## SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM’S TAXONOMY

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### True-False Statements

| 1. | 1 | K | 9. | 2 | K | 17. | 4 | K | 25. | 6 | K |
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| 2. | 1 | K | 10. | 2 | K | 18. | 4 | K | 26. | 6 | K |
|----|---|---|----|---|---|-----|---|---|-----|---|---|-----|---|---|
| 3. | 1 | C | 11. | 2 | K | 19. | 4 | K | 27. | 7 | K |
|----|---|---|----|---|---|-----|---|---|-----|---|---|-----|---|---|
| 4. | 2 | K | 12. | 2 | K | 20. | 5 | C | 28. | 7 | C |
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| 5. | 2 | K | 13. | 2 | K | 21. | 5 | K | 29. | 7 | C |
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| 6. | 2 | C | 14. | 2 | K | 22. | 5 | K | 30. | 7 | C |
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| 7. | 2 | K | 15. | 3 | K | 23. | 5 | K | 31. | 8 | K |
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| 8. | 2 | C | 16. | 4 | K | 24. | 6 | K | 32. | 8 | K |

### Multiple Choice Questions

| 41. | 1 | K | 66. | 4 | C | 91. | 6 | C | 116. | 7 | K |
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### Brief Exercises

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*a* This question also appears in an appendix to the chapter.

*st This question also appears in the Study Guide.

*a This question also appears in a self-test at the student companion website.
### SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM’S TAXONOMY

#### Exercises

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### SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE

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1 - 2  Test Bank for Accounting Principles, Eighth Edition
SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE

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Note: TF = True-False BE = Brief Exercise C = Completion
MC = Multiple Choice Ex = Exercise

The chapter also contains one set of ten Matching questions and six Short-Answer Essay questions.

CHAPTER STUDY OBJECTIVES

1. Explain what accounting is. Accounting is an information system that identifies, records, and communicates the economic events of an organization to interested users.

2. Identify the users and uses of accounting. The major users and uses of accounting are: (a) Management uses accounting information in planning, controlling, and evaluating business operations. (b) Investors (owners) decide whether to buy, hold, or sell their financial interests on the basis of accounting data. (c) Creditors (suppliers and bankers) evaluate the risks of granting credit or lending money on the basis of accounting information. Other groups that use accounting information are taxing authorities, regulatory agencies, customers, labor unions, and economic planners.

3. Understand why ethics is a fundamental business concept. Ethics are the standards of conduct by which actions are judged as right or wrong. If you cannot depend on the honesty of the individuals you deal with, effective communication and economic activity would be impossible, and information would have no credibility.

4. Explain generally accepted accounting principles and the cost principle. Generally accepted accounting principles are a common set of standards used by accountants. The cost principle states that companies should record assets at their cost.

5. Explain the monetary unit assumption and the economic entity assumption. The monetary unit assumption requires that companies include in the accounting records only transaction data that can be expressed in terms of money. The economic entity assumption
requires that the activities of each economic entity be kept separate from the activities of its owner and other economic entities.

6. **State the accounting equation, and define assets, liabilities, and owner's equity.** The basic accounting equation is:

   \[ \text{Assets} = \text{Liabilities} + \text{Owner's Equity} \]

   Assets are resources owned by a business. Liabilities are creditorship claims on total assets. Owner's equity is the ownership claim on total assets.

7. **Analyze the effects of business transactions on the accounting equation.** Each business transaction must have a dual effect on the accounting equation. For example, if an individual asset increases, there must be a corresponding (1) decrease in another asset, or (2) increase in a specific liability, or (3) increase in owner's equity.

8. **Understand the four financial statements and how they are prepared.** An income statement presents the revenues and expenses of a company for a specified period of time. An owner's equity statement summarizes the changes in owner's equity that have occurred for a specific period of time. A balance sheet reports the assets, liabilities, and owner's equity of a business at a specific date. A statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

9. **Explain the career opportunities in accounting.** Accounting offers many different jobs in fields such as public and private accounting, government, and forensic accounting. Accounting is a popular major because there are many different types of jobs, with unlimited potential for career advancement.

**TRUE-FALSE STATEMENTS**

1. Owners of business firms are the only people who need accounting information.

2. Transactions that can be measured in dollars and cents are recorded in the financial information system.

3. The hiring of a new company president is an economic event recorded by the financial information system.

4. Management of a business enterprise is the major external user of information.

5. Accounting communicates financial information about a business enterprise to both internal and external users.

6. Accounting information is used only by external users with a financial interest in a business enterprise.

7. Financial statements are the major means of communicating accounting information to interested parties.

8. Bookkeeping and accounting are one and the same because the bookkeeping function includes the accounting process.
9. The origins of accounting are attributed to Luca Pacioli, a famous mathematician.

10. The study of accounting will be useful only if a student is interested in working for a profit-oriented business firm.

11. Private accountants are accountants who are not employees of business enterprises.

12. The study of accounting is not useful for a business career unless your career objective is to become an accountant.

13. A working knowledge of accounting is not relevant to a lawyer or an architect.

14. Expressing an opinion as to the fairness of the information presented in financial statements is a service performed by CPAs.


16. The primary accounting standard-setting body in the United States is the International Accounting Standards Board.

17. The Financial Accounting Standards Board is a part of the Securities and Exchange Commission.


19. The cost and fair market value of an asset are the same at the time of acquisition and in all subsequent periods.

20. Even though a partnership is not a separate legal entity, for accounting purposes the partnership affairs should be kept separate from the personal activities of the owners.

21. A partnership must have more than one owner.

22. The economic entity assumption requires that the activities of an entity be kept separate and distinct from the activities of its owner and all other economic entities.

23. The monetary unit assumption states that transactions that can be measured in terms of money should be recorded in the accounting records.

24. In order to possess future service potential, an asset must have physical substance.

25. Owners' claims to total business assets take precedence over the claims of creditors because owners invest assets in the business and are liable for losses.

26. The basic accounting equation states that Assets = Liabilities.

27. Accountants record both internal and external transactions.

28. Internal transactions do not affect the basic accounting equation because they are economic events that occur entirely within one company.
29. The purchase of store equipment for cash reduces the owner's equity by an equal amount.

30. The purchase of office equipment on credit increases total assets and total liabilities.

31. The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments of a company during a period.

32. Net income for the period is determined by subtracting total expenses and drawings from total revenues.

Additional True-False Questions

33. Identifying is the process of keeping a chronological diary of events measured in dollars and cents.

34. Management consulting includes examining the financial statements of companies and expressing an opinion as to the fairness of their presentation.

35. Accountants do not have to worry about issues of ethics.

36. At the time an asset is acquired, cost and value should be the same.

37. The monetary unit assumption requires that all dollar amounts be rounded to the nearest dollar.

38. The basic accounting equation is in balance when the creditor and ownership claims against the business equal the assets.

39. External transactions involve economic events between the company and some other enterprise or party.

40. In the owner's equity statement, revenues are listed first, followed by expenses, and net income (or net loss).

Answers to True-False Statements

|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
MULTIPLE CHOICE QUESTIONS

41. Accountants refer to an economic event as a
   a. purchase.
   b. sale.
   c. transaction.
   d. change in ownership.

42. The process of recording transactions has become more efficient because
   a. fewer events can be quantified in financial terms.
   b. computers are used in processing business events.
   c. more people have been hired to record business transactions.
   d. business events are recorded only at the end of the year.

43. Communication of economic events is the part of the accounting process that involves
   a. identifying economic events.
   b. quantifying transactions into dollars and cents.
   c. preparing accounting reports.
   d. recording and classifying information.

44. Which of the following events cannot be quantified into dollars and cents and recorded as
    an accounting transaction?
   a. The appointment of a new CPA firm to perform an audit.
   b. The purchase of a new computer.
   c. The sale of store equipment.
   d. Payment of income taxes.

45. The use of computers in recording business events
   a. has made the recording process more efficient.
   b. does not use the same principles as manual accounting systems.
   c. has greatly impacted the identification stage of the accounting process.
   d. is economical only for large businesses.

46. The accounting process involves all of the following except
   a. identifying economic transactions that are relevant to the business.
   b. communicating financial information to users by preparing financial reports.
   c. recording nonquantifiable economic events.
   d. analyzing and interpreting financial reports.

47. The accounting process is correctly sequenced as
   a. identification, communication, recording.
   b. recording, communication, identification.
   c. identification, recording, communication.
   d. communication, recording, identification.

48. Which of the following techniques are not used by accountants to interpret and report
    financial information?
   a. Graphs
   b. Special memos for each class of external users
   c. Charts
   d. Ratios
49. Which of the following would not be considered an internal user of accounting data for the XYZ Company?
   a. President of the company
   b. Production manager
   c. Merchandise inventory clerk
   d. President of the employees’ labor union

50. Which of the following would not be considered an external user of accounting data for the XYZ Company?
   a. Internal Revenue Service Agent
   b. Management
   c. Creditors
   d. Customers

51. Which of the following would not be considered internal users of accounting data for a company?
   a. The president of a company
   b. The controller of a company
   c. Creditors of a company
   d. Salesmen of the company

52. Which of the following is an external user of accounting information?
   a. Labor unions
   b. Finance directors
   c. Company officers
   d. Managers

53. Which one of the following is not an external user of accounting information?
   a. Regulatory agencies
   b. Customers
   c. Investors
   d. All of these are external users

54. Bookkeeping differs from accounting in that bookkeeping primarily involves which part of the accounting process?
   a. Identification
   b. Communication
   c. Recording
   d. Analysis

55. All of the following are services offered by public accountants except
   a. budgeting.
   b. auditing.
   c. tax planning.
   d. consulting.

56. Which list below best describes the major services performed by public accountants?
   a. Bookkeeping, mergers, budgets
   b. Employee training, auditing, bookkeeping
   c. Auditing, taxation, management consulting
   d. Cost accounting, production scheduling, recruiting
57. Preparing tax returns and engaging in tax planning is performed by
   a. public accountants only.
   b. private accountants only.
   c. both public and private accountants.
   d. IRS accountants only.

58. A private accountant can perform many activities in a business organization but would *not* work in
   a. budgeting.
   b. accounting information systems.
   c. external auditing.
   d. tax accounting.

59. The origins of accounting are generally attributed to the work of
   a. Christopher Columbus.
   b. Abner Doubleday.
   c. Luca Pacioli.

60. Financial accounting provides economic and financial information for all of the following *except*
   a. creditors.
   b. investors.
   c. managers.
   d. other external users.

61. The final step in solving an ethical dilemma is to
   a. identify and analyze the principal elements in the situation.
   b. recognize an ethical situation.
   c. identify the alternatives and weigh the impact of each alternative on stakeholders.
   d. recognize the ethical issues involved.

62. The first step in solving an ethical dilemma is to
   a. identify and analyze the principal elements in the situation.
   b. identify the alternatives.
   c. recognize an ethical situation and the ethical issues involved.
   d. weigh the impact of each alternative on various stakeholders.

63. Ethics are the standards of conduct by which one's actions are judged as
   a. right or wrong.
   b. honest or dishonest.
   c. fair or unfair.
   d. all of these.

64. Generally accepted accounting principles are
   a. income tax regulations of the Internal Revenue Service.
   b. standards that indicate how to report economic events.
   c. theories that are based on physical laws of the universe.
   d. principles that have been proven correct by academic researchers.
65. The cost principle requires that when assets are acquired, they be recorded at
   a. appraisal value.
   b. exchange price paid.
   c. selling price.
   d. list price.

66. The cost of an asset and its fair market value are
   a. never the same.
   b. the same when the asset is sold.
   c. irrelevant when the asset is used by the business in its operations.
   d. the same on the date of acquisition.

67. The body of theory underlying accounting is not based on
   a. physical laws of nature.
   b. concepts.
   c. principles.
   d. definitions.

68. The private sector organization involved in developing accounting principles is the
   a. Feasible Accounting Standards Body.
   b. Financial Accounting Studies Board.
   c. Financial Accounting Standards Board.

69. The SEC and FASB are two organizations that are primarily responsible for establishing
gen generally accepted accounting principles. It is true that
   a. they are both governmental agencies.
   b. the SEC is a private organization of accountants.
   c. the SEC often mandates guidelines when no accounting principles exist.
   d. the SEC and FASB rarely cooperate in developing accounting standards.

70. GAAP stands for
   a. Generally Accepted Auditing Procedures.
   b. Generally Accepted Accounting Principles.
   c. Generally Accepted Auditing Principles.
   d. Generally Accepted Accounting Procedures.

71. Which of the following is not a characteristic of the cost principle?
   a. Reliability
   b. Subjectivity
   c. Objectivity
   d. Verifiability

72. The ACE Company has five plants nationwide that cost $100 million. The current market
value of the plants is $500 million. The plants will be recorded and reported as assets at
   a. $100 million.
   b. $600 million.
   c. $400 million.
   d. $500 million.
73. All of the following are advantages cost has over other valuations except that it
   a. is reliable.
   b. can be objectively measured.
   c. can be verified.
   d. is relevant.

74. The proprietorship form of business organization
   a. must have at least three owners in most states.
   b. represents the largest number of businesses in the United States.
   c. combines the records of the business with the personal records of the owner.
   d. is characterized by a legal distinction between the business as an economic unit and the owner.

75. The economic entity assumption requires that the activities
   a. of different entities can be combined if all the entities are corporations.
   b. must be reported to the Securities and Exchange Commission.
   c. of a sole proprietorship cannot be distinguished from the personal economic events of its owners.
   d. of an entity be kept separate from the activities of its owner.

76. A business organized as a corporation
   a. is not a separate legal entity in most states.
   b. requires that stockholders be personally liable for the debts of the business.
   c. is owned by its stockholders.
   d. terminates when one of its original stockholders dies.

77. The partnership form of business organization
   a. is a separate legal entity.
   b. is a common form of organization for service-type businesses.
   c. enjoys an unlimited life.
   d. has limited liability.

78. Which of the following is not an advantage of the corporate form of business organization?
   a. Limited liability of stockholders
   b. Transferability of ownership
   c. Unlimited personal liability for stockholders
   d. Unlimited life

79. A small neighborhood barber shop that is operated by its owner would likely be organized as a
   a. joint venture.
   b. partnership.
   c. corporation.
   d. proprietorship.

80. Joan and Sara met at law school and decide to start a small law practice after graduation. They agree to split revenues and expenses evenly. The most common form of business organization for a business such as this would be a
   a. joint venture.
   b. partnership.
   c. corporation.
   d. proprietorship.
81. Which of the following is true regarding the corporate form of business organization?
   a. Corporations are the most prevalent form of business organization.
   b. Corporate businesses are generally smaller in size than partnerships and proprietorships.
   c. The revenues of corporations are greater than the combined revenues of partnerships and proprietorships.
   d. Corporations are separate legal entities organized exclusively under federal law.

82. A basic assumption of accounting that requires activities of an entity be kept separate from the activities of its owner is referred to as the
   a. stand alone concept.
   b. monetary unit assumption.
   c. corporate form of ownership.
   d. economic entity assumption.

83. Deb Smith is the proprietor (owner) of Smitty's, a retailer of athletic apparel. When recording the financial transactions of Smitty's, Deb does not record an entry for a car she purchased for personal use. Deb took out a personal loan to pay for the car. What accounting concept guides Deb's behavior in this situation?
   a. Pay back concept
   b. Economic entity assumption
   c. Cash basis concept
   d. Monetary unit assumption

84. A basic assumption of accounting assumes that the dollar is
   a. unrelated to business transactions.
   b. a poor measure of economic activities.
   c. the common unit of measure for all business transactions.
   d. useless in measuring an economic event.

85. The assumption that the unit of measure remains sufficiently constant over time is part of the
   a. economic entity assumption.
   b. cost principle.
   c. historical cost principle.
   d. monetary unit assumption.

86. A business that enjoys limited liability is a
   a. proprietorship.
   b. partnership.
   c. corporation.
   d. sole proprietorship.

87. A problem with the monetary unit assumption is that
   a. the dollar has not been stable over time.
   b. the dollar has been stable over time.
   c. the dollar is a common medium of exchange.
   d. it is impossible to account for international transactions.
88. The common characteristic possessed by all assets is
a. long life.
b. great monetary value.
c. tangible nature.
d. future economic benefit.

89. Owner's equity is best depicted by the following:
a. Assets = Liabilities.
b. Liabilities + Assets.
c. Residual equity + Assets.
d. Assets – Liabilities.

90. The basic accounting equation may be expressed as
b. Assets – Liabilities = Owner's Equity.
c. Assets = Liabilities + Owner's Equity.
d. all of these.

91. Liabilities
a. are future economic benefits.
b. are existing debts and obligations.
c. possess service potential.
d. are things of value used by the business in its operation.

92. Liabilities of a company would not include
a. notes payable.
b. accounts payable.
c. wages payable.
d. cash.

93. Liabilities of a company are owed to
a. debtors.
b. benefactors.
c. creditors.
d. underwriters.

94. Owner's equity can be described as
a. creditorship claim on total assets.
b. ownership claim on total assets.
c. benefactor's claim on total assets.
d. debtor claim on total assets.

95. Owner's equity is often referred to as
a. residual equity.
b. leftovers.
c. spoils.
d. second equity.
96. When an owner withdraws cash or other assets from a business for personal use, these withdrawals are termed
   a. depletions.
   b. consumptions.
   c. drawings.
   d. a credit line.

97. Capital is
   a. an owner's permanent investment in the business.
   b. equal to liabilities minus owner's equity.
   c. equal to assets minus owner's equity.
   d. equal to liabilities plus drawings.

98. Revenues would not result from
   a. sale of merchandise.
   b. initial investment of cash by owner.
   c. performance of services.
   d. rental of property.

99. Sources of increases to owner's equity are
   a. additional investments by owners.
   b. purchases of merchandise.
   c. withdrawals by the owner.
   d. expenses.

100. The basic accounting equation cannot be restated as
    a. Assets – Liabilities = Owner's Equity.
    b. Assets – Owner's Equity = Liabilities.
    c. Owner's Equity + Liabilities = Assets.
    d. Assets + Liabilities = Owner's Equity.

101. Owner's equity is decreased by all of the following except
    a. owner's investments.
    b. owner's withdrawals.
    c. expenses.
    d. owner's drawings.

102. A net loss will result during a time period when
    a. liabilities exceed assets.
    b. drawings exceed investments.
    c. expenses exceed revenues.
    d. revenues exceed expenses.

103. If total liabilities increased by $15,000 and owner's equity increased by $5,000 during a period of time, then total assets must change by what amount and direction during that same period?
    a. $20,000 decrease
    b. $20,000 increase
    c. $25,000 increase
    d. $30,000 increase
104. If total liabilities decreased by $15,000 and owner’s equity increased by $5,000 during a period of time, then total assets must change by what amount and direction during that same period?
   a. $20,000 increase
   b. $10,000 decrease
   c. $10,000 increase
   d. $15,000 decrease

105. If total liabilities decreased by $25,000 and owner’s equity increased by $5,000 during a period of time, then total assets must change by what amount and direction during that same period?
   a. $20,000 decrease
   b. $20,000 increase
   c. $25,000 increase
   d. $30,000 increase

106. If total liabilities decreased by $15,000 and owner’s equity decreased by $5,000 during a period of time, then total assets must change by what amount and direction during that same period?
   a. $20,000 increase
   b. $10,000 increase
   c. $20,000 decrease
   d. $10,000 decrease

107. If total liabilities increased by $14,000 during a period of time and owner’s equity decreased by $6,000 during the same period, then the amount and direction (increase or decrease) of the period’s change in total assets is a(n)
   a. $14,000 increase.
   b. $20,000 increase.
   c. $8,000 decrease.
   d. $8,000 increase.

108. The accounting equation for Goodboys Enterprises is as follows:

   \[
   \text{Assets} = \text{Liabilities} + \text{Owner's Equity}
   \]

   \[
   \$120,000 = \$60,000 + \$60,000
   \]

   If Goodboys purchases office equipment on account for $12,000, the accounting equation will change to

   \[
   \text{Assets} = \text{Liabilities} + \text{Owner's Equity}
   \]

   \[
   \$120,000 = \$60,000 + \$60,000
   \]

   a. $120,000 = $60,000 + $60,000
   b. $132,000 = $60,000 + $72,000
   c. $132,000 = $66,000 + $66,000
   d. $132,000 = $72,000 + $60,000

109. As of June 30, 2008, Houston Company has assets of $100,000 and owner’s equity of $5,000. What are the liabilities for Houston Company as of June 30, 2008?
   a. $85,000
   b. $90,000
   c. $95,000
   d. $100,000
110. Owner's equity is increased by
   a. drawings.
   b. revenues.
   c. expenses.
   d. liabilities.

111. Owner's equity is decreased by
   a. assets.
   b. revenues.
   c. expenses.
   d. liabilities.

112. If total liabilities increased by $4,000, then
   a. assets must have decreased by $4,000.
   b. owner's equity must have increased by $4,000.
   c. assets must have increased by $4,000, or owner's equity must have decreased by
      $4,000.
   d. assets and owner's equity each increased by $2,000.

113. Collection of a $500 Accounts Receivable
   a. increases an asset $500; decreases an asset $500.
   b. increases an asset $500; decreases a liability $500.
   c. decreases a liability $500; increases owner's equity $500.
   d. decreases an asset $500; decreases a liability $500.

114. Revenues are
   a. the cost of assets consumed during the period.
   b. gross increases in owner's equity resulting from business activities.
   c. the cost of services used during the period.
   d. actual or expected cash outflows.

115. If an individual asset is increased, then
   a. there must be an equal decrease in a specific liability.
   b. there must be an equal decrease in owner's equity.
   c. there must be an equal decrease in another asset.
   d. none of these is possible.

116. If services are rendered for credit, then
   a. assets will decrease.
   b. liabilities will increase.
   c. owner's equity will increase.
   d. liabilities will decrease.

117. If expenses are paid in cash, then
   a. assets will increase.
   b. liabilities will decrease.
   c. owner's equity will increase.
   d. assets will decrease.
118. If an owner makes a withdrawal of cash from a proprietorship, then
   a. there has been a violation of accounting principles.
   b. owner's equity will increase.
   c. owner's equity will decrease.
   d. there will be a new liability showing the owner owes money to the business.

119. If supplies that have been purchased are used in the course of business, then
   a. a liability will increase.
   b. an asset will increase.
   c. owner's equity will decrease.
   d. owner's equity will increase.

120. As of December 31, 2008, Anders Company has assets of $35,000 and owner's equity of $20,000. What are the liabilities for Anders Company as of December 31, 2008?
   a. $15,000
   b. $10,000
   c. $25,000
   d. $20,000

121. Which of the following events is not a business transaction?
   a. Investment of cash by the owner
   b. Hired employees
   c. Incurred utility expenses for the month
   d. Earned revenue for services provided

122. Net income results when
   a. Assets > Liabilities.
   b. Revenues = Expenses.
   c. Revenues > Expenses.
   d. Revenues < Expenses.

123. Owner's capital at the end of the period is equal to
   a. owner's capital at the beginning of the period plus net income minus liabilities.
   b. owner's capital at the beginning of the period plus net income minus drawings.
   c. net income.
   d. assets plus liabilities.

124. A balance sheet shows
   a. revenues, liabilities, and owner's equity.
   b. expenses, drawings, and owner's equity.
   c. revenues, expenses, and drawings.
   d. assets, liabilities, and owner's equity.

125. An income statement
   a. summarizes the changes in owner's equity for a specific period of time.
   b. reports the changes in assets, liabilities, and owner's equity over a period of time.
   c. reports the assets, liabilities, and owner's equity at a specific date.
   d. presents the revenues and expenses for a specific period of time.
126. If the owner's equity account increases from the beginning of the year to the end of the year, then
   a. net income is less than owner drawings.
   b. a net loss is less than owner drawings.
   c. additional owner investments are less than net losses.
   d. net income is greater than owner drawings.

Use the following information for questions 127–129.

Jimmy's Car Repair Shop started the year with total assets of $270,000 and total liabilities of $180,000. During the year, the business recorded $450,000 in car repair revenues, $255,000 in expenses, and Jimmy withdrew $45,000.

127. Jimmy's Capital balance at the end of the year was
   a. $240,000.
   b. $225,000.
   c. $285,000.
   d. $195,000.

128. The net income reported by Jimmy's Car Repair Shop for the year was
   a. $150,000.
   b. $195,000.
   c. $90,000.
   d. $405,000.

129. Jimmy's Capital balance changed by what amount from the beginning of the year to the end of the year?
   a. $45,000
   b. $195,000
   c. $90,000
   d. $150,000

130. The balance sheet is frequently referred to as
   a. an operating statement.
   b. the statement of financial position.
   c. the statement of cash flows.
   d. the statement of owner's equity.

131. The primary purpose of the statement of cash flows is to report
   a. a company's investing transactions.
   b. a company's financing transactions.
   c. information about cash receipts and cash payments of a company.
   d. the net increase or decrease in cash.

132. All of the financial statements are for a period of time except the
   a. income statement.
   b. owner's equity statement.
   c. balance sheet.
   d. statement of cash flows.
133. The ending owner’s equity amount is shown on
   a. the balance sheet only.
   b. the owner’s equity statement only.
   c. both the income statement and the owner’s equity statement.
   d. both the balance sheet and the owner’s equity statement.

134. Benson Company began the year with owner’s equity of $175,000. During the year, the company recorded revenues of $250,000, expenses of $190,000, and had owner drawings of $20,000. What was Benson’s owner’s equity at the end of the year?
   a. $255,000
   b. $215,000
   c. $405,000
   d. $235,000

135. Ed Dexter began the Dexter Company by investing $20,000 of cash in the business. The company recorded revenues of $185,000, expenses of $160,000, and had owner drawings of $10,000. What was Dexter’s net income for the year?
   a. $15,000
   b. $35,000
   c. $25,000
   d. $45,000

136. Jenner Company began the year with owner’s equity of $15,000. During the year, Jenner received additional owner investments of $21,000, recorded expenses of $60,000, and had owner drawings of $4,000. If Jenner’s ending owner’s equity was $46,000, what was the company’s revenue for the year?
   a. $70,000
   b. $74,000
   c. $91,000
   d. $95,000

137. Janzen Company began the year with owner’s equity of $217,000. During the year, Janzen received additional owner investments of $294,000, recorded expenses of $840,000, and had owner drawings of $56,000. If Janzen’s ending owner’s equity was $531,000, what was the company’s revenue for the year?
   a. $860,000
   b. $916,000
   c. $1,154,000
   d. $1,210,000

Use the following information for questions 138-139.

Benny’s Repair Shop started the year with total assets of $100,000 and total liabilities of $80,000. During the year, the business recorded $210,000 in revenues, $110,000 in expenses, and owner drawings of $20,000.

138. Owner’s equity at the end of the year was
   a. $120,000.
   b. $100,000.
   c. $80,000.
   d. $90,000.
139. The net income reported by Benny’s Repair Shop for the year was
   a. $80,000.
   b. $100,000.
   c. $60,000.
   d. $190,000.

Use the following information for questions 140–141.

Berwick Company compiled the following financial information as of December 31, 2008:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$140,000</td>
</tr>
<tr>
<td>Berwick, Capital (1/1/08)</td>
<td>105,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>40,000</td>
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<tr>
<td>Expenses</td>
<td>125,000</td>
</tr>
<tr>
<td>Cash</td>
<td>35,000</td>
</tr>
<tr>
<td>Berwick, Drawings</td>
<td>10,000</td>
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<tr>
<td>Supplies</td>
<td>5,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>20,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>15,000</td>
</tr>
</tbody>
</table>

140. Berwick’s assets on December 31, 2008 are
   a. $235,000.
   b. $170,000.
   c. $80,000.
   d. $95,000.

141. Berwick’s owner’s equity on December 31, 2008 is
   a. $105,000.
   b. $110,000.
   c. $80,000.
   d. $120,000.

142. Ironton Company’s owner’s equity at the beginning of August 2008 was $300,000. During
   the month, the company earned net income of $60,000 and owner’s drawings were
   $20,000. At the end of August 2008, what is the balance in owner’s equity?
   a. $260,000
   b. $300,000
   c. $340,000
   d. $380,000

143. On January 1, 2008, Jackson Company reported owner’s equity of $470,000. During the
   year, the owner withdrew cash of $20,000. At December 31, 2008, the balance in owner’s
   equity was $500,000. What amount of net income or net loss would the company report
   for 2008?
   a. Net income of $30,000
   b. Net loss of $50,000
   c. Net income of $10,000
   d. Net income of $50,000
Use the following information for questions 144–146.

Jenkins Catering started the year with total assets of $20,000 and total liabilities of $5,000. During the year, the business recorded $16,000 in catering revenues and $8,000 in expenses. Jenkins made an additional investment of $3,000 and withdrew cash of $5,000 during the year.

144. The owner's equity at the end of the year was
   a. $21,000.
   b. $18,000.
   c. $8,000.
   d. $2,000.

145. The net income reported by Jenkins Catering for the year was
   a. $16,000.
   b. $11,000.
   c. $8,000.
   d. $3,000.

146. Owner's equity changed by what amount from the beginning of the year to the end of the year?
   a. $15,000
   b. $14,000
   c. $6,000
   d. $3,000

147. During the year 2008, Toronto Enterprises earned revenues of $45,000, had expenses of $25,000, purchased assets with a cost of $5,000 and had owner drawings of $3,000. Net income for the year is
   a. $45,000.
   b. $20,000.
   c. $17,000.
   d. $15,000.

148. At October 1, Bennington Enterprises reported owner's equity of $35,000. During October, no additional investments were made and the company earned net income of $4,000. If owner's equity at October 31 totals $32,000, what amount of owner drawings were made during the month?
   a. $0
   b. $1,000
   c. $3,000
   d. $7,000

149. At October 1, Bennington Enterprises reported owner's equity of $35,000. During October, no additional investments were made and the company posted a net loss of $3,000. If owner's equity at October 31 totals $32,000, what amount of owner drawings were made during the month?
   a. $0
   b. $1,000
   c. $3,000
   d. $7,000
150. At October 1, Bennington Enterprises reported owner’s equity of $35,000. During October, the owner made additional investments of $2,000 and the company earned net income of $6,000. If owner’s equity at October 31 totals $40,000, what amount of owner drawings were made during the month?
   a. $0
   b. $3,000
   c. $4,000
   d. $5,000

151. At October 1, Bennington Enterprises reported owner’s equity of $35,000. During October, the owner made additional investments of $5,000 and the company posted a net loss of $3,000. If owner’s equity at October 31 totals $35,000, what amount of owner drawings were made during the month?
   a. $0
   b. $2,000
   c. $3,000
   d. $5,000

**Additional Multiple Choice Questions**

152. Which of the following is *not* part of the accounting process?
   a. Recording
   b. Identifying
   c. Financial decision making
   d. Communicating

153. The first part of the accounting process is
   a. communicating.
   b. identifying.
   c. processing.
   d. recording.

154. Keeping a systematic, chronological diary of events that are measured in dollars and cents is called
   a. communicating.
   b. identifying.
   c. processing.
   d. recording.

155. Auditing is
   a. the examination of financial statements by a CPA in order to express an opinion on their fairness.
   b. a part of accounting that involves only recording of economic events.
   c. an area of accounting that involves such activities as cost accounting, budgeting, and accounting information systems.
   d. conducted by the Securities and Exchange Commission to ensure that registered financial statements are presented fairly.
156. Internal users of accounting information include all of the following except
a. company officers.
b. investors.
c. marketing managers.
d. production supervisors.

157. The organization(s) primarily responsible for establishing generally accepted accounting principles is(are) the

<table>
<thead>
<tr>
<th>FASB</th>
<th>SEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>no</td>
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</tr>
<tr>
<td>yes</td>
<td>no</td>
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<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

158. The primary accounting standard-setting body in the United States is the
b. International Accounting Standards Board.
c. Internal Revenue Service.

159. A proprietorship is a business
a. owned by one person.
b. owned by two or more persons.
c. organized as a separate legal entity under state corporation law.
d. owned by a governmental agency.

160. A net loss will result during a time period when
a. assets exceed liabilities.
b. assets exceed owner's equity.
c. expenses exceed revenues.
d. revenues exceed expenses.

161. The Ryder's Uptown Grill received a bill of $400 from the Erml Advertising Agency. The owner, John Ryder, is postponing payment of the bill until a later date. The effect on specific items in the basic accounting equation is
a. a decrease in Cash and an increase in Accounts Payable.
b. a decrease in Cash and an increase in J. Ryder, Capital.
c. an increase in Accounts Payable and a decrease in J. Ryder, Capital.
d. a decrease in Accounts Payable and an increase in J. Ryder, Capital.

162. James Company purchases $600 of equipment from Mundelein Inc. for cash. The effect on the components of the basic accounting equation of James Company is
a. an increase in assets and liabilities.
b. a decrease in assets and liabilities.
c. no change in total assets.
d. an increase in assets and a decrease in liabilities.
163. Morreale Beaver Company buys a $12,000 van on credit. The transaction will affect the
   a. income statement only.
   b. balance sheet only.
   c. income statement and owner's equity statement only.
   d. income statement, owner's equity statement, and balance sheet.

Answers to Multiple Choice Questions

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<td>b</td>
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<td>c</td>
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<td>75</td>
<td>d</td>
<td>93</td>
<td>c</td>
<td>111</td>
<td>c</td>
<td>129</td>
<td>d</td>
<td>147</td>
<td>b</td>
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<td>a58</td>
<td>c</td>
<td>76</td>
<td>c</td>
<td>94</td>
<td>b</td>
<td>112</td>
<td>c</td>
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<td>148</td>
<td>d</td>
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</tbody>
</table>

BRIEF EXERCISES

BE 164

Match the following external users of financial accounting information with the type of decision that user will make with the information.

a. Creditor
b. Investor
c. Regulatory Agency
d. Internal Revenue Service

______  (1) Is the company operating within prescribed guidelines?

______  (2) Is the company complying with tax laws?

______  (3) Is the company able to pay its debts?

______  (4) Is the company a good investment?
Solution 164  (3 min.)
1. c
2. d
3. a
4. b

BE 165
Match the following terms and definitions.

a. Accounts receivable
c. Accounts payable
b. Creditor
d. Note payable

_____ (1) Amounts due from customers
_____ (2) Amounts owed to suppliers for goods and services purchased
_____ (3) Amounts owed to bank
_____ (4) Party to whom money is owed

Solution 165  (3 min.)
1. a
2. c
3. d
4. b

BE 166
Indicate which of these items is an asset (A), liability (L) or owner's equity (OE) account.

_____ (1) Supplies
_____ (2) Klein, Drawing
_____ (3) Building
_____ (4) Note Payable
_____ (5) Taxes Payable

Solution 166  (3 min.)
1. Assets (A)
2. Owner's equity (OE)
3. Asset (A)
4. Liability (L)
5. Liability (L)
BE 167

Use the accounting equation to answer the following questions.
1. West Wind Sails Co. has total assets of $120,000 and total liabilities of $35,000. What is owner's equity?
2. Mercy Family Center has total assets of $225,000 and owner's equity of $105,000. What are total liabilities?
3. Cucina Med Restaurant has total liabilities of $40,000 and owner's equity of $95,000. What are total assets?

Solution 167  (5 min.)
1. $120,000 – $35,000 = $85,000 owner's equity
2. $225,000 – $105,000 = $120,000 total liabilities
3. $40,000 + $95,000 = $135,000 total assets

BE 168

Determine the missing items.

\[
\text{Assets} = \text{Liabilities} + \text{Owner's Equity}
\]

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$75,000</td>
<td>$52,000</td>
<td>(a)</td>
</tr>
<tr>
<td>(b)</td>
<td>$28,000</td>
<td>$34,000</td>
</tr>
<tr>
<td>$84,000</td>
<td>(c)</td>
<td>$55,000</td>
</tr>
</tbody>
</table>

Solution 168  (5 min.)

a. $23,000
b. $62,000
c. $29,000

BE 169

Classify each of these items as an asset (A), liability (L), or owner’s equity (OE).

1. Accounts receivable
2. Accounts payable
3. Bonds, Capital
4. Office supplies
5. Utilities expense
6. Cash
7. Note payable
8. Equipment
Solution 169  (5 min.)

1. A  
2. L  
3. OE  
4. A  
5. OE  
6. A  
7. L  
8. A

BE 170

Identify the impact on the accounting equation of each of the following transactions.
1. Purchase office supplies on account.
2. Paid secretary weekly salary.
3. Purchased office furniture for cash.
4. Received monthly utility bill to be paid at later time.

Solution 170  (5 min.)

1. Increase assets and increase liabilities.
2. Decrease assets and decrease owner’s equity.
3. Increase assets and decrease assets.
4. Increase liabilities and decrease owner’s equity.

BE 171

Balance sheet amounts as of December 31, 2008 for Lesley’s Tutoring Service are listed below. Prepare a balance sheet in good form.

<table>
<thead>
<tr>
<th>Accounts Payable</th>
<th>$ 200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>1,000</td>
</tr>
<tr>
<td>Cash</td>
<td>500</td>
</tr>
<tr>
<td>Lesley, Capital</td>
<td></td>
</tr>
</tbody>
</table>

Solution 171  (5 min.)

LESLEY’S TUTORING SERVICE
Balance Sheet
December 31, 2008

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities and Owner’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash $ 500</td>
<td>Accounts Payable $ 200</td>
</tr>
<tr>
<td>Accounts Receivable 1,000</td>
<td>Lesley, Capital 1,300</td>
</tr>
<tr>
<td>Total assets $1,500</td>
<td>Total liabilities and Owner’s equity $1,500</td>
</tr>
</tbody>
</table>
BE 172
Identify whether the following items would be reported on the income statement (IS) or balance sheet (BS).

1. Cash
2. Service Revenue
3. Notes Payable
4. Interest Expense
5. Accounts Receivable

Solution 172 (3 min.)
1. Balance Sheet (BS)
2. Income Statement (IS)
3. Balance Sheet (BS)
4. Income Statement (IS)
5. Balance Sheet (BS)

BE 173
Use the following information to calculate for the year ended December 31, 2008 (a) net income (net loss), (b) ending owner’s equity, and (c) total assets.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplies</td>
<td>$ 1,000</td>
</tr>
<tr>
<td>Revenues</td>
<td>$23,000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>12,000</td>
</tr>
<tr>
<td>Cash</td>
<td>15,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>9,000</td>
</tr>
<tr>
<td>Drawings</td>
<td>1,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>3,000</td>
</tr>
<tr>
<td>Notes payable</td>
<td>1,000</td>
</tr>
<tr>
<td>Beginning Capital</td>
<td>5,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>6,000</td>
</tr>
</tbody>
</table>

Solution 173 (5 min.)
(a) $11,000
(b) $3,000
(c) $25,000

BE 174
Listed below in alphabetical order are the balance sheet items of Mowen Company at December 31, 2008. Prepare a balance sheet and include a complete heading.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$ 6,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>15,000</td>
</tr>
<tr>
<td>Building</td>
<td>96,000</td>
</tr>
<tr>
<td>Cash</td>
<td>11,000</td>
</tr>
<tr>
<td>Mowen, Capital</td>
<td>121,000</td>
</tr>
<tr>
<td>Office equipment</td>
<td>5,000</td>
</tr>
</tbody>
</table>
Solution 174  (5 min.)

MOWEN COMPANY
Balance Sheet
December 31, 2008

ASSETS

Cash $  11,000
Accounts receivable 15,000
Office equipment 5,000
Building 96,000
Total assets $127,000

LIABILITIES AND OWNER’S EQUITY

Liabilities
Accounts payable $ 6,000

Owner’s equity
Mowen, Capital 121,000
Total liabilities and owner’s equity $127,000

EXERCISES

Ex. 175
Below is a list of important abbreviations widely used in business. For each abbreviation give the full designation.

1. CPA _______________________________________________________
2. IRS ______________________________________________________
3. FBI ______________________________________________________
4. FASB _____________________________________________________
5. GAAP _____________________________________________________
6. SEC _____________________________________________________
Solution 175  (5 min.)
1. Certified Public Accountant
2. Internal Revenue Service
3. Federal Bureau of Investigation
4. Financial Accounting Standards Board
5. Generally Accepted Accounting Principles
6. Securities and Exchange Commission

Ex. 176
Determine the missing amount for each of the following.
\[
\text{Assets} = \text{Liabilities} + \text{Owner's Equity}
\]
1. (a) $50,000 $95,000
2. $125,000 (b) $85,000
3. $140,000 $65,000 (c)

Solution 176  (5 min.)
1. (a) = $145,000 ($50,000 + $95,000)
2. (b) = $40,000 ($125,000 - $85,000)
3. (c) = $75,000 ($140,000 - $65,000)

Ex. 177
For the items listed below, fill in the appropriate code letter to indicate whether the item is an asset, liability, or owner's equity item.

<table>
<thead>
<tr>
<th>Code</th>
<th>Asset</th>
<th>Liability</th>
<th>Owner's Equity</th>
</tr>
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<tbody>
<tr>
<td>A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>L</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OE</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

_____ 1. Rent Expense _____ 6. Cash
_____ 2. Office Equipment _____ 7. Accounts Receivable
_____ 3. Accounts Payable _____ 8. Dan Pine, Drawing
_____ 5. Insurance Expense _____ 10. Notes Payable

Solution 177  (5 min.)
1. OE 6. A
2. A 7. A
3. L 8. OE
4. OE 9. OE
5. OE 10. L
Ex. 178
At the beginning of the year, Yates Company had total assets of $550,000 and total liabilities of $200,000. Answer the following questions viewing each situation as being independent of the others.
(1) If total assets increased $200,000 during the year, and total liabilities decreased $75,000, what is the amount of owner's equity at the end of the year?

(2) During the year, total liabilities increased $230,000 and owner's equity decreased $90,000. What is the amount of total assets at the end of the year?

(3) If total assets decreased $40,000 and owner's equity increased $130,000 during the year, what is the amount of total liabilities at the end of the year?

Solution 178  (5 min.)

<table>
<thead>
<tr>
<th></th>
<th>Total Assets</th>
<th>Total Liabilities</th>
<th>Owner's Equity</th>
</tr>
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<tbody>
<tr>
<td>Beginning</td>
<td>$550,000</td>
<td>$200,000</td>
<td>$350,000</td>
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<tr>
<td>Change</td>
<td>200,000</td>
<td>(75,000)</td>
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<tr>
<td>Ending</td>
<td>$750,000</td>
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<td>$625,000 (1)</td>
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<table>
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<tr>
<th></th>
<th>Total Assets</th>
<th>Total Liabilities</th>
<th>Owner's Equity</th>
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<tr>
<td>Beginning</td>
<td>$550,000</td>
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<td>$350,000</td>
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<tr>
<td>Change</td>
<td>230,000</td>
<td>(90,000)</td>
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<tr>
<td>Ending</td>
<td>$690,000 (2)</td>
<td>$430,000</td>
<td>$260,000</td>
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<table>
<thead>
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<th>Total Assets</th>
<th>Total Liabilities</th>
<th>Owner's Equity</th>
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</thead>
<tbody>
<tr>
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<td>$200,000</td>
<td>$350,000</td>
</tr>
<tr>
<td>Change</td>
<td>(40,000)</td>
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<td>$130,000</td>
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<tr>
<td>Ending</td>
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<td>$30,000 (3)</td>
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</table>

Ex. 179
Jimmy's Carpet Cleaning has the following balance sheet items:
- Van
- Accounts Payable
- Cash
- Cleaning Supplies
- Accounts Receivable
- Notes Payable
- J. Fine, Capital
- J. Fine, Drawing
- Equipment

Identify which items are

- (1) Assets
- (2) Liabilities
- (3) Owner's Equity

Solution 179  (5 min.)

(1) Assets—Van, Cash, Cleaning Supplies, Accounts Receivable, Equipment
(2) Liabilities—Accounts Payable, Notes Payable
(3) Owner's Equity—J. Fine, Capital, J. Fine, Drawing
Ex. 180

On June 1, 2008, Gore Company prepared a balance sheet that shows the following:

<table>
<thead>
<tr>
<th>Assets (no cash)</th>
<th>Liabilities</th>
<th>Owner's Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>( $100,000 )</td>
<td>( $70,000 )</td>
<td>( $30,000 )</td>
</tr>
</tbody>
</table>

Shortly thereafter, all of the assets were sold for cash. How would the balance sheet appear immediately after the sale of the assets for cash for each of the following cases?

<table>
<thead>
<tr>
<th>Cash Received for the Assets</th>
<th>Balances Immediately After Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets ( - ) Liabilities ( = ) Owner's Equity</td>
</tr>
<tr>
<td>Cash A ( $110,000 )</td>
<td>( $110,000 ) ( - ) ( $70,000 ) ( = ) ( $40,000 )</td>
</tr>
<tr>
<td>Cash B ( 100,000 )</td>
<td>( $100,000 ) ( - ) ( $70,000 ) ( = ) ( $30,000 )</td>
</tr>
<tr>
<td>Cash C ( 90,000 )</td>
<td>( $90,000 ) ( - ) ( $70,000 ) ( = ) ( $20,000 )</td>
</tr>
</tbody>
</table>

Solution 180 (5 min.)

<table>
<thead>
<tr>
<th>Cash Received for the Assets</th>
<th>Balances Immediately After Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets ( - ) Liabilities ( = ) Owner's Equity</td>
</tr>
<tr>
<td>Cash A ( $110,000 )</td>
<td>( $110,000 ) ( - ) ( $70,000 ) ( = ) ( $40,000 )</td>
</tr>
<tr>
<td>Cash B ( 100,000 )</td>
<td>( $100,000 ) ( - ) ( $70,000 ) ( = ) ( $30,000 )</td>
</tr>
<tr>
<td>Cash C ( 90,000 )</td>
<td>( $90,000 ) ( - ) ( $70,000 ) ( = ) ( $20,000 )</td>
</tr>
</tbody>
</table>

Ex. 181

At the beginning of 2008, Clemens Company had total assets of \( \$550,000 \) and total liabilities of \( \$330,000 \). Answer each of the following questions.

1. If total assets increased \( \$60,000 \) and owner's equity decreased \( \$90,000 \) during the year, determine the amount of total liabilities at the end of the year.

2. During the year, total liabilities decreased \( \$75,000 \) and owner's equity increased \( \$50,000 \). Compute the amount of total assets at the end of the year.

3. If total assets decreased \( \$100,000 \) and total liabilities increased \( \$55,000 \) during the year, determine the amount of owner's equity at the end of the year.

Solution 181 (5 min.)

1. Ending Total Liabilities = \( \$550,000 + \$60,000 \) \( - \) \( \$550,000 - \$330,000 - \$90,000 \)
   \( = \$610,000 - \$130,000 = \$480,000 \)

2. Ending Total Assets = \( \$330,000 - \$75,000 \) \( + \) \( \$550,000 - \$330,000 + \$50,000 \)
   \( = \$255,000 + \$270,000 = \$525,000 \)

3. Ending Owner's Equity = \( \$550,000 - \$100,000 \) \( - \) \( \$330,000 + \$55,000 \)
   \( = \$450,000 - \$385,000 = \$65,000 \)
Ex. 182

Compute the missing amount in each category of the accounting equation.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Owner's Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) $349,000</td>
<td>$ ?</td>
<td>$143,000</td>
</tr>
<tr>
<td>(b) $223,000</td>
<td>$ 79,000</td>
<td>$ ?</td>
</tr>
<tr>
<td>(c) $ ?</td>
<td>$253,000</td>
<td>$325,000</td>
</tr>
</tbody>
</table>

Solution 182 (5 min.)

(a) $206,000 ($349,000 – $143,000 = $206,000).
(b) $144,000 ($223,000 – $79,000 = $144,000).
(c) $578,000 ($253,000 + $325,000 = $578,000).

Ex. 183

From the following list of selected accounts taken from the records of Grayson Clinic, identify those that would appear on the balance sheet.

a. Meg Grayson, Capital
b. Patient Revenue
c. Land
d. Wages Expense
e. Notes Payable
f. Accounts Payable
g. Cash
h. Rent Expense
i. Medical Supplies
j. Utilities Expense

Solution 183 (5 min.)

a, c, e, f, g, i

Ex. 184

For each of the following, indicate whether the transaction affects revenue (R), expense (E), owner’s drawing (D), owner’s investment (I), or no effect on owner’s equity (NOE).

1. Made an investment to start the business.
2. Billed customers for services performed.
3. Purchased equipment on account.
4. Paid monthly rent.
5. Withdrew cash for personal use.

Solution 184 (5 min.)

1. Investment (I)
2. Revenue (R)
3. No effect (NOE)
4. Expense (E)
5. Drawing (D)
Presented below is a balance sheet for Jim Dixon Lawn Service at December 31, 2008.

**JIM DIXON LAWN SERVICE**
**Balance Sheet**
**December 31, 2008**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities and Owner's Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td><strong>Liabilities</strong></td>
</tr>
<tr>
<td>$13,000</td>
<td>Accounts payable $ 8,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>Notes payable 15,000</td>
</tr>
<tr>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>Owner's equity 16,000</td>
</tr>
<tr>
<td>9,000</td>
<td>Jim Dixon, Capital</td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
</tr>
<tr>
<td>11,000</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>Total liabilities &amp; owner's equity $39,000</td>
</tr>
<tr>
<td>$39,000</td>
<td>$39,000</td>
</tr>
</tbody>
</table>

The following additional data are available for the year which began on January 1: All expenses (excluding supplies expense) total $6,000. Supplies on January 1, were $11,000 and $5,000 of supplies were purchased during the year. Net income for the year was $8,000 and drawings were $6,000.

**Instructions**
Determine the following:  (Show all computations.)
1. Supplies used during the year.
2. Total expenses for the year.
3. Service revenues for the year.

**Solution 185**  (10 min.)

1. **Computation of Supplies Used:**
   - Beginning Supplies, Jan. 1 $11,000
   - Add: Purchases 5,000
   - Less: Ending Supplies, Dec. 31 (9,000)
   - Equals: Supplies Used $ 7,000

2. **Computation of Total Expenses:**
   - All Expenses (excluding supplies expense) $ 6,000
   - Plus: Supplies Used 7,000
   - Total Expenses $13,000

3. **Computation of Revenues:**
   - Net Income $ 8,000
   - Plus: Total Expenses 13,000
   - Total Revenues $21,000

4. **Computation of Dixon, Capital on January 1:**
   - Capital, December 31 $16,000
   - Plus: Drawings 6,000
   - Less: Net Income (8,000)
   - Capital, January 1 $14,000
Ex. 186

Analyze the transactions of a business organized as a proprietorship described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (−) to indicate a decrease.

<table>
<thead>
<tr>
<th>Assets</th>
<th>=</th>
<th>Liabilities</th>
<th>+</th>
<th>Owner's Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Received cash for services rendered.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Purchased office equipment on credit.</td>
<td></td>
<td></td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>3. Paid employees’ salaries.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Received cash from customer in payment on account.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Paid telephone bill for the month.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Purchased office supplies on credit.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Owner withdrew cash for personal expenses.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Obtained a loan from the bank.</td>
<td></td>
<td></td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>10. Billed customers for services rendered.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Solution 186   (10 min.)

<table>
<thead>
<tr>
<th>Assets</th>
<th>=</th>
<th>Liabilities</th>
<th>+</th>
<th>Owner's Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Received cash for services rendered.</td>
<td>+</td>
<td></td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>2. Purchased office equipment on credit.</td>
<td>+</td>
<td></td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>3. Paid employees’ salaries.</td>
<td>−</td>
<td></td>
<td>−</td>
<td></td>
</tr>
<tr>
<td>4. Received cash from customer in payment on account.</td>
<td>+,−</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Paid telephone bill for the month.</td>
<td>−</td>
<td></td>
<td>−</td>
<td></td>
</tr>
<tr>
<td>7. Purchased office supplies on credit.</td>
<td>+</td>
<td></td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>8. Owner withdrew cash for personal expenses.</td>
<td>−</td>
<td></td>
<td>−</td>
<td></td>
</tr>
<tr>
<td>9. Obtained a loan from the bank.</td>
<td>+</td>
<td></td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>10. Billed customers for services rendered.</td>
<td>+</td>
<td></td>
<td>+</td>
<td></td>
</tr>
</tbody>
</table>
Ex. 187
For each of the following, indicate whether the transaction increased (+), decreased (-), or had no effect (NE) on assets, liabilities, and owner's equity using the following format.

\[ \text{Assets} = \text{Liabilities} + \text{Owner's Equity} \]

1. Made an investment to start the business.
2. Billed customers for services performed.
3. Purchased equipment on account.
4. Withdrew cash for personal use.
5. Paid for equipment purchased in 3. above.

Solution 187 (5 min.)

\[
\begin{array}{ccc}
\text{Assets} & = & \text{Liabilities} + \text{Owner's Equity} \\
1. & + & \text{NE} & + \\
2. & + & \text{NE} & + \\
3. & + & + & \text{NE} \\
4. & - & \text{NE} & - \\
5. & - & - & \text{NE} \\
\end{array}
\]

Ex. 188
Ron Benes decides to open a cleaning and laundry service near the local college campus that will operate as a sole proprietorship. Analyze the following transactions for the month of June in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (–) the dollar amount of each item affected. Indicate the new balance of each item after a transaction is recorded. It is not necessary to identify the cause of changes in owner's equity.

Transactions

1. Ron Benes invests $20,000 in cash to start a cleaning and laundry business on June 1.
2. Purchased laundry equipment for $5,000 paying $3,000 in cash and the remainder due in 30 days.
3. Purchased laundry supplies for $1,200 cash.
4. Received a bill from Campus News for $300 for advertising in the campus newspaper.
5. Cash receipts from customers for cleaning and laundry amounted to $1,500.
6. Paid salaries of $200 to student workers.
7. Billed the Tiger Football Team $200 for cleaning and laundry services.
8. Paid $300 to Campus News for advertising that was previously billed in Transaction 4.
9. Ron Benes withdrew $900 from the business for living expenses.
10. Incurred utility expenses for month on account, $400.
### Ex. 188 (cont.)

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Cash</th>
<th>Accounts Receivable</th>
<th>Laundry Supplies</th>
<th>Laundry Equipment</th>
<th>Accounts Payable</th>
<th>R. Benes Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Balance (2)

Balance (3)

Balance (4)

Balance (5)

Balance (6)

Balance (7)

Balance (8)

Balance (9)

Balance (10)

Totals

### Solution 188 (20 min.)

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Cash</th>
<th>Accounts Receivable</th>
<th>Laundry Supplies</th>
<th>Laundry Equipment</th>
<th>Accounts Payable</th>
<th>R. Benes Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>+$20,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Balance (2) $20,000

Balance (3) $17,000

Balance (4) $15,800
### Solution 188 (cont.)

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Cash +</th>
<th>Accounts Receivable</th>
<th>Laundry Supplies +</th>
<th>Laundry Equipment =</th>
<th>Accounts Payable +</th>
<th>R. Benes Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance (5)</td>
<td>$15,800</td>
<td>$1,200</td>
<td>$5,000</td>
<td>$2,300</td>
<td>$19,700</td>
<td>+ 1,500</td>
</tr>
<tr>
<td>+ 1,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance (6)</td>
<td>$17,300</td>
<td>$1,200</td>
<td>$5,000</td>
<td>$2,300</td>
<td>$21,200</td>
<td>– 200</td>
</tr>
<tr>
<td>– 200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance (7)</td>
<td>$17,100</td>
<td>$1,200</td>
<td>$5,000</td>
<td>$2,300</td>
<td>$21,000</td>
<td>+ 200</td>
</tr>
<tr>
<td>+$200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance (8)</td>
<td>$17,100</td>
<td>$1,200</td>
<td>$5,000</td>
<td>$2,300</td>
<td>$21,200</td>
<td>– 300</td>
</tr>
<tr>
<td>– 300</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance (9)</td>
<td>$16,800</td>
<td>$1,200</td>
<td>$5,000</td>
<td>$2,000</td>
<td>$21,200</td>
<td>– 900</td>
</tr>
<tr>
<td>– 900</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance (10)</td>
<td>$15,900</td>
<td>$200</td>
<td>$1,200</td>
<td>$5,000</td>
<td>$20,300</td>
<td>– 400</td>
</tr>
<tr>
<td>+ 400</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>$15,900</td>
<td>$200</td>
<td>$1,200</td>
<td>$5,000</td>
<td>$2,400</td>
<td>$19,900</td>
</tr>
</tbody>
</table>

### Ex. 189

For each of the following, describe a transaction that will have the stated effect on the elements of the accounting equation.

(a) Increase one asset and decrease another asset.
(b) Increase an asset and increase a liability.
(c) Decrease an asset and decrease a liability.
(d) Increase an asset and increase owner’s equity.
(e) Increase one asset, decrease one asset, and increase a liability.

### Solution 189 (5 min.)

(a) Receive cash from customers on account. Purchase supplies for cash.

(b) Purchase supplies on account. Purchase equipment and signed a note payable.

(c) Pay cash to reduce accounts payable. Pay cash to reduce a note payable.

(d) Initial contribution by an owner. Additional contributions by an owner. Render services on account.

(e) Buy equipment with a cash down payment with the remainder financed by a note payable.
Ex. 190

The following transactions represent part of the activities of Lyon Company for the first month of its existence. Indicate the effect of each transaction upon the total assets of the business by one of the following phrases: increased total assets, decreased total assets, or no change in total assets.
(a) The owner invested cash to start the business.
(b) Purchased a computer for cash.
(c) Purchased office equipment with money borrowed from the bank.
(d) Paid the first month's utility bill.
(e) Collected an accounts receivable.
(f) Owner withdrew cash from the business.

Solution 190  (5 min.)

(a) Increased total assets.
(b) No change in total assets.
(c) Increased total assets.
(d) Decreased total assets.
(e) No change in total assets.
(f) Decreased total assets.

Ex. 191

Selected transactions for Barden Company are listed below. List the number of the transaction and then describe the effect of each transaction on assets, liabilities, and owner's equity.

Sample: Made initial cash investment in the business.
The answer would be—Increase in assets and increase in owner's equity.

1. Paid monthly utility bill.
2. Purchased new display case for cash.
3. Paid cash for repair work on security system.
4. Billed customers for services performed.
5. Received cash from customers billed in 4.
6. Withdrew cash for owner's personal use.
7. Incurred advertising expenses on account.
8. Paid monthly rent.
9. Received cash from customers when service was rendered.

Solution 191  (5 min.)

1. Decrease in assets and decrease in owner's equity.
2. No net change in assets.
3. Decrease in assets and decrease in owner's equity.
4. Increase in assets and increase in owner's equity.
5. No net change in assets.
6. Decrease in assets and decrease in owner's equity.
7. Increase in liabilities and decrease in owner's equity.
8. Decrease in assets and decrease in owner's equity.
9. Increase in assets and increase in owner's equity.
Ex. 192

A service proprietorship shows five transactions summarized below. The effect of each transaction on the accounting equation is shown, and also the new balance of each item in the equation. For each transaction (a) to (e) write an explanation of the nature of the transaction.

<table>
<thead>
<tr>
<th>Cash</th>
<th>Accounts +</th>
<th>Equipment +</th>
<th>Land +</th>
<th>Building =</th>
<th>Accounts +</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>6,500</td>
<td>10,000</td>
<td>7,500</td>
<td>50,000</td>
<td>3,000</td>
<td>76,000</td>
</tr>
<tr>
<td>a)</td>
<td>-2,000</td>
<td></td>
<td></td>
<td></td>
<td>-2,000</td>
<td></td>
</tr>
<tr>
<td>3,000</td>
<td>6,500</td>
<td>10,000</td>
<td>7,500</td>
<td>50,000</td>
<td>1,000</td>
<td>76,000</td>
</tr>
<tr>
<td>b)</td>
<td>+1,000</td>
<td>-1,000</td>
<td></td>
<td></td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>4,000</td>
<td>5,500</td>
<td>10,000</td>
<td>7,500</td>
<td>50,000</td>
<td>6,000</td>
<td>76,000</td>
</tr>
<tr>
<td>c)</td>
<td></td>
<td>+5,000</td>
<td></td>
<td></td>
<td>+5,000</td>
<td></td>
</tr>
<tr>
<td>4,000</td>
<td>5,500</td>
<td>15,000</td>
<td>7,500</td>
<td>50,000</td>
<td>6,000</td>
<td>76,000</td>
</tr>
<tr>
<td>d)</td>
<td>+2,500</td>
<td></td>
<td></td>
<td></td>
<td>+2,500</td>
<td></td>
</tr>
<tr>
<td>6,500</td>
<td>5,500</td>
<td>15,000</td>
<td>7,500</td>
<td>50,000</td>
<td>6,000</td>
<td>78,500</td>
</tr>
<tr>
<td>e)</td>
<td></td>
<td>+3,000</td>
<td></td>
<td></td>
<td>+3,000</td>
<td></td>
</tr>
<tr>
<td>6,500</td>
<td>8,500</td>
<td>15,000</td>
<td>7,500</td>
<td>50,000</td>
<td>6,000</td>
<td>81,500</td>
</tr>
</tbody>
</table>

Solution 192  (5 min.)

(a) Paid cash to creditors.
(b) Received cash from customers on account.
(c) Bought equipment on account.
(d) Additional investment by owner or services rendered to customers for cash.
(e) Services rendered on account.

Ex. 193

There are ten transactions listed below. Match the transactions that have the identical effect on the accounting equation. You should end up with 5 matches.

a. Receive cash from customers on account.
b. Initial cash contribution by an owner.
c. Pay cash to reduce an accounts payable.
d. Purchase supplies for cash.
e. Pay cash to reduce a notes payable.
f. Purchase supplies on account.
g. Additional cash contribution by an owner.
h. Purchase equipment with a note payable.
i. Pay utilities with cash.
j. Owner withdraws money from the business for personal use.
Solution 193  (10 min.)

Match #1 = a, d
#2 = c, e
#3 = f, h
#4 = b, g
#5 = i, j

Ex. 194

Prepare an income statement, an owner’s equity statement, and a balance sheet for the dental practice of Ted Terner, DDS, from the items listed below for the month of September.

Ted Terner, Capital, September 1 $42,000
Accounts payable 7,000
Equipment 30,000
Service revenue 25,000
Ted Terner, Drawings 6,000
Dental supplies expense 3,500
Cash 6,000
Utilities expense 700
Dental supplies 2,800
Salaries expense 9,000
Accounts receivable 14,000
Rent expense 2,000

TED TERNER, DDS
Income Statement
For the Month Ended September 30, 2008

<table>
<thead>
<tr>
<th>Revenues</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses</td>
<td>$</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$</td>
</tr>
<tr>
<td>Net income</td>
<td>$</td>
</tr>
</tbody>
</table>

TED TERNER, DDS
Owner’s Equity Statement
For the Month Ended September 30, 2008

Ted Terner, Capital, September 1 $ |
Add: $ |

Less: $ |
TED TERNER, DDS
Balance Sheet
September 30, 2008

Assets

$  

Total assets

$  

Liabilities and Owner's Equity

Liabilities

$  

Owner's Equity

Total liabilities and owner's equity

$  

Solution 194  (15 min.)

TED TERNER, DDS
Income Statement
For the Month Ended September 30, 2008

Revenues
Service revenue ............................................................... $25,000

Expenses
Salaries expense ................................................................. $9,000
Dental supplies expense ....................................................... 3,500
Rent expense ............................................................................. 2,000
Utilities expense ................................................................. 700
Total expenses .......................................................................... 15,200
Net income ................................................................................ $ 9,800

TED TERNER, DDS
Owner's Equity Statement
For the Month Ended September 30, 2008

Ted Terner, Capital, September 1......................................................... $42,000
Add: Net income........................................................................ 9,800
51,800
Less: Drawings...................................................................................... 6,000
Ted Terner, Capital, September 30....................................................... $45,800
Solution 194  (cont.)

TED TERNER, DDS
Balance Sheet
September 30, 2008

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 6,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>14,000</td>
</tr>
<tr>
<td>Dental supplies</td>
<td>2,800</td>
</tr>
<tr>
<td>Equipment</td>
<td>30,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>$52,800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Owner's Equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$ 7,000</td>
</tr>
<tr>
<td>Owner's Equity</td>
<td></td>
</tr>
<tr>
<td>Ted Terner, Capital</td>
<td>45,800</td>
</tr>
<tr>
<td>Total liabilities and owner's equity</td>
<td>$52,800</td>
</tr>
</tbody>
</table>

Ex. 195

Indicate whether the following items would appear on the balance sheet (BS), income statement (IS), or owner's equity statement (OE).

1. Advertising expense
2. Accounts receivable
3. Jones, drawing
4. Rent revenue
5. Salaries payable
6. Supplies

Solution 195  (5 min.)

1. Income statement (IS)                  4. Income statement (IS)
2. Balance sheet (BS)                     5. Balance sheet (BS)
3. Owner's equity statement (OE)          6. Balance sheet (BS)

Ex. 196

Listed below in alphabetical order are the balance sheet items of Hoyle Company at December 31, 2008. Prepare a balance sheet and include a complete heading.

| Accounts Payable                        | $ 14,000 |
| Accounts Receivable                     | 15,000   |
| Building                                 | 46,000   |
| Cash                                    | 17,000   |
| Joe Hoyle, Capital                       | 120,000  |
| Land                                    | 52,000   |
| Office Equipment                         | 4,000    |
Solution 196  (5 min.)

HOYLE COMPANY
Balance Sheet
December 31, 2008

ASSETS

Cash $ 17,000
Accounts receivable 15,000
Office equipment 4,000
Building 46,000
Land 52,000
Total assets $134,000

LIABILITIES

Accounts payable $ 14,000

OWNER’S EQUITY

Joe Hoyle, Capital 120,000
Total liabilities and owner’s equity $134,000

Ex. 197

One item is omitted in each of the following summaries of balance sheet and income statement data for three different sole proprietorships, X, Y, and Z. Determine the amounts of the missing items, identifying each proprietorship by letter.

<table>
<thead>
<tr>
<th>Proprietorship</th>
<th>X</th>
<th>Y</th>
<th>Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of the Year:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>$380,000</td>
<td>$150,000</td>
<td>$199,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>250,000</td>
<td>105,000</td>
<td>168,000</td>
</tr>
<tr>
<td>End of the Year:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>450,000</td>
<td>185,000</td>
<td>195,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>280,000</td>
<td>95,000</td>
<td>169,000</td>
</tr>
<tr>
<td>During the Year:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional Investment by the owner</td>
<td>?</td>
<td>79,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Withdrawals by the owner</td>
<td>90,000</td>
<td>83,000</td>
<td>?</td>
</tr>
<tr>
<td>Revenue</td>
<td>195,000</td>
<td>?</td>
<td>187,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>170,000</td>
<td>113,000</td>
<td>175,000</td>
</tr>
</tbody>
</table>

Solution 197  (10 min.)

Proprietorship X  ($105,000)

Beginning Capital balance ($380,000 – $250,000) $130,000
Additional investments ($260,000 – $130,000 – $25,000) 105,000
Net income for year ($195,000 – $170,000) 25,000

260,000

Less withdrawals 90,000
Ending Capital balance ($450,000 – $280,000) $170,000
### Solution 197 (cont.)

**Proprietorship Y** ($162,000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Capital balance ($150,000 – $105,000)</td>
<td>$ 45,000</td>
</tr>
<tr>
<td>Additional investments</td>
<td>79,000</td>
</tr>
<tr>
<td>Net income for year</td>
<td>49,000</td>
</tr>
<tr>
<td>[Revenues = $162,000 ($113,000 + $49,000)]</td>
<td>173,000</td>
</tr>
<tr>
<td>Less withdrawals</td>
<td>83,000</td>
</tr>
<tr>
<td>Ending Capital balance ($185,000 – $95,000)</td>
<td>$ 90,000</td>
</tr>
</tbody>
</table>

**Proprietorship Z** ($97,000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Capital balance ($199,000 – $168,000)</td>
<td>$ 31,000</td>
</tr>
<tr>
<td>Additional investments</td>
<td>80,000</td>
</tr>
<tr>
<td>Net income for year</td>
<td>12,000</td>
</tr>
<tr>
<td>[Revenues = $187,000 – $175,000]</td>
<td>123,000</td>
</tr>
<tr>
<td>Less withdrawals ($123,000 – $26,000)</td>
<td>97,000</td>
</tr>
<tr>
<td>Ending Capital balance ($195,000 – $169,000)</td>
<td>$ 26,000</td>
</tr>
</tbody>
</table>

### Ex. 198

Indicate in the space provided by each item whether it would appear on the Income Statement (IS), Balance Sheet (BS), or Owner's Equity Statement (OE):

<table>
<thead>
<tr>
<th></th>
<th>IS</th>
<th>BS</th>
<th>OE</th>
</tr>
</thead>
</table>
a. |    | g. |    |
b. |    | h. |    |
c. |    | i. |    |
d. |    | j. |    |
e. |    | k. |    |
f. |    | l. |    |

### Solution 198 (5 min.)

<table>
<thead>
<tr>
<th></th>
<th>IS</th>
<th>BS</th>
<th>OE, BS</th>
<th>IS</th>
<th>BS</th>
</tr>
</thead>
</table>
a. |      | g.   |        |      |      |
b. |      | h.   |        |      |      |
c. |      | i.   |        |      |      |
d. |      | j.   |        |      |      |
e. |      | k.   |        |      |      |
f. |      | l.   |        |      |      |
Ex. 199
Don Harder was reviewing his business activities at the end of the year (2008) and decided to prepare an Owner's Equity Statement. At the beginning of the year his assets were $500,000 and his liabilities were $200,000. At the end of the year the assets had grown to $950,000 but liabilities had also increased to $350,000. The net income for the year was $420,000. Don had withdrawn $120,000 during the year for his personal use.

Prepare an Owner's Equity Statement in good form.

Solution 199  (5 min.)

DON HARDER
Owner's Equity Statement
For the Year Ended 2008

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>D. Harder, Beginning Capital</td>
<td>$300,000</td>
</tr>
<tr>
<td>Add: Net Income</td>
<td>420,000</td>
</tr>
<tr>
<td></td>
<td>720,000</td>
</tr>
<tr>
<td>Less: Drawings</td>
<td>120,000</td>
</tr>
<tr>
<td>D. Harder, Ending Capital</td>
<td>$600,000</td>
</tr>
</tbody>
</table>

Ex. 200
At September 1, the balance sheet accounts for Debbie’s Restaurant were as follows:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$ 3,800</td>
<td>Land</td>
<td>$33,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>1,600</td>
<td>Debbie, Capital</td>
<td>?</td>
</tr>
<tr>
<td>Building</td>
<td>68,000</td>
<td>Notes Payable</td>
<td>48,000</td>
</tr>
<tr>
<td>Cash</td>
<td>10,000</td>
<td>Supplies</td>
<td>6,600</td>
</tr>
<tr>
<td>Furniture</td>
<td>18,700</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The following transactions occurred during the next two days:

Debbie invested an additional $22,000 cash in the business. The accounts payable were paid in full. (No payment was made on the notes payable.)

Instructions
Prepare a balance sheet at September 3, 2008.
Solution 200  (10 min.)

DEBBIE’S RESTAURANT
Balance Sheet
September 3, 2008

ASSETS

Cash $28,200
Accounts receivable 1,600
Supplies 6,600
Furniture 18,700
Building 68,000
Land 33,000
Total assets $156,100

LIABILITIES

Accounts payable $0
Notes payable 48,000

OWNER’S EQUITY

Debbie, Capital 108,100
Total liabilities and owner's equity $156,100

Cash ($10,000 + $22,000 – $3,800) = $28,200
Accounts Payable ($3,800 – $3,800) = $0
Debbie, Capital: Beginning balance ($137,900 – $51,800) $86,100
Additional investment 22,000
Ending balance $108,100

Ex. 201

Presented below are balance sheet items for Higgins Company at December 31, 2008.

Accounts payable $35,000
Accounts receivable 36,000
Cash 27,000
Equipment 52,000
Higgins, capital 30,000
Notes payable 50,000

Compute each of the following:
1. Total assets.
2. Total liabilities.

Solution 201  (5 min.)

1. Total assets = $115,000 ($36,000 + $27,000 + $52,000)
2. Total liabilities = $85,000 ($35,000 + $50,000)
COMPLETION STATEMENTS

202. Accounting is an information system that identifies, _____________, and _____________ the economic events of an organization.

203. The mere recording of economic events is called ______________, and is just one part of the ______________ process.

204. The three major services rendered by a certified public accountant are ______________, ______________, and management ______________.

205. Accountants who are employees of business enterprises are referred to as ______________ accountants.

206. A common set of standards that provides guidelines to accountants and indicates how to report economic events is called ________________.

207. The ______________ principle states that assets should be recorded at the value exchanged at the time the asset is acquired.

208. The ______________ assumption requires that the activities of an entity be kept separate from the activities of its owner.

209. The residual claim on total assets of a business is known as ______________ and is equal to total assets minus total liabilities.

210. Drawings ______________ owner’s equity but are not expenses.

211. The ______________ reports the assets, liabilities, and owner’s equity of a business enterprise at a specific date.

Answers to Completion Statements

202. records, communicates 207. cost
203. bookkeeping, accounting 208. economic entity
204. auditing, taxation, consulting 209. owner’s equity
205. private (or managerial) 210. reduce
206. generally accepted accounting principles 211. balance sheet
MATCHING

212. Match the items below by entering the appropriate code letter in the space provided.

A. CPA  
B. Budgeting  
C. SEC  
D. Proprietorship  
E. Economic Entity Assumption  
F. Corporation  
G. Assets  
H. Equities  
I. Expenses  
J. Transaction

____  1. Activities of an entity must be kept separate from its owner’s activities.
____  2. Consumed assets or services.
____  3. Ownership is limited to one person.
____  4. Offers expert accounting service to the general public.
____  5. Creditor and ownership claims against the assets of the business.
____  6. A separate legal entity under state laws.
____  7. Government agency that can mandate accounting rules.
____  8. Quantifying goals and objectives.
____ 10. Economic events recorded by accountants.

Answers to Matching

1. E  6. F  
2. I  7. C  
3. D  8. B  
4. A  9. G  
5. H  10. J
SHORT-ANSWER ESSAY QUESTIONS

S-A E 213
The accounting profession provides many career opportunities for individuals. Identify the major fields that exist in accounting and comment on the major functions performed by individuals in each of these areas.

Solution 213
The major fields that exist in accounting are in the areas of (1) public accounting, (2) private accounting, and (3) not-for-profit accounting. In public accounting, an accountant may practice as: (1) an auditor who examines the financial statements of companies and expresses an opinion as to the fairness of presentation; (2) a tax specialist who gives tax advice, prepares tax returns, and represents clients before governmental agencies; and (3) a management accountant who engages in the development of accounting and computer systems and the design of organizational systems.

Private (managerial) accountants perform many different activities within a company. Private accountants may be involved in: cost accounting, budgeting, general financial accounting, accounting information systems, and tax accounting.

S-A E 214
The framework used to record and summarize the economic activities of a business enterprise is referred to as the accounting equation. State the basic accounting equation and define its major components. How are business transactions and financial statements related to the accounting equation?

Solution 214
The basic accounting equation is expressed as follows:

\[
\text{Assets} = \text{Liabilities} + \text{Owner's Equity}
\]

Assets are defined as resources owned by the business. Liabilities are creditorship claims against the assets of the business; or simply put, liabilities are existing debts and obligations. Owner's equity is the ownership claim on the total assets of the business; it is equal to total assets minus total liabilities.

Business transactions are economic events and activities that affect the elements of the basic accounting equation; that is, transactions cause increases or decreases in the assets, liabilities, and owner's equity. The financial statements report the results and effects of transactions on the business' assets, liabilities, and owner's equity. The balance sheet is a summary expression of the basic accounting equation.
S-A E 215

Your friend, James, made this comment:

My major is biology and I plan to research for cures for major illnesses. Thus, I have no need to study accounting.

What is your response to James?

Solution 215

James, you are entering a dynamic profession and you have the opportunity to make important contributions to society. While science will be your profession and major concern, you will not be able to escape the need to understand accounting. Accounting staff and professionals will always be available to assist you. Here are some areas that will directly affect you:

As a manager, you will need to review accounting information (both internal and external) and make decisions. Budgets will be an important part of your research activities. As an employee, you will be concerned about the financial information of your employer. Thus, you will need to be able to read the company’s financial statements. Also, as an investor, you will be interested in the financial statements of other companies.

You will probably not be a preparer of the financial statements, but you do need an understanding of how they are prepared. You also need a good understanding of how to interpret the information on the financial statements.

S-A E 216

The information needs of a specific user of financial accounting information depends upon the kinds of decisions that user makes. Identify the major users of accounting information and discuss what questions financial accounting information answers for each group of users.

Solution 216

The major users of accounting information are internal users and external users. Internal users are those who manage the business. External users are those outside the business who have either a present or potential financial interest.

Financial accounting information may answer the following questions for internal users:
1. Is cash sufficient to pay our debts?
2. Can we afford to give employee pay raises this year?
3. What is the cost of manufacturing each unit of product?
4. Which product line is the most profitable?

Questions answered by financial accounting information for external users include:
1. Is the company earning satisfactory income?
2. How does the company compare in size and profitability with competitors?
3. Will the company be able to pay its debts as they come due?
S-A E 217 (Ethics)

Sam Dryer owns and operates Sam's Burgers, a small fast food store, located at the edge of City College campus in Newton, Ohio. After several very profitable years, Sam's Burgers began to have problems. Most of the problems were related to Sam's expansion of the eating area in the restaurant without corresponding increases in the food preparation area. Sam does not have the cash or financial backing to expand further. He has therefore decided to sell his business.

Jerry Finney is interested in purchasing the business. However, he is located in another city and is unfamiliar with Newton. He has asked Sam why he is selling Sam's Burgers. Sam replies that his elderly mother requires extra care, and that his brother needs help in his manufacturing business. Both are true, but neither is his primary reason for selling. Sam reasons that Jerry should not have asked him anyway, since profitable businesses don't come up for sale.

Required:
1. Identify the stakeholders in this situation.
2. Did Sam act ethically in not revealing fully his reasons for selling the business? Why or why not?

Solution 217
1. The stakeholders include
   - Sam Dryer
   - Jerry Finney
   - Newton, Ohio
   - students of City College
   - City College
   - persons financing the purchase of Sam’s Burgers

2. Sam did not act ethically in not revealing fully his reasons for selling the business. Students might be of the opinion that a purchaser should investigate a business before purchasing it, rather than relying entirely on the seller's assertions. However, students should realize that Sam should have said something about his problems. He might ethically be allowed to put these in the best possible light, perhaps, but failure to disclose them at all is certainly unethical. This is especially true, since family concerns might well cause someone to sell a business that is otherwise doing well. Sam has shown an intent to deceive that is unethical, and might be actionable in court as well.

S-A E 218 (Communication)

Sue Havens is a friend of yours from high school. She decided to become a beautician after leaving high school, rather than to attend college. She recently opened her own shop, and has contracted her services to a local hospital. She is paid a monthly fee for her services, and receives a small gratuity from each of the patients.

She has just received her first set of financial statements from her accountant. She is quite upset. The statements show a cash balance of $3,600 at the end of the month, but a net income of only $500. She has written you a letter, asking you whether such a situation is possible, or whether she should find another accountant.
Required:
Write a short letter to your friend. Use proper form. Answer her question completely, but briefly.

Solution 218

Answers will vary. The instructor’s requirements concerning proper form should be followed. The letter may be either business or personal. As a minimum, the letter should be in a recognizable form, and proper grammar and spelling should be used. Neat erasures and corrections might be allowed. A suggested personal letter follows:

```
1245 Lily Lane
Buena Vista, AR  77661
(Date)

Dear Sue,

Congratulations on opening your business! I am sure you will do well, combining your creative genius with your talent for serving others.

You asked about your financial statements. Of course, you realize that I am just an accounting student, but I do know that it is possible to have a large cash balance and little net income. You may have had expenses that were not paid in cash yet. These expenses reduce your income, but not your cash.

I think that you should discuss the statements with the accountant who prepared them. He or she will be in the best position to explain the results.

Thanks for the question. It really made me think.

Sincerely,

(signature)
```