***Financial Accounting, 10e* (Libby)**

**Chapter 1 Financial Statements and Business Decisions**

1) A business entity's accounting system creates financial accounting reports which are provided to external decision makers.

2) Business managers utilize managerial accounting reports to plan and manage the daily operations.

3) Borrowing money is an investing activity.

4) The balance sheet includes assets, liabilities, and stockholders' equity as of a point in time.

5) Revenue is recognized within the income statement during the period in which cash is collected.

6) Total assets are $37,500, total liabilities are $20,000 and common stock is $10,000; therefore, retained earnings are $7,500.

7) For the current year, net income of Carol Company is $20,000 and dividends declared are $6,000; therefore, retained earnings have increased $26,000 during the year.

8) The income statement is a measure of an entity's economic performance for a period of time.

9) The accounting equation states that Assets = Liabilities + Stockholders' Equity.

10) A decision maker who wants to understand a company's financial statements must carefully read the notes to the financial statements because these disclosures provide useful supplemental information.

11) The financial statement that shows an entity's economic resources and claims against those resources is the balance sheet.

12) Stockholders' equity on the balance sheet includes common stock and retained earnings.

13) The amount of cash paid by a business for dividends would be reported as an operating activity cash flow on the statement of cash flows.

14) A company's retained earnings balance increased $50,000 last year; therefore, net income last year must have been $50,000.

15) Due to the relationships among financial statements, the statement of stockholders' equity links the income statement to the balance sheet.

16) The statement of stockholders' equity explains the change in the retained earnings balance caused by stockholder investments and dividend declarations.

17) The Financial Accounting Standards Board (FASB) has been given the authority by the Securities and Exchange Commission (SEC) to develop generally accepted accounting principles.

18) If a U.S. domestic company does business in a foreign country, the Securities and Exchange Commission (SEC) requires the use of International Financial Reporting Standards (IFRS) for the company's financial reporting in the U.S.

19) In the United States, generally accepted accounting principles are published in the FASB Accounting Standards Codification.

20) The primary responsibility for the content of the financial statements lies with the external auditor.

21) An audit is an examination of the financial statements to ensure that they represent what they claim and to make sure that they are in compliance with generally accepted accounting principles.

22) The auditor can be held liable for malpractice in situations where the investors suffered losses while relying on the financial statements.

23) One of the advantages of a corporation when compared to a partnership is the limited liability of the owners.

24) Which of the following describes the primary objective of the balance sheet?

A) To measure the net income of a business up to a particular point in time.

B) To report the difference between cash inflows and cash outflows for the period.

C) To report the financial position of the reporting entity at a particular point in time.

D) To report the market value of assets, liabilities, and stockholders' equity at a particular point in time.

25) During the current fiscal year, a company had revenues of $400,000, cost of goods sold of $280,000, and an income tax rate of 30 percent on income before income taxes. What was the company's current year net income?

A) $120,000

B) $36,000

C) $84,000

D) $400,000

26) Atlantic Corporation reported the following amounts at the end of the first year of operations

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Common stock | $ | 200,000 |  |
| Sales revenue | $ | 800,000 |  |
| Total assets | $ | 600,000 |  |
| Dividends declared | $ | 40,000 |  |
| Total liabilities | $ | 320,000 |  |

What are the retained earnings of Atlantic at the end of the year, and what amount of expenses were incurred during the year?

A) Retained earnings are $80,000 and expenses incurred totaled $680,000.

B) Retained earnings are $80,000 and expenses incurred totaled $720,000.

C) Retained earnings are $280,000 and expenses incurred totaled $480,000.

D) Retained earnings are $280,000 and expenses incurred totaled $520,000.

27) Which of the following best describes the balance sheet?

A) It includes a listing of assets at their market values.

B) It includes a listing of assets, liabilities, and stockholders' equity at their market values.

C) It provides information pertaining to a company's economic resources and the sources of financing for those resources.

D) It provides information pertaining to a company's liabilities for a period of time.

28) Which of the following statements is correct?

A) Assets on the balance sheet include retained earnings.

B) Retained earnings includes common stock.

C) The balance sheet equation states that assets equal liabilities.

D) A corporation's net income does not necessarily equal its net cash flow from operations.

29) Which of the following correctly describes the various financial statements?

A) An income statement covers a period of time.

B) The cash flow statement is a financial statement at a specific point in time.

C) The balance sheet is a financial statement that covers a period of time.

D) The statement of stockholders' equity is a financial statement at a specific point in time.

30) Which of the following accounts would **not** be reported on the balance sheet?

A) Retained earnings.

B) Inventory.

C) Accounts payable.

D) Dividends.

31) Which of the following would **not** be found on the statement of cash flows?

A) Cost flow from manufacturing activities.

B) Cash flow from operating activities.

C) Cash flow from investing activities.

D) Cash flow from financing activities.

32) Which of the following accounts is **not** a liability on the balance sheet?

A) Retained earnings.

B) Notes payable.

C) Accounts payable.

D) Interest payable.

33) What financial statement would you look at to determine the dividends declared by a business?

A) Income statement.

B) Statement of stockholders' equity.

C) Statement of cash flows.

D) Balance sheet.

34) Which financial statement would you utilize to determine whether a company will be able to pay liabilities which are due in 30 days?

A) Income statement.

B) Balance sheet.

C) Statement of stockholders' equity.

D) Statement of cash flows.

35) Which of the following is considered to be an expense on the income statement?

A) Accounts payable.

B) Notes payable.

C) Wages payable.

D) Cost of goods sold.

36) Which of the following best describes assets?

A) They are equal to liabilities minus stockholders' equity.

B) They are considered to be the economic resources of the business.

C) They are all reported on the balance sheet at their current market value.

D) They equal financing provided by creditors.

37) Which of the following accounts would be reported as assets on the balance sheet?

A) Cash, accounts payable, and notes payable.

B) Cash, retained earnings, and accounts receivable.

C) Cash, accounts receivable, and inventories.

D) Inventories, property and equipment, and common stock.

38) Which of the following statements describes the balance sheet?

A) It reports a company's revenues and expenses.

B) Assets are generally reported on the balance sheet at the cost incurred to acquire them.

C) Stockholders' equity includes only retained earnings.

D) It reports a company's cash flow from operations.

39) Which of the following best describes liabilities and stockholders' equity?

A) They are the sources of financing an entity's assets.

B) They are the economic resources owned by a business entity

C) They are reported on the income statement.

D) They both increase when assets increase.

40) Which of the following equations is the balance sheet equation?

A) Assets + Liabilities = Stockholders' Equity.

B) Assets + Stockholder's Equity = Liabilities.

C) Assets = Liabilities + Stockholders' Equity.

D) Assets = Liabilities + Common Stock.

41) Willie Company's retained earnings increased $20,000 during the current year. What was Willie's current year net income or loss given that Willie declared $25,000 of dividends during this year?

A) Net income was $5,000.

B) Net income was $45,000.

C) Net loss was $45,000.

D) Net loss was $5,000.

42) Which of the following are the components of stockholders' equity on the balance sheet?

A) Common stock and liabilities.

B) Common stock and assets.

C) Retained earnings and dividends.

D) Common stock and retained earnings.

43) Which of the following is represented by elements of the statement of stockholders' equity?

A) Common stock reinvested in the business.

B) Revenues plus dividends and expenses.

C) Earnings not distributed to owners.

D) Financing from creditors and stockholders.

44) Which financial statement would you use to determine a company's earnings performance during an accounting period?

A) Balance sheet.

B) Statement of stockholders' equity.

C) Income statement.

D) Statement of cash flows.

45) Which of the following equations best describes the income statement?

A) Assets − Liabilities = Stockholders' Equity.

B) Net income = Revenues + Expenses.

C) Net income = Revenues − Expenses.

D) Retained earnings = Net Income + Dividends.

46) Lena Company has provided the following data for its 2019 operations (ignore income taxes):

2019 revenues were $99,000.

2019 expenses were $47,800.

Dividends declared and paid during 2019 totaled $9,500.

Total assets at December 31, 2019 were $177,000.

Total liabilities at December 31, 2019 were $89,000.

Common stock at December 31, 2019 was $28,000.

Which of the following is correct?

A) 2019 net income was $41,700.

B) Total stockholders' equity at December 31, 2019 was $236,000.

C) Retained earnings at December 31, 2019 were $60,000.

D) Retained earnings at December 31, 2019 were $41,700.

47) Lorenta Company has provided the following data (ignore income taxes):

2019 revenues were $117,300.

2019 expenses were $47,800.

Dividends declared and paid during 2019 totaled $9,500.

Total assets at December 31, 2019 were $177,000.

Total liabilities at December 31, 2019 were $89,000.

Common stock at December 31, 2019 was $28,000.

Which of the following is **not** correct?

A) 2019 net income was $69,500.

B) Total stockholders' equity at December 31, 2019 was $88,000.

C) Total liabilities and stockholders' equity at December 31, 2019 was $177,000.

D) Retained earnings on December 31, 2019 were $41,700.

48) Madrid Company has provided the following data (ignore income taxes):

2019 revenues were $77,500.

2019 net income was $33,900.

Dividends declared and paid during 2019 totaled $5,700.

Total assets at December 31, 2019 were $217,000.

Total stockholders' equity at December 31, 2019 was $123,000.

Retained earnings at December 31, 2019 were $83,000.

Which of the following is **not** correct?

A) 2019 expenses were $43,600.

B) Total liabilities at December 31, 2019 were $94,000.

C) Retained earnings increased $33,900 during 2019.

D) Common stock at December 31, 2019 was $40,000.

49) Madrid Company has provided the following data (ignore income taxes):

2019 revenues were $77,500.

2019 net income was $33,900.

Dividends declared and paid during 2019 totaled $5,700.

Total assets at December 31, 2019 were $217,000.

Total stockholders' equity at December 31, 2019 was $123,000.

Retained earnings at December 31, 2019 were $83,000.

Which of the following is correct?

A) 2019 expenses were $37,900.

B) Total liabilities at December 31, 2019 were $11,000.

C) Retained earnings increased $28,200 during 2019.

D) Common stock at December 31, 2019 was $206,000.

50) Which of the following is the amount of revenue reported on the income statement of a retail company?

A) The cash collected from customers during the current period.

B) Both cash and credit sales for the period.

C) Cash sales for the period and collections from customers.

D) Cash sales and stockholders' investments.

51) On January 1, 2019, Miller Corporation had retained earnings of $8,000,000. During 2019, Miller reported net income of $1,500,000, declared dividends of $500,000, and issued common stock for $1,000,000. What were Miller's retained earnings on December 31, 2019?

A) $7,000,000.

B) $9,500,000.

C) $9,000,000.

D) $7,500,000.

52) What are the categories of cash flows that appear on a statement of cash flows?

A) Cash flows from investing, financing, and service activities.

B) Cash flows from operating, production, and internal activities.

C) Cash flows from financing, production, and growth activities.

D) Cash flows from operating, investing, and financing activities.

53) When would a company report a net loss on the income statement?

A) When revenues are less than the sum of expenses plus dividends during an accounting period.

B) If assets decreased during an accounting period.

C) If liabilities increased during an accounting period.

D) When expenses exceeded revenues for an accounting period.

54) Which of the following describes the amount of insurance expense reported on the income statement?

A) The amount of cash paid for insurance in the current period.

B) The amount of cash paid for insurance in the current period less any unpaid insurance at the end of the period.

C) The amount of insurance used up (incurred) in the current period to help generate revenue.

D) The amount of cash paid for insurance that is reported within the statement of cash flows.

55) Which of the following would immediately cause a change in a corporation's retained earnings?

A) Net income or net loss and declaration of dividends.

B) Declaration of dividends and issuance of common stock to new stockholders.

C) Net income and issuance of stock to new stockholders.

D) Declaration of dividends and purchase of new machinery.

56) Which of the following describes the operating activities section of a cash flow statement?

A) It provides information about how operations have been financed.

B) It provides information pertaining to dividend payments to stockholders.

C) It provides information with respect to a company's ability to generate cash flows that are directly related to earning income.

D) It provides the net increase or decrease in cash during the period.

57) Within which of the following would you find the inventory method(s) being used by a business entity?

A) Balance sheet.

B) Income statement.

C) Notes to the financial statements.

D) Headings of the financial statements.

58) At the beginning of 2019, a corporation had assets of $270,000 and liabilities of $160,000. During 2019, assets increased $25,000 and liabilities increased $5,000. What was stockholders' equity at December 31, 2019?

A) $140,000.

B) $130,000.

C) $190,000.

D) $80,000.

59) During 2019, Canton Company's assets increased $95,500 and the liabilities decreased $17,300. Canton Company's stockholders' equity at December 31, 2019 was $211,500. What amount was stockholders' equity at January 1, 2019?

A) $98,700.

B) $324,300.

C) $133,300.

D) $289,700.

60) How are creditor and investor claims reported on a balance sheet?

A) The claims of creditors are liabilities and those of investors are assets.

B) The claims of both creditors and investors are liabilities, but only the claims of investors are considered to be long-term.

C) The claims of creditors are reported as liabilities while the claims of investors are recorded as stockholders' equity.

D) The claims of creditors and investors are considered to be essentially equivalent.

61) In what order would the items on the balance sheet appear?

A) Assets, retained earnings, liabilities, and common stock.

B) Common stock, retained earnings, liabilities, and assets.

C) Assets, liabilities, common stock, and retained earnings.

D) Common stock, assets, liabilities, and retained earnings.

62) Which of the following would most likely increase retained earnings?

A) An increase in expenses.

B) An increase in revenues.

C) Declaring a cash dividend.

D) Issuing additional common stock.

63) A company's retained earnings increased $375,000 last year and its assets increased $973,000. The company declared a $79,000 cash dividend during the year. What was last year's net income?

A) $296,000.

B) $375,000.

C) $454,000.

D) $519,000.

64) Which of the following items is not reported as an expense on the income statement?

A) Interest expense.

B) Dividends paid.

C) Selling, general, and administrative expenses.

D) Cost of goods sold.

65) Which of the following has primary responsibility to develop Generally Accepted Accounting Principles?

A) Financial Accounting Standards Board.

B) Company Executives.

C) Securities and Exchange Commission.

D) Public Company Accounting Oversight Board.

66) Which of the following has the legal authority to determine financial reporting in the United States?

A) Financial Accounting Standards Board.

B) American Accounting Association.

C) Securities and Exchange Commission.

D) Public Company Accounting Oversight Board.

67) Which of the following is **not** reported as a liability on a balance sheet?

A) Income taxes payable.

B) Common stock.

C) Accounts payable.

D) Dividends payable.

68) Which of the following transactions increases both cash and net income?

A) Cash receipts from a bank loan.

B) Cash receipts from sale of common stock.

C) Cash receipts from customers for services provided.

D) Cash receipts from cost of goods sold.

69) Which of the following is **not** an alternate title for the financial statement that reports revenues and expenses?

A) Income Statement.

B) Statement of Net Income.

C) Statement of Operations.

D) Statement of Income.

70) A calendar year reporting company preparing its annual financial statements should use the phrase "At December 31, 2020" in the heading of which financial statements?

A) On all of the required financial statements.

B) On the income statement only.

C) On the income statement and balance sheet, but not the statement of cash flows.

D) On the balance sheet only.

71) Which of the following properly describes the impact on the financial statements when a company borrows $20,000 from a local bank?

A) Net income increases $20,000.

B) Assets decrease $20,000.

C) Stockholders' equity increases $20,000.

D) Liabilities increase $20,000.

72) Which of the following would **not** be reported in the operating activities section of a cash flow statement?

A) Cash paid for dividends to stockholders.

B) Cash paid for interest expense.

C) Cash paid for employee wages.

D) Cash received from customers.

73) Which of the following would be reported in the financing activities section of a cash flow statement?

A) Cash paid for dividends to stockholders.

B) Cash paid for interest expense.

C) Cash paid to acquire equipment.

D) Cash received from sale of investments.

74) Which of the following would be reported in the investing activities section of a cash flow statement?

A) Cash received from customers.

B) Cash received from the issue of common stock.

C) Cash paid to repay a bank loan.

D) Cash paid to acquire common stock of another company.

75) Which of the following statements is correct?

A) The payment of a cash dividend reduces net income.

B) Cash received from issuing common stock to stockholders is reported as a financing activity cash flow within the statement of cash flows.

C) Providing services to a customer on account does not impact net income.

D) The purchase of manufacturing equipment is reported within the statement of cash flows as a financing activity.

76) Husky Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled $89,300.

Cash borrowed from banks totaled $31,700.

Cash paid to employees for salaries totaled $32,100.

Cash received from selling Husky common stock to stockholders totaled $41,000.

Cash payments to banks for repayment of money borrowed totaled $7,500.

Cash paid to suppliers totaled $12,500.

Land costing $25,000 was sold for $25,000 cash.

Cash paid for dividends to stockholders totaled $3,300.

How much was Husky's cash flow from operating activities?

A) $47,600.

B) $44,700.

C) $41,400.

D) $37,200.

77) Husky Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled $89,300.

Cash borrowed from banks totaled $31,700.

Cash paid to employees for salaries totaled $32,100.

Cash received from selling Husky common stock to stockholders totaled $41,000.

Cash payments to banks for repayment of money borrowed totaled $7,500.

Cash paid to suppliers totaled $12,500.

Land costing $25,000 was sold for $25,000 cash.

Cash paid for dividends to stockholders totaled $3,300.

How much was Husky's cash flow from financing activities?

A) $72,700.

B) $59,000.

C) $65,200.

D) $61,900.

78) Sparty Corporation has provided the following information for its most recent year of operation:

Revenues earned were $97,000, of which $9,000 were uncollected at the end of the year.

Operating expenses incurred were $39,000, of which $7,000 were unpaid at the end of the year.

Dividends declared were $11,000, of which $3,000 were unpaid at the end of the year.

Income tax expense is $17,400.

What is the amount of net income reported on Sparty's income statement?

A) $32,900.

B) $39,300.

C) $33,600.

D) $40,600.

79) Which of the following statements is correct?

A) Revenues are reported on the income statement regardless of whether the customer has paid for the goods or services.

B) Expenses are reported on the income statement during the period they are paid for.

C) Net income includes a deduction for dividend payments made to stockholders.

D) Net income normally equals the net cash generated by operations.

80) During the current year, Rock Company's cash balance increased from $79,000 to $91,300. Rock's net cash flow from operating activities was $37,300 and its net cash flow from financing activities was $11,100. How much was Rock's net cash flow from investing activities?

A) A net cash flow of $42,900.

B) A net cash flow of ($36,100).

C) A net cash flow of $60,700.

D) A net cash flow of ($60,700).

81) Which of the following statements is **false**?

A) A positive net income results in an increase in retained earnings.

B) The ending retained earnings balance from the retained earnings portion of the statement of stockholders' equity is reported on the balance sheet.

C) The change in the cash balance on the statement of cash flows added to the beginning cash balance equals the ending cash balance.

D) The dividends reported on the statement of stockholders' equity are also reported as dividend expense on the income statement.

82) Which of the following is **not** a consequence to a company resulting from the issuance of their financial statements?

A) The effect on the selling price of their stock.

B) The providing of information to their competitors.

C) The effect of bonus payments to its employees.

D) The providing of information to their auditors.

83) Which of the following statements pertaining to the audit function is **incorrect**?

A) The primary responsibility for the information in the financial statements lies with the auditors.

B) The audit report describes the auditor's opinion of the fairness of the financial statements.

C) An audit ensures that the financial statements conform to generally accepted accounting principles.

D) The auditor is a person who is independent of the reporting company.

84) The International Accounting Standards Board has worked to develop global accounting standards known as:

A) Generally accepted accounting principles.

B) Globally accepted financial standards.

C) International financial reporting standards.

D) Generally accepted international financial standards.

85) An examination of the financial statements of a business to ensure that they conform to generally accepted accounting principles is called:

A) a certification.

B) an audit.

C) a verification.

D) a validation.

86) Which of the following best describes the purpose of an audit?

A) To prove the accuracy of an entity's financial statements.

B) To lend credibility to an entity's financial statements.

C) To audit every transaction that an entity entered into.

D) To establish that a corporation's stock is a sound investment.

87) Why does a company hire independent auditors?

A) To guarantee the accuracy of both annual and quarterly financial statements.

B) To verify the accounting accuracy of every transaction entered into.

C) To report on the fairness of financial statement presentation.

D) The auditors are responsible for the content of the financial statements.

88) Why is the CPA's role in performing audits important to our economic system?

A) The auditors provide direct financial advice to potential investors.

B) The auditors have the primary responsibility for the information contained in financial statements.

C) The auditors issue reports on the accuracy of each financial transaction.

D) The audit of financial statements helps investors and others to know that they can rely on the information presented in the financial statements.

89) Which of the following is **not** one of the three steps taken by a corporation to assure the accuracy of its records?

A) Implementing a system of controls over the company's records and assets.

B) Hiring an independent auditor to report on the fairness of the financial statements.

C) Hiring a financial analyst to ensure the actual results of operations are similar to planned results.

D) Forming a committee made up of board of directors' members to oversee the integrity of the corporation's system of controls and the hiring of the independent auditors.

90) Which of the following groups has primary responsibility for the information contained in the financial statements?

A) The company's management.

B) The company's auditors.

C) The company's investors.

D) SEC.

91) Since 2002, there has been substantial movement toward the adoption of International Financial Reporting Standards (IFRS) issued by the:

A) Financial Accounting Standards Board.

B) Securities and Exchange Commission.

C) International Accounting Standards Board.

D) American Institute of Certified Public Accountants.

92) Which of the following is **not** a formal requirement to become a licensed certified public accountant (CPA)?

A) A college education.

B) Professional experience.

C) Membership in the American Institute of Certified Public Accountants (AICPA).

D) A professional examination.

93) Which of the following is a disadvantage of a corporation when compared to a partnership?

A) The stockholders have limited liability.

B) The corporation is treated as a separate legal entity from the stockholders.

C) The corporation and its stockholders are subject to double taxation.

D) The corporation must account for the transactions of the business as separate and apart from those of the owners.

94) Which of the following statements is true about a sole proprietorship?

A) The owner and the business are separate legal entities but not separate accounting entities.

B) The owner and the business are separate accounting entities but not separate legal entities.

C) The owner and the business are separate legal entities and separate accounting entities.

D) Most large businesses in this country are organized as sole proprietorships.

95) For a business organized as a general partnership, which statement is true?

A) The owners and the business are separate legal entities.

B) Each partner is potentially responsible for the debts of the business.

C) Formation of a partnership requires getting a charter from the state of incorporation.

D) A partnership is not considered to be a separate accounting entity.

96) Which of the following would **not** be reported on a statement of stockholders' equity?

A) Dividend payments.

B) Net income.

C) Beginning retained earnings.

D) Ending retained earnings.

97) Which of the following statements is **true**?

A) Expenses reported on the income statement are equal to the cash paid for operating activities on the statement of cash flows.

B) The statement of cash flows has a relationship with the balance sheet.

C) Dividends paid are reported on the statement of cash flows as an operating cash flow and on the income statement as a financing cash flow.

D) Net income is reported on the income statement but not on the statement of stockholders' equity.

98) The declaration of a $5,000 dividend by JLH Company would be reported on which of JLH's financial statements?

A) The income statement only.

B) The statement of stockholders' equity.

C) The balance sheet only.

D) The statement of cash flows.

99) Which of the following transactions affects both retained earnings and net income?

A) The payment of a cash dividend.

B) The recording of revenue for services provided.

C) The issuance of stock in exchange for cash.

D) The borrowing of money from a bank.

100) Which of the following transactions affects both the income statement and the statement of cash flows?

A) Selling stock in exchange for cash.

B) Declaring and paying a cash dividend.

C) Selling a product to a customer which creates an account receivable.

D) Paying employee wages as they are earned.

101) With regard to relationships among financial statements, which of the following is true?

A) The results of the statement of stockholders' equity affect the income statement.

B) The income statement affects the results of the statement of stockholders' equity.

C) The statement of cash flows affects the income statement.

D) The results of the statement of cash flows affect the statement of stockholders' equity.

102) Which of the following would **not** be found within the investing activities section of the statement of cash flows?

A) Cash paid to purchase a building for manufacturing facilities.

B) Cash received from the sale of common stock to stockholders.

C) Cash received from the sale of equipment used in manufacturing a product.

D) Cash paid to purchase land.

103) Which of the following is primarily responsible for the information provided in the financial statements?

A) Chief Executive Officer.

B) External Auditors.

C) Board of Directors.

D) Internal Accounting Staff.

104) Which of the following does **not** represent a professional accounting certification?

A) Certified Management Accountant.

B) Certified Public Accountant.

C) Certified Internal Auditor.

D) Certified Tax Accountant.

105) Determine the missing amounts for each independent case below. Assume the amounts shown are at the end of the company's first year of operation.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Company Name** | **Total Revenue** | **Total Assets** | **Total Expenses** | **Total Liabilities** | **Net Income (Loss)** | **Stockholders' Equity** |
| Randolph | $600,000` | $450,000 | $350,000 | $130,000 |  |  |
| Newman | $105,000 |  |  | $80,000 | $10,000 | $75,000 |
| Wiseman |  | $190,000 | $70,000 |  | ($30,000) | $100,000 |
| Martin | $180,000 | $215,000 | $115,000 | $75,000 |  |  |
| VanTassel |  |  | $55,000 | $75,000 | $19,000 | $79,000 |

106) Gail's Greenhouse, Inc., a small retail store that sells houseplants, started business on January 1, 2019. At the end of January 2019, the following information was available:

|  |  |
| --- | --- |
| Sales of plants for cash | $75,000 |
| Sales of plants for credit (not yet collected) | 15,000 |
| Cost of plants which were sold and paid for during January | 45,000 |

Expenses during January incurred, and paid for, during January unless otherwise noted:

|  |  |
| --- | --- |
| Salaries | $5,000 |
| Telephone | 250 |
| Office supplies (all used) | 150 |
| Electricity | 300 |
| Rent on the store for January, 2019 (will not be paid until February, 2019) | 1,000 |

A. Using the above information, prepare the income statement for Gail's Greenhouse for the month ended January 31, 2019.

B. What is the amount of cash flows provided by operating activities to be presented on the statement of cash flows?

107) Indicate on which financial statement you would expect to find each of the following. If an item can be found on more than one statement, list each statement.

|  |  |
| --- | --- |
| Example: Cash | Balance Sheet and Statement of Cash Flows |
| Notes payable | \_\_\_\_\_\_\_\_ |
| Wages expense | \_\_\_\_\_\_\_\_ |
| Cost of goods sold | \_\_\_\_\_\_\_\_ |
| Sales revenue | \_\_\_\_\_\_\_\_ |
| Inventory | \_\_\_\_\_\_\_\_ |
| Income tax expense | \_\_\_\_\_\_\_\_ |
| Dividends declared | \_\_\_\_\_\_\_\_ |
| Retained earnings | \_\_\_\_\_\_\_\_ |
| Accounts payable | \_\_\_\_\_\_\_\_ |
| Equipment | \_\_\_\_\_\_\_\_ |

108) For each of the following items that appear on the balance sheet, identify each as an asset (A), liability (L), or element of stockholders' equity (SE). For any item that would not appear on the balance sheet, write the letter, N.

|  |  |
| --- | --- |
| Retained earnings | \_\_\_\_\_\_\_ |
| Accounts payable | \_\_\_\_\_\_\_ |
| Selling expense | \_\_\_\_\_\_\_ |
| Common stock | \_\_\_\_\_\_\_ |
| Accounts receivable | \_\_\_\_\_\_\_ |
| Income tax expense | \_\_\_\_\_\_\_ |
| Dividends | \_\_\_\_\_\_\_ |
| Property and equipment | \_\_\_\_\_\_\_ |

109) Rose Corporation began operations on January 2, 2019. During 2019, Rose made cash and credit sales totaling $500,000 and collected $420,000 in cash from its customers. Rose purchased inventory costing $250,000, paid $15,000 for dividends and the cost of goods sold was $210,000. Also, the corporation incurred the following expenses during 2019:

|  |  |
| --- | --- |
| Salary expense | $80,000 |
| Interest expense | 5,000 |
| Insurance expense | 4,000 |
| Supplies expense | 6,000 |
| Income tax expense | 34,000 |

1. Prepare an income statement showing revenues, expenses, income before income taxes, income tax expense, and net income for the year ended December 31, 2019.

2. Based on the above information, what is the amount of accounts receivable on the balance sheet prepared as of December 31, 2019?

3. Based on the above information, what is the amount of retained earnings on the balance sheet prepared as of December 31, 2019?

110) Cosmos Corporation was established on December 31, 2018, by a group of investors who invested a total of $1,000,000 for shares of the new corporation's common stock. During the month of January 2019, Cosmos provided services to customers for which the total revenue was $100,000. Of this amount, $10,000 had not been collected by the end of January. Cosmos recorded salary expense of $20,000, of which 90% had been paid by the end of the month; rent expense of $5,000, which had been paid on January 1; and other expenses of $12,000, which had been paid by check. On January 31, 2019, Cosmos purchased a van by paying cash of $30,000. There were no other transactions that affected cash.

1. In which section of the statement of cash flows would the amount of cash paid for rent be reported?

2. In which section of the statement of cash flows would the amount of cash paid for the van purchase be reported?

3. By how much did Cosmos's cash increase or decrease during January 2019?

4. What was Cosmos's net income or net loss (after income tax expense) for the month of January 2019? The income tax expense was $18,900.

5. Explain why the net increase or decrease in cash for a business generally will be different than the net income, or net loss, for the same period.

111) Parker Pool Supply, Inc. reported the following items for the year ended December 31, 2019:

|  |  |
| --- | --- |
| Wages and salary expense | $527,000 |
| Cost of goods sold | 1,124,000 |
| Rent expense | 395,000 |
| Sales revenue | 2,564,000 |
| Interest expense | 30,000 |
| Income tax expense | 121,000 |
| Accounts receivable | 27,000 |

Prepare an income statement for the year ended December 31, 2019.

112) National Shops, Inc. reported the following amounts on its balance sheet as of December 31, 2019:

|  |  |
| --- | --- |
| Inventory | $325,000 |
| Notes payable | 100,000 |
| Cash | 150,000 |
| Common stock | 750,000 |
| Net property, plant and equipment | 600,000 |
| Accounts receivable | 30,000 |
| Accounts payable | 45,000 |
| Retained earnings | ? |

Prepare an income statement for the year ended December 31, 2019.

113) During 2019, Winterset Company performed services for which customers paid or promised to pay a total of $587,000. Of this amount, $552,000 had been collected by year-end. Winterset paid $340,000 in cash for employee wages and owed the employees $15,000 at the end of the year for work that had been done but had not paid for. Winterset paid interest expense of $3,000 and $195,000 for other service expenses. The income tax rate was 35%, and income taxes had not yet been paid at the end of the year. Winterset declared and paid dividends of $20,000. There were no other transactions that affected cash.

1. What was the amount of the increase or decrease in cash during the year?

2. Prepare an income statement for Winterset for the year 2019.

3. At the beginning of 2019, Winterset's retained earnings were $90,000. Prepare a statement of stockholders' equity with only a column for retained earnings.

114) Alfred Company manufactures men's clothing. During 2019, the company reported the following items that affected cash. Indicate whether each of these items is a cash flow from operating activities (O), investing activities (I), or financing activities (F).

|  |  |
| --- | --- |
| Purchased equipment by paying cash: | \_\_\_ |
| Collected cash on account from customers: | \_\_\_ |
| Paid dividends to stockholders: | \_\_\_ |
| Paid cash for supplies: | \_\_\_ |
| Paid suppliers for fabric: | \_\_\_ |
| Borrowed money from bank on a note payable: | \_\_\_ |
| Paid interest to bank on the note payable: | \_\_\_ |
| Paid wages to employees: | \_\_\_ |
| Sold shares of common stock to new stockholders: | \_\_\_ |

115) Fulton Company was established at the beginning of 2019 when several investors paid a total of $200,000 to purchase Fulton common stock. No additional investments in common stock were made during the year. By December 31, 2019, Fulton had cash on hand of $45,000, office equipment of $40,000, inventory of $156,000, and accounts payable of $10,000. Sales for the year were $812,000. Of this amount, customers still owed $20,000. Fulton declared and paid dividends of $25,000 to its stockholders during 2019.

1. Based on the information above, prepare a balance sheet for Fulton Company at December 31, 2019. In the process of preparing the balance sheet, you must calculate the ending balance in retained earnings.

2. Prepare a statement of stockholders' equity for the year ended December 31, 2019.

3. What was the amount of Fulton's net income for 2019?

4. Was Fulton successful during its first year in operation? Explain your answer.

116) For Glad Rags Shops, the following information is available for the year ended December 31, 2019:

|  |  |
| --- | --- |
| Sales revenue | $4,200,000 |
| Cost of goods sold | 2,650,000 |
| Salaries expense | 500,000 |
| Rent expense | 300,000 |
| Administrative expense | 250,000 |

Dividends declared $10,000

The income tax expense is $150,000.

Prepare an income statement for Glad Rags Shops.

117) Baseline Corporation was formed two years ago to manufacture fitness equipment. It has been profitable and is growing rapidly. It currently has 150 stockholders and 90 employees; most of the employees own at least a few shares of Baseline's common stock. The company has received financing from two banks. It will sell additional shares of common stock within the next three months and will also seek additional loans and hire new employees to support its continued growth.

1. Explain who relies on the information in financial statements prepared by Baseline Corporation.

2. Why is compliance with generally accepted accounting principles and accuracy in accounting important for Baseline?

118) A new accountant who prepared the financial statements for Saltech Company at the end of its first year of operations made several errors. For each of the following items, indicate whether the income statement and balance sheet are affected by the error, and also the amount by which the respective financial statement is affected. (For example, an error might cause revenues and net income on the income statement and retained earnings and accounts receivable and assets on the balance sheet to be overstated by x dollars). Ignore the effects of income taxes.

Items to determine which financial statement is affected, the error amount, and whether the account is overstated or understated:

a. The company had sales for cash of $3,000,000. It also had sales on account of $1,800,000 that had been collected by the end of the year, and sales on account of $200,000 that are expected to be collected early the following year. The accountant reported total sales revenue of $4,800,000.

b. The company had total inventories of $600,000 at the end of the year. Of this amount, inventory reported at $30,000 was obsolete and will have to be scrapped. The balance sheet prepared by the accountant showed total inventories of $600,000.

c. The company has a bank loan for which interest expense during the year of $10,000 will be paid early in January of the next year. The accountant recorded neither the interest expense nor the interest payable.

d. An insurance policy was listed as an asset of $6,000 at the beginning of the year. The entire amount of the policy was for the current year and the policy has expired. The accountant took no action to recognize the expiration of the policy.

119) Larson Company ends its recent year of operations with $3,500,000 in retained earnings. During the year Larson's net income exceeded its dividend declarations by $200,000. Larson's dividend declarations were $25,000 greater than the dividend payments.

How much was Larson Company's beginning retained earnings?

120) As of January 1, 2019, a corporation had assets of $340,000 and liabilities of $120,000. During 2019, assets increased $45,000 and liabilities increased $15,000.

121) Laker Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled $99,300.

Cash borrowed from banks totaled $42,700.

Cash paid to employees totaled $23,300.

Cash paid for rent totaled $3,100.

Cash received from selling an investment in Husky stock totaled $73,000.

Cash payments to banks for repayment of money borrowed totaled $9,700.

Cash paid for operating expenses totaled $11,200.

Land costing $75,000 was sold for $75,000 cash.

Cash paid for dividend payments to stockholders totaled $7,700.

Calculate Laker's net cash flow from financing activities.

122) Laker Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled $99,300.

Cash borrowed from banks totaled $42,700.

Cash paid to employees totaled $23,300.

Cash paid for rent totaled $3,100.

Cash received from selling an investment in Husky stock totaled $73,000.

Cash payments to banks for repayment of money borrowed totaled $9,700.

Cash paid for operating expenses totaled $11,200.

Land costing $75,000 was sold for $75,000 cash.

Cash paid for dividend payments to stockholders totaled $7,700.

Calculate Laker's net cash flow from investing activities.

123) Laker Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled $99,300.

Cash borrowed from banks totaled $42,700.

Cash paid to employees totaled $23,300.

Cash paid for rent totaled $3,100.

Cash received from selling an investment in Husky stock totaled $73,000.

Cash payments to banks for repayment of money borrowed totaled $9,700.

Cash paid for operating expenses totaled $11,200.

Land costing $75,000 was sold for $75,000 cash.

Cash paid for dividend payments to stockholders totaled $7,700.

Calculate Laker's net cash flow from operating activities.

124) During 2019, Rock Company's cash balance increased from $57,000 to $94,300. Rock's net cash flow from operating activities was $26,900 and its net cash flow from financing activities was $13,700.

Calculate Rock's net cash flow from investing activities.

125) Moss Company has provided the following data:

2019 revenues were $87,500.

2019 expenses were $43,900.

Dividends declared and paid by Moss during 2019 totaled $15,700.

Total assets on December 31, 2019 were $227,000.

Total stockholders' equity on December 31, 2019 was $133,000.

Common stock on December 31, 2019 was $93,000.

Calculate the beginning retained earnings balance.

126) Describe the roles of the Securities and Exchange Commission and The Financial Accounting Standards Board with respect to the development of Generally Accepted Accounting Principles.

127) Describe the elements of the balance sheet equation.

128) Describe the role of a company's management and the external auditors in the accounting communication process.

129) What is the objective of the cash flow statement? Describe the three cash flow classifications that are reported within the cash flow statement.

130) How is net income in the income statement different from the cash flow from operating activities in the cash flow statement?