Horngrens Financial and Managerial Accounting 7th edition Nobles Test Bank

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Financial and Managerial Accounting: Managerial Chapters, 7e **(Miller-Nobles)**
Chapter M:1 Introduction to Managerial Accounting

Learning Objective M:1-1

1) Managerial accounting focuses on providing information for internal planning and control.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

2) Financial accounting prepares reports for internal purposes, whereas managerial accounting provides information to external stakeholders.
Answer: FALSE
Explanation: The reverse is true. Financial accounting serves external stakeholder information needs while managerial accounting serves the needs of managers and internal staff.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

3) Financial statements prepared for investors and creditors often include forward-looking information because they make decisions based on a company's future prospects.
Answer: FALSE
Explanation: Financial statements provide mostly historical information; relevant and faithfully representative information and focused on the past.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

4) Managerial accounting reporting by a public firm is required to follow the rules of GAAP.
Answer: FALSE
Explanation: Managerial accounting information is not guided by GAAP but rather by the concept of usefulness to management for decision making purposes.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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5) Financial reporting is typically much more detailed than managerial accounting.
Answer: FALSE
Explanation: Financial reporting is typically less detailed than managerial accounting information. Financial accounting reporting is usually summary reports, prepared primarily on the company as a whole, usually on a quarterly or annual basis.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

6) Managerial accounting provides financial statements that report results of operations, financial position, and cash flows both to managers and to external stockholders.
Answer: FALSE
Explanation: Managerial accounting provides the information needed to plan and control operations and therefore serves the information needs of internal parties such as managers and staff.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

7) Which of the following is a focus of managerial accounting?
A) to generate a company's financial statements for tax reporting
B) to provide information to business managers to assist them in controlling their businesses
C) to provide information to shareholders to assist them with their investment decisions
D) to ensure that the reports produced for internal and external business purposes are GAAP compliant
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

8) Which of the following statements is true of managerial accounting?
A) The external stakeholders of a company are the primary users of managerial accounting.
B) Managerial accounting information is used to help managers plan, direct and control their operations.
C) An external audit by an independent CPA is required for managerial accounting information.
D) Managerial accounting information must comply with Generally Accepted Accounting Principles.
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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9) Managerial accounting information for a company is primarily used by _____.
A) its customers to understand the pricing of the product
B) its creditors to understand the credibility of the business
C) its employees to plan, direct and control operations
D) its investors to make their investment decisions
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

10) Which of the following statements is true of financial accounting?
A) It provides information to investors needed for their investment decisions.
B) It provides future focused information needed for managing and delegating operations.
C) It focuses on detailed reports for parts of the company rather than the whole company.
D) It focuses on planning, directing and controlling day-to-day operations.
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

11) Which of the following is the primary focus of managerial accounting?
A) providing information that managers need to make operational decisions
B) providing historical data to investors and creditors
C) providing summarized results of operations
D) providing information to comply with laws and regulations of government bodies
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

12) Which of the following is the primary focus of financial accounting?
A) providing information that managers need to make operational decisions
B) providing summarized information on operational results to investors and creditors
C) providing information to managers to assist in planning, directing and controlling operations
D) providing highly detailed information on product lines, regions, and divisions
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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13) Connie is analyzing the financial statements of MegaMart and Bullseye Company. She wants to invest in one of the companies and is trying to decide which company has the better past performance. Connie is examining _____.
A) managerial accounting information
B) financial accounting information
C) regulatory accounting information
D) organizational accounting information
Answer: B
Explanation: Financial accounting information is focused on external users and past performance.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

14) Who is a primary user of managerial accounting information?
A) investors
B) company managers
C) creditors
D) government authorities
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

15) Which of the following statements is true of managerial accounting?
A) It is required to follow GAAP.
B) The focus is on the future.
C) An external audit by an independent CPA is required for managerial accounting information.
D) Summary reports are prepared primarily for the company as a whole.
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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16) Which of the following statements is true of financial accounting?
A) Summary reports are prepared primarily on the company as a whole.
B) It provides future focused information needed for managing and delegating operations.
C) It does not need to follow GAAP.
D) It focuses on planning, directing and controlling day-to-day operations.
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

17) Which of the following would be primary users of financial accounting information?
A) supervisors
B) company managers
C) foremen
D) government authorities
Answer: D
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

18) Miguel, a manager for Sierra Company, is inspecting the reports provided by his company's accounting department. He wants to decide how to schedule his department's employees in production next week. Miguel is examining _____.
A) managerial accounting information
B) financial accounting information
C) regulatory accounting information
D) organizational accounting information
Answer: A
Explanation: Managerial accounting information is for internal users and is future focused.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Why Is Managerial Accounting Important? (H1)

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19) Financial and managerial accounting both provide useful information, but each has a different emphasis. Briefly distinguish between financial and managerial accounting as they relate to the 1) primary users, 2) purpose of information, and 3) focus and time dimension of the information.
Answer: The primary users of financial information are parties external to the company , while the primary users of managerial information are internal parties such as managers and staff of the company. Financial information helps investors and creditors make investment and credit decisions, while managerial information assists managers and employees to plan, direct and control the company's operations. The focus of financial information is on the past, ensuring relevant and faithfully representative information, while managerial information is focused on providing relevant information for future decisions.
Diff: 2
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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20) For each of the following, indicate whether the statement relates to managerial accounting (MA) or financial accounting (FA):

Statement	Applies to MA or FA
How reports will affect employee behavior is a concern.	
Summary reports are prepared primarily on the company as a whole, usually on a quarterly or annual basis.	
Relevant information and focus on the future.	
Primary users include investors, creditors, and government authorities.	
There is no requirement to follow GAAP.	

Answer:

Statement	Applies to MA or FA
How reports will affect employee behavior is a concern.	MA
Summary reports are prepared primarily on the company as a whole, usually on a quarterly or annual basis.	FA
Relevant information and focus on the future.	MA
Primary users include investors, creditors, and government authorities.	FA
There is no requirement to follow GAAP.	MA

Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

21) A company's organizational chart shows the relationships between departments and divisions and the managers that are responsible for each section.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

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22) Most companies structure their organizations along departments or divisions.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

23) A company's president or chief executive officer (CEO) is selected by the stockholders.
Answer: FALSE
Explanation: The president is selected by the Board of Directors.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

24) Staff positions are directly involved in providing goods or services to customers.
Answer: FALSE
Explanation: Line positions are directly involved with customers.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

25) The chief financial officer, controller, and treasurer are all examples of staff positions.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

26) Which of the following functions might be classified as a staff position as opposed to a line position?
A) Division Manager
B) Production Manager
C) Sales Manager
D) Payroll Processing Manager
Answer: D
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

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27) The officer of the company who has the ultimate responsibility for implementing the company's long and short-term goals is the _____.
A) Chief Financial Officer
B) Chair of the Board
C) Chief Executive Officer
D) Chief Officer for Human Relations
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

28) Which of the following functions might be classified as a staff position as opposed to a line position?
A) Chief Executive Officer
B) Chief Operating Officer
C) Division Manager
D) Treasurer
Answer: D
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

29) Which of the following functions might be classified as a line position as opposed to a staff position?
A) Chief Operating Officer
B) Controller
C) Payroll Processor
D) Treasurer
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

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30) Which of the following functions might be classified as a staff position as opposed to a line position?
A) Chief Financial Officer
B) Chief Operating Officer
C) Division Manager
D) Chief Executive Officer
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

31) Which of the following functions might be classified as a line position as opposed to a staff position?
A) Chief Financial Officer
B) Controller
C) Division Manager
D) Treasurer
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

32) _____ shows the relationship between departments and divisions and managers responsible for each section.
A) Board of Directors chart
B) Controllers chart
C) Organizational chart
D) Treasurer's chart
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

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33) The _____ is elected by the stockholders of the corporation.
A) Chief Operating Officer
B) Chief Financial Officer
C) Chief Executive Officer
D) Board of Directors
Answer: D
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

34) _____ has the ultimate responsibility for implementing the company's short and long-term plans.
A) Chief Financial Officer
B) Controller
C) Chief Executive Officer
D) Treasurer
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

35) The _____ is responsible for developing the strategic goals of a corporation.
A) Chief Operating Officer
B) Chief Financial Officer
C) Chief Executive Officer
D) Board of Directors
Answer: D
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

36) The jobs that are directly involved in providing goods or services to customers are called _____.
A) staff positions
B) functional positions
C) line positions
D) human relations positions
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

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37) The managerial role that involves the day-to-day running of the business is the _____.
A) directing function
B) planning function
C) controlling function
D) strategic planning function
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

38) A diagram that shows the relationships between departments and divisions, and the managers that are responsible for each section is called a(n) _____.
A) departmentalization chart
B) work specialization chart
C) organizational chart
D) chain of command chart
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

39) Planning requires managers to look to the future and establish goals for the business.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

40) Strategic planning focuses on short term actions while operational planning involves developing long-term strategies.
Answer: FALSE
Explanation: The reverse is true. Strategic planning focuses on a long-term horizon while operational planning is for the short-term.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

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41) Controlling involves running the day-to-day operations of a business.
Answer: FALSE
Explanation: Controlling is the process of monitoring day-to-day operations and keeping the company on track. Controlling involves comparing actual results to expected results.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

42) Planning means choosing goals and deciding how to achieve them.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

43) Controlling involves the process of monitoring day-to-day operations and keeping the company on track.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

44) _____ involves running the day-to-day operation of a business.
A) Planning
B) Directing
C) Controlling
D) Operational Planning
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

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45) _____ means choosing goals and deciding how to achieve them.
A) Planning
B) Directing
C) Controlling
D) Operational Planning
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

46) _____ is the process of monitoring day-to-day operations and keeping the company on track.
A) Planning
B) Directing
C) Controlling
D) Operational Planning
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

47) Anika, a division manager, is purchasing materials to ensure she has enough to meet customers' demands. Anika is engaging in the _____.
A) planning function
B) directing function
C) controlling function.
D) decision function
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

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48) Monitoring operations and keeping the company on track is part of the _____.
A) controlling function
B) directing function
C) planning function
D) strategic function
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

49) Managerial accounting includes the planning function. Which of the following items would be part of the planning function of a business's managerial accounting?
A) comparing actual to expected results
B) choosing goals and deciding how to achieve them
C) monitoring operations to keep the company on track
D) monitoring and evaluating the results of operations
Answer: B
Diff: 1
LO: M:1-1
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

50) Comparing actual results to expected results is part of the
A) controlling function of managerial accounting.
B) planning function of managerial accounting.
C) reporting function of managerial accounting.
D) organizing function of managerial accounting.
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

51) Define planning. List and briefly discuss the two types of planning managers perform.
Answer: Planning is the process of choosing goals and deciding how to achieve them. Managers engage in strategic and operational planning. Strategic planning involves developing long-term strategies to to achieve a company's goals. Operational planning focuses on short-term actions dealing with a company's day-to-day operations.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Managerial Accounting Functions

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For the questions below, match each term with its correct definition.

A) Controlling
B) Organizational chart
C) Financial accounting
D) Managerial accounting
E) Directing
F) Planning
G) Line position

52) The role managers play when they evaluate why results were different from expectations.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

53) This role requires managers to look to the future.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

54) An accounting field that helps managers plan and control operations.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

55) An accounting field that is required to follow Generally Accepted Accounting Principles.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

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56) The Board of Directors is shown at the top of this diagram.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

57) Job that is directly involved in providing goods or services to customers.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

58) The role managers play when they are motivating employees
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

Answers: 52) A 53) F 54) D 55) C 56) B 57) G 58) E

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59) The IMA standards of ethical practice require managerial accountants to maintain their professional competence.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

60) The accountant for Myra Lido deliberately recorