific Railroad

\_\_\_\_\_ 8. British Petroleum

Answer: 1. A; 2. B; 3. C; 4. A; 5. B; 6. B; 7. A; 8. B

9. Match the type of firms with the companies below.

A. Service firm

B. Manufacturing

C. Merchandising

\_\_\_\_\_ 1. Disney Theme Parks

\_\_\_\_\_ 2. Coors Brewing Company

\_\_\_\_\_ 3. Grant Thornton (CPA Firm)

\_\_\_\_\_ 4. Red Lobster

\_\_\_\_\_ 5. Walmart

\_\_\_\_\_ 6. H&R Block

\_\_\_\_\_ 7. UPS

\_\_\_\_\_ 8. General Motors

Answer: 1. A; 2. B; 3. A; 4. B; 5. C; 6. A; 7. A; 8. B

10. Match the financial statement to the item listed below. Some may have more than one

answer.

A. Income Statement

B. Statement of Stockholders’ Equity

C. Statement of Cash Flows

D. Balance Sheet

\_\_\_\_\_ 1. Cash from operations

\_\_\_\_\_ 2. Total Assets

\_\_\_\_\_ 3. Net Income

\_\_\_\_\_ 4. Change in cash during the time period

\_\_\_\_\_ 5. Total Liabilities and Stockholders’ Equity

\_\_\_\_\_ 6. Dividends declared

\_\_\_\_\_ 7. Cash provided and used by financing activities

\_\_\_\_\_ 8. Cost of Sales

\_\_\_\_\_ 9. Cash at year-end

\_\_\_\_\_10. Beginning Retained Earnings

Answers: 1. C; 2.D; 3. A and B; 4. C; 5. D; 6. B; 7. C; 8. A; C and D; 10. B

**MULTIPLE CHOICE**

11. The accounting concept requiring that an accounting system reflect information relating only to those economic events pertaining to a particular entity is the:

A) business entity concept.

B) going entity concept.

C) monetary unit concept.

D) periodicity concept .

Answer: A Difficulty: Easy

12. The accounting concept that assumes that, absent any information to the contrary, the business will continue into the foreseeable future is the:

A) business entity concept.

B) future entity concept.

C) going concern concept.

D) periodicity concept.

Answer: C Difficulty: Easy

13. The accounting concept that asserts that money is the common measurement unit for economic activity is the:

A) business entity concept.

B) monetary unit concept.

C) going concern concept.

D) dollar-value concept.

Answer: B Difficulty: Easy

14. The accounting concept requiring that the profits of a business be determined at regular intervals throughout the life of the business is the:

A) business entity concept.

B) going concern concept.

C) monetary unit concept.

D) periodicity concept.

Answer: D Difficulty: Easy

15. Which of the following is not an objective of financial reporting specified in Concepts

Statement No. 1?

A) To provide information useful to investors and creditors

B) To provide information helpful in assessing the future amounts and timing of cash

flows

C) To provide information about the assets and claims on the assets of a firm

D) To prepare income statements on a timely basis

Answer: D Difficulty: Hard

16. Which of the following is an objective of financial reporting specified in Concepts

Statement No. 1?

A) To provide information useful to investors and creditors

B) To provide a statement of cash flows

C) To provide a balance sheet at the end of a year

D) To prepare income statements on a timely basis

Answer: A Difficulty: Hard

17. The owner of a dry cleaning business maintains separate checkbooks for his business and his personal affairs. This best describes an application of the:

A) business entity concept.

B) going concern concept.

C) monetary unit concept.

D) periodicity concept.

Answer: A Difficulty: Medium

18. The We Build Anything Construction Company recently completed the construction of an office building that took 14 months to complete. Following the completion of this project, the company began construction of a shopping center that took 15 months to complete. The company's financial statements were not prepared at the end of each of these projects but at the end of the fiscal year. This best describes an application of the:

A) business entity concept.

B) periodicity concept.

C) monetary unit concept.

D) going concern concept.

Answer: B Difficulty: Hard

19. In its annual report the FCX Company reported the value of its ending inventory, rather than the number of units on hand. This best describes an application of the:

A) business entity concept.

B) going concern concept.

C) monetary unit concept.

D) periodicity concept.

Answer: C Difficulty: Medium

20. Every three months, Ashmont Antiques produces a report showing profits earned during the most recently ended quarter. This best describes an application of the:

A) business entity concept.

B) periodicity concept.

C) monetary unit concept.

D) going concern concept.

Answer: B Difficulty: Medium

21. A system used to identify, analyze, measure, record, summarize, and communicate relevant economic information to interested parties is referred to as a(n):

A) business system.

B) management system.

C) human resources system.

D) accounting system.

Answer: D Difficulty: Easy

22. According to Concepts Statement No. 2, accounting information should be:

A) relevant and reliable.

B) responsible and reconcilable.

C) accurate and meaningful.

D) accurate and timely.

Answer: A Difficulty: Medium

23. A business owned by one person whose personal possessions are at risk if the business fails is called a:

A) partnership.

B) sole proprietorship.

C) corporation.

D) merchandiser.

Answer: B Difficulty: Easy

24. A business owned by two or more individuals whose personal possessions are at risk if the business fails is called a:

A) sole proprietorship.

B) corporation.

C) partnership.

D) manufacturer.

Answer: C Difficulty: Easy

25. A business entity that is legally separate and distinct from its owners is called a:

A) corporation.

B) sole proprietorship.

C) partnership.

D) service company.

Answer: A Difficulty: Easy

26. Unlimited life is a characteristic of which type of business entity?

A) Corporation

B) Sole proprietorship

C) Partnership

D) Merchandiser

Answer: A Difficulty: Easy

27. Which type of business is required to pay taxes on income earned?

A) Sole proprietorship

B) Corporation

C) Partnership

D) Manufacturer

Answer: B Difficulty: Easy

28. Limited liability is an attribute of which type of business entity?

A) Partnership

B) Sole proprietorship

C) Service company

D) Corporation

Answer: D Difficulty: Easy

29. Limited liability means:

1. A company is only liable for an amount that is established by a preset limit.
2. Creditors are limited to just the cash available in the company at the time of the loss.
3. Creditors of a company can only claim the assets of the firm and not the assets of the owners of the firm.
4. Creditors of a firm can claim all the assets of a company but only a limited amount of the owner’s personal assets.

Answer: C Difficulty: Easy

30. Which type of business may be owned by one individual?

A) Corporation

B) Sole proprietorship

C) Partnership

D) Both a sole proprietorship and a corporation

Answer: D Difficulty: Easy

31. A law firm is an example of which of the following?

A) Manufacturing firm

B) Merchandising firm

C) Service firm

D) Performance firm

Answer: C Difficulty: Easy

32. Walmart is an example of which of the following?

A) Service firm

B) Merchandising firm

C) Manufacturing firm

D) Producer firm

Answer: B Difficulty: Easy

33. Which of the following would best describe the type of business Disney operates?

A) Service

B) Service and Manufacturing

C) Service and Merchandising

D) Service, Merchandising, and Manufacturing

Answer: D Difficulty: Hard

34. Which of the following best describes the type of business John Deere Inc. is?

* 1. Manufacturing
  2. Manufacturing and Service
  3. Manufacturing and Merchandising
  4. Manufacturing, Service, and Merchandising

Answer: D Difficulty: Hard (JD’s primary business is Manufacturing but it also provides repair service, and it sells a great deal of JD trademarked products such as toy tractors, hats, and clothing.

35. A company that produces a product from raw materials is called a:

A) service firm.

B) merchandising firm.

C) manufacturing firm.

D) distributor firm.

Answer: C Difficulty: Easy

36. A dry cleaning business is an example of a:

A) service firm.

B) merchandising firm.

C) manufacturing firm.

D) distributor firm.

Answer: A Difficulty: Medium

37. Dell Corporation is an example of a:

A) service firm.

B) merchandising firm.

C) manufacturing firm.

D) distributor firm.

Answer: C Difficulty: Medium

38. A supermarket is an example of a:

A) merchandising firm.

B) service firm.

C) manufacturing firm.

D) producer firm.

Answer: A Difficulty: Medium

39. A company that makes and sells steel is a:

A) service firm.

B) merchandising firm.

C) manufacturing firm.

D) performance firm.

Answer: C Difficulty: Medium

40. The organization responsible for setting U.S. external financial reporting practice is the:

A) Securities and Exchange Commission.

B) Financial Accounting Standards Board.

C) Federal Government.

D) American Institute of Certified Public Accountants.

Answer: B Difficulty: Easy

42. The statements of financial accounting standards, and other authoritative pronouncements that define what constitutes acceptable accounting practice for financial reporting are collectively referred to as:

A) SFAS.

B) FASB.

C) SEC.

D) GAAP.

Answer: D Difficulty: Easy

43. Financial accounting standards that define what constitutes acceptable accounting practice for financial reporting worldwide are referred to as:

A) SFAS.

B) FASB.

C) IFRS.

D) GAAP.

Answer: C Difficulty: Easy

44. IFRS are produced by:

A) International Accounting Standards Board.

B) Securities and Exchange Commission.

C) Financial Accounting Standards Board.

D) International Accounting Committee.

Answer: A Difficulty: Easy

45. IFRS stands for:

A) International Financial Reporting System.

B) International Financial Reporting Standard.

C) International Financing Requirement Standard.

D) International Financing Regulation and Standards.

Answer: B Difficulty: Medium

46. An accountant who has the legal authority to attest to the fair presentation of information in the financial statements of any company is called a/an:

A) certified public accountant.

B) internal auditor.

C) controller.

D) chief financial officer.

Answer: A Difficulty: Easy

47. The body responsible for establishing international accounting standards today is the:

A) FASB.

B) GAAP.

C) SEC.

D) IASB.

Answer: D Difficulty: Easy

49. Which of the following business organizations has general partner(s) and limited partners that have limited liability?

A) Limited Liability Company

B) Limited Partnership

C) Limited Corporate Partnership

D) S Corporation

Answer: B Difficulty: Medium

50. Which of the following is not subject to double taxation?

A) Limited Liability Company

B) S Corporation

C) Limited Liability Partnership

D) Limited Partnership

E) All of the above are not subject to double taxation.

Answer: E Difficulty: Medium

51. Which of the following has limited liability for all owners and is not subject to double

taxation?

A) Corporation

B) Sole Proprietorship

C) Limited Liability Corporation

D) Limited Partnership

Answer: C Difficulty: Hard

52. Which of the following computer-assisted techniques test products before they are produced?

A) CAD

B) CAM

C) CIM

D) CPA

Answer: A Difficulty: Medium

53. This computer-assisted technique improves the speed and precision of the production process.

A) CAD

B) CAM

C) CIM

D) CAP

Answer: B Difficulty: Medium

54. All of the following are external stakeholders except:

A) employees.

B) suppliers.

C) customers.

D) creditors.

Answer: A Difficulty: Medium

55. Which of the following is an internal stakeholder?

A) General public

B) Creditors

C) Suppliers

D) Management

Answer: D Difficulty: Medium

56. Which of the following is an external stakeholder in a supermarket?

A) The manager of the produce department

B) The company that supplies the baked goods for the bakery

C) The cashier at the checkout counter

D) The chief financial officer at the supermarket's corporate headquarters

Answer: B Difficulty: Medium

57. Which of the following is an internal stakeholder in a college?

A) The company that employs graduates of the college

B) The company that services the photocopy machines in the library

C) The faculty

D) The organization that accredits various degree programs of the college

Answer: C Difficulty: Medium

58. Which of the following has the shortest product life cycle?

A) Automobile

B) Game show

C) Airplane

D) Wireless communication

Answer: B Difficulty: Medium

59. Which of the following has the longest product life cycle?

A) Clothing style

B) Rap music

C) Television show

D) Theme park

Answer: D Difficulty: Medium

60. All of the following are basic functions of a business except:

A) marketing.

B) external auditing.

C) finance.

D) human resources.

Answer: B Difficulty: Easy

61. Which of the following is not a correct relationship?

1. Production Function—Determine Cost of Products Manufactured
2. Marketing Function—Advertising
3. Finance Function—Borrow Cash
4. Human Resource Function—Lay Off Employees
5. All are a correct relationship

Answer: A Difficulty: Medium

62. The business function designed to determine the wants and needs of consumers is referred to as:

A) marketing.

B) finance.

C) human resources.

D) operations.

Answer: A Difficulty: Easy

63. The business function that is responsible for managing a company's capital resources is referred to as:

A) marketing.

B) human resources.

C) finance.

D) operations.

Answer: C Difficulty: Easy

65. The function of business responsible for providing the information used by other functional areas to perform their jobs is referred to as:

A) production and operations.

B) human resources.

C) marketing.

D) accounting and information systems.

Answer: D Difficulty: Easy

66. Which of the following statements about the use of accounting information by the marketing function is **false**?

A) People in the marketing function use accounting information to help figure selling prices.

B) Accounting information would be needed to appraise different ways of getting the product to customers.

C) Those in the marketing function do not use accounting information; they leave all of that to their accountants.

D) Accounting information is needed for product-selection decisions.

Answer: C Difficulty: Medium

67. Which of the following statements about the use of accounting information by the human resources function is **false**?

A) People in human resources do not use accounting information; they leave all of that to their accountants.

B) Those in human resources use accounting information to figure employees’ pay.

C) The computation of retirement benefits is a human resource function requiring accounting information.

D) Accounting information is needed to evaluate employees' performance.

Answer: A Difficulty: Medium

68. Which of the following is **not** an example of a task performed by someone in the finance function?

A) Selecting projects for the firm to invest in

B) Deciding between debt and equity financing of an acquisition

C) Deciding when to raise new capital

D) Determining the percentage of defective products

Answer: D Difficulty: Medium

69. Which of the following is an example of a liability?

A) An amount that must be paid to a business that sold you some supplies

B) The obligation to transfer the net assets of the business to its owners

C) Equipment purchased by the business on a long-term payment plan

D) The amount contributed to the business by your partner

Answer: A Difficulty: Medium

70. Which of the following is not a liability from accounting purposes?

A) An amount that must be paid to a business that sold you some supplies.

B) You promise to increase wages in the coming year by $1 per hour.

C) You borrow $100,000 to buy a new piece of equipment.

D) Your workers have worked all week and you will pay them next Wednesday.

Answer: B Difficulty: Hard

71. The owner of XYZ Corporation includes his personal liabilities with business liabilities. What accounting concept is being violated?

A) Going concern

B) Business entity

C) Monetary unit

D) Periodicity

Answer: B Difficulty: Medium

72. Which of the following led to the need for financial statements to report to owners of a business?

A) The abandonment of a barter economy

B) The expansion of European businesses into Asia and Africa

C) The absence of day-to-day involvement by owners

D) The increased use by business owners of the cash basis of accounting

Answer: C Difficulty: Medium

73. The primary objective of financial reporting is to:

A) determine taxable income and income tax of a business.

B) provide management with information needed to run the day-to-day operations of a business.

C) keep businesses from going bankrupt.

D) provide information useful for making economic decisions.

Answer: D Difficulty: Medium

74. Which of the following is a characteristic of a limited-liability partnership (LLP)?

A) One partner cannot be held responsible for the inappropriate actions of another partner.

B) Partners' personal liability is limited to the amount they have invested in the business.

C) Each partner is liable for the actions of all other partners.

D) As a separate legal entity, the partnership must pay taxes on income.

Answer: A Difficulty: Medium

75. For information to be useful, it must be relevant. Information is relevant when it:

A) is verifiable.

B) causes users to reach a different decision.

C) mirrors the true economic situation of a business.

D) is understandable.

Answer: B Difficulty: Medium

76. Which of the following is not one of the financial statements required for external

reporting today?

A) Income Statement

B) Balance Sheet

C) Statement of Changes in Working Capital

D) Statement of Changes in Stockholders' Equity

Answer: C Difficulty: Medium

77. Which of the following is a characteristic of the corporate form of business?

A) Mutual agency

B) Separate legal entity

C) Relatively easy to form

D) Owners have unlimited liability for the debts of the business.

Answer: B Difficulty: Medium

78. Which of the following explains why it is relatively easy for corporations to raise large amounts of money?

A) Owners have unlimited liability for the debts of the business.

B) Day-to-day operations are closely supervised by owners.

C) Corporations raise capital by seeking relatively small amounts from many people.

D) Corporations are not subject to as much regulation as partnerships and sole proprietorships.

Answer: C Difficulty: Medium

79. What distinguishes partnerships from sole proprietorships?

A) Involvement in day-to-day business activities by owners

B) The extent of liability for the debts of the business

C) The amount of income tax the entity has to pay

D) Mutual agency (each partner can act for other partners)

Answer: D Difficulty: Medium

80. Which of the following is not a cause for the number of partnerships to be relatively small?

A) Unlimited liability

B) Mutual agency (each partner can act for other partners)

C) Double taxation

D) Difficulty of formation

Answer: D Difficulty: Medium

81. Which of the following is a characteristic of an S Corporation?

A) No taxation of income at the corporate level

B) Responsibility of owners for the firm's debt

C) Unlimited liability

D) Mutual agency

Answer: A Difficulty: Medium

82. Which of the following statements is true?

A) Before the advent of a money economy, the double-entry accounting system was not feasible.

B) Accounting systems developed in the eighteenth century because, by then, most people were literate.

C) Double-entry accounting systems have existed for at least 2,000 years.

D) The double-entry accounting system came about as a result of the Great Depression.

Answer: C Difficulty: Medium

83. Which of the following is true about the relationships between the financial statements?

A) The ending balances of the retained earnings found in the Statement of Changes in Stockholders' Equity are found on the Balance Sheet.

B) The net income reported on the Income Statement is also found on the Balance Sheet.

C) The cash inflows identified on the Statement of Cash Flows are reported on the Income Statement.

D) The cash reported on the Income Statement is reported on the Statement of Cash Flows

Answer: A Difficulty: Hard

84. Which of the following is NOT true about the relationship between the financial

statements?

1. The net income of the firm is added to owners’ equity
2. The cash on the Balance Sheet is found on the Cash Flow Statement
3. The net income of the firm is reported on the Income Statement and the Statement of Changes in Shareholders’ Equity
4. The cash generated by operations on the Statement of Cash Flows is reported as an increase in Retained Earnings on the Statement of Changes in Shareholders’ Equity

Answer: D Difficulty: Hard

85. The Debt to Equity Ratio is measure with which of the following?

A) Total Liabilities/Total Assets

B) Long-term Liabilities/Total Stockholders' Equity

C) Total Stockholders' Equity/Total Liabilities

D) Total Liabilities/Total Stockholders' Equity

Answer: D Difficulty: Medium

86. If the Debt to Equity Ratio is greater than 1 it means:

A) the company is using debt more than owners’ equity to finance its assets

B) the company has less debt than equity

C) the company has more debt than assets

D) the company is using more of its assets to finance its debt

Answer: D Difficulty: Hard

87. The cash held by a company at the end of the year is found on which of the following two statements?

A) Balance Sheet and Income Statement

B) Balance Sheet and Statement of Cash Flows

C) Income Statement and Statement of Cash Flows

D) Statement of Stockholders' Equity and Cash Flows Statement

Answer: B Difficulty: Hard

88. Net income is found on which of the following two statements?

A) Balance Sheet and Income Statement

B) Statement of Changes in Stockholders' Equity and Income Statement

C) Statement of Changes in Stockholders' Equity and Balance Sheet

D) Statement of Cash Flows and Balance Sheet

Answer: B Difficulty: Hard

89. The Report of the Independent Auditor is the opinion of the CPA firm that examined the financial statements of a company and states which of the following?

A) The financial statements are correct as reported.

B) The financial statements are fairly presented.

C) The financial statements are free from fraud.

D) The financial statements are presented fairly in accordance with GAAP.

Answer: D Difficulty: Medium

90. Which of the following is the ratio for calculating the current ratio?

A) Current Assets/Current Liabilities

B) Current Assets/Total Liabilities

C) Current Liabilities/Current Assets

D) Current Assets/Total Sales

Answer: A Difficulty: Medium

91. Investors read the Independent Auditors’ Opinion because:

A) they want to know if financial statements are mathematically correct.

B) they want some assurance that the financial statements are fairly presented.

C) they want to determine if the auditors found any fraud.

D) they want to know if the auditor thinks the company is a good investment.

Answer: B Difficulty: Medium

92. Which of the following is the ratio for calculating the return on sales ratio?

A) Net Income/Total Stockholders' Equity

B) Current Assets/Total Sales

C) Current Liabilities/Total Sales

D) Net Income/Total Sales

Answer: D Difficulty: Medium

93. The current liquidity of a company is measured by which of the following?

A) Return on Sales Ratio

B) Return on Assets Ratio

C) Current Ratio

D) Debt to Equity Ratio

Answer: C Difficulty: Medium

94. In Luca Pacioli's book *The Summa*, the fifteenth century accounting system he describes uses all but one of the following books:

A) Memorandum

B) Ledger

C) Cash Book

D) Journal

Answer: C Difficulty: Hard

95. Which of the following events along with Luca Pacioli’s *The Summa* occurred during the

fifteenth century (1400s)?

A) Columbus’s discovery of America

B) The Revolutionary War

C) The founding of Rome

D) The French Revolution

AU: Answer to question 95 is missing

**ESSAYS**

96. What is an accounting system? Why are accounting systems necessary to run businesses?

Answer:

An accounting system is a system used to identify, analyze, measure, record, summarize, and communicate relevant economic information to interested parties.

Accounting systems are necessary to run businesses for at least two reasons. Accounting systems help to accomplish the important objective of holding individuals and businesses accountable for the resources entrusted to them by others. They also provide information necessary to evaluate and control business transactions.

97. Describe the three primary ownership structures and discuss the advantages and disadvantages of each.

Answer:

**Sole proprietorship**—A business owned by one person whose personal possessions are at risk. Advantages: not sharing the profits. Disadvantages: not sharing the losses and risking personal possessions if the business fails.

**Partnership**—A business owned by two or more individuals whose personal possessions are at risk. Advantages: sharing the workload and the risk of ownership. Disadvantages: mutual agency, sharing the profits, and risking personal possessions if the business fails.

**Corporation**—A business entity that is legally separate and distinct from its owners. Advantages: limited liability and unlimited life. Disadvantages: double taxation.

98. In each of the following situations, choose the accounting concept that pertains: business entity concept, going concern concept, monetary unit concept, or periodicity concept.

(A) A Japanese company reports its earnings in yen.

(B) The owner of a sole proprietorship pays for the real estate taxes on her personal residence from her personal savings rather than from the business's checking account.

(C) A corporation whose stock is traded on the American Stock Exchange prepares a report of its financial condition for the SEC on a quarterly basis.

(D) Mike and Mattie are partners in a shoe repair business. The business is profitable with plans to show increased profitability into the foreseeable future.

Answer:

(A) Monetary unit concept

(B) Business entity concept

(C) Periodicity concept

(D) Going concern concept

99. Describe what constitutes a stakeholder and then identify which of the following would be a stakeholder for a business that uses the corporate business structure. Explain the basis for each of your choices.

A) The Internal Revenue Service

B) The mayor of the town in which the corporation is located

C) The Chief Executive Officer of the company

D) The president of a competing business

Answer:

Stakeholders are persons or entities that have an interest in the outcomes of a company.

A) The Internal Revenue Service is a stakeholder because it will receive income tax from the profits of the corporation.

B) The mayor is a stakeholder because the city he runs is affected by the number of people the corporation employs, the local taxes it pays, and the quality of life it make possible for the towns citizens.

C) The CEO is an internal stakeholder because his financial and personal statuses depend on the success of the corporation he manages.

D) The president of a competing business is a stakeholder because the goods and services provided by the corporation impact his or her ability to compete for clients, customers, and financing.

100. Describe the five functional areas of business. In which of the five functional areas does each of the following individuals work?

(A) The personnel director

(B) The assistant controller

(C) The sales manager

(D) The production manager

(E) The treasurer

Answer:

The five functional areas of business are marketing, human resources, production and operations, finance, and accounting and information systems.

**Marketing**—determines the wants and needs of consumers and devises a system for distributing the goods and services the customers demand.

**Human resources**—is responsible for ensuring that capable employees are given the opportunities to succeed in today's work place.

**Production and operations**—is responsible for planning, organizing, directing, and controlling the operations of the business.

**Finance**—is the functional area responsible for managing the company's capital resources.

**Accounting and information systems**—is the functional area responsible for providing the information for the other functional areas to do their jobs and for reporting the results to interested parties.

(A) Human resources

(B) Accounting and information systems

(C) Marketing

(D) Production and operations

(E) Finance

101. It has been said that the periodicity concept "causes all the problems in accounting." What is the periodicity concept and how does it "cause problems"?

Answer:

The periodicity concept requires business to measure its performance at regular intervals, rather than waiting until the business ceases to operate and then measuring whether it made money. Periodically measuring performance can create measurement problems when the time period measured does not capture a firm's long-term performance. For example, if a business signs a significant contract just days after the end of the fiscal year, that event will not be reported on in financial statements. However, in the long run, the sum of the periodic measures will sum to the performance of the company over time. Therefore, periodic measurement should not be viewed as a single assessment but part of a collection of assessments over time.

102. Compare and contrast the determination of income under the cash and accrual bases of accounting.

Answer:

Under the cash basis of accounting, income is equal to cash received minus cash paid. Under the accrual basis, income is equal to revenues earned minus expenses incurred. Income under accrual accounting is broader because revenues includes the receipt of cash, the right to cash, and/or the right to other resources as a result of rendering services or delivering products. Expenses on the other hand includes the payment of cash, the obligation to pay cash in the future, and/or the delivery of noncash resources to support the firm's operations.

103. List and define the two primary qualities of useful accounting information.

Answer:

Relevance and reliability. Relevant information makes a difference in a decision. Reliable information can be depended on.

104. Why are international accounting standards needed?

Answer:

International accounting standards are needed because businesses are operating and raising capital in many different countries. Currently, most countries have a different set of accounting and reporting standards. This is very confusing to financial statement users and burdensome to businesses. International accounting standards would provide a uniform set of standards and therefore facilitate the efficient allocation of capital worldwide.

105. Describe what the results of each of the following ratios mean.

a. Current Ratio of 2

b. Debt to Equity Ratio of 3

c. Return on Sales of 10%

Answer:

a. A current ratio of 2 means that the company has twice as many current assets as current liabilities and has little risk of not meeting its current obligations.

b. This ratio means that the company has three times as much debt as equity.

c. This ratio means that for every $1 of sales the company is earning $.10 in net income.

**PROBLEMS**

106. Determine each of the following:

If your current ratio is 2 and your current assets are $600,000 what is the amount of your current liabilities?

If your debt to equity ratio is 1.5 and your total liabilities are $200,000 what is your total stockholders' equity?

If your return on sales is 8% and your net income is $2,000,000, how much sales did you generate during the year?

Answer:

A. $600,000/Current Liabilities = 2 Therefore, CL = $300,000

B. $200,000/Total Stockholders' Equity = 1.5 Therefore, Total SE = $133,333

C. $2,400,000/Total Sales = 0.08 Therefore, Total Sales = $30,000,000

107. Hoxie Inc. is an advertising agency and has the following data for the most recent year. Using this data determine Hoxie’s net income. What does the net income represent?

Revenues from Fees $855,000

Cash $25,000

Utilities Expense $52,000

Building $900,000

Notes Payable $300,000

Salaries Expense $125,000

Office Supplies $10,000

Interest Expense $30,000

Office Equipment $200,000

Administrative Expense $75,000

Answer:

Revenues from Fees $855,000

Utilities Expense $ 52,000

Salaries Expense 125,000

Interest Expense 30,000

Administrative Expense 75,000

Total Expense $282,000

Net Income 573,000

The net income represents the increase in the net assets of the firm that belong to the

owners as a result of the ongoing operations of Hoxie Inc.

108. Zeman Dance Hall Inc. sponsors monthly dances and has generated data for the most recent year. Using this data, determine Zeman’s net income. What does the net income represent?

Revenues from admissions to dances $955,000

Utilities Expense $110,000

Fees paid to bands $360,000

Building – Dance Hall $1,300,000

Notes Payable $300,000

Advertising Expense $105,000

Office Supplies $10,000

Instrument Rental Cost $20,000

Office Equipment $200,000

Salaries Expense $150,000

Answer:

Revenues from Fees $955,000

Utilities Expense $110,000

Salaries Expense 150,000

Fees for Bands 360,000

Instrument Rental Expense 20,000

Total Expense 640,000

Net Income $ 315,000

The net income represents the increase in the net assets of the firm that belong to the owners as a result of the ongoing operations of Zeman.

109. Identify each of the following as an Asset, Liability, Owners’ Equity, Revenue, or Expense of the Utica Delivery Company.

Cash

Fees earned from delivery

Building: Office and garage for delivery vehicles

Notes signed to raise cash to buy new delivery truck

Cost of advertising for the year

Cost of gas for the year

Delivery truck

Cost of repair to delivery truck

Cost of insurance on delivery truck

Value of cash and assets contributed by owners to start the business

Cost of salaries for delivery personnel

Cost of cleaning the uniforms of delivery personnel

Office Supplies

Answer:

**Assets:**

Cash

Office Supplies

Building

Delivery Truck

**Liabilities:**

Notes Payable

**Owners Equity:**

Value of cash and assets contributed by owners to start the business.

**Revenues:**

Fees earned from delivery

**Expenses:**

Cost of advertising

Cost of gas for the year

Cost to repair the delivery truck

Cost of insurance for delivery truck

Cost of salaries of delivery personnel

Cost of cleaning uniform for delivery personnel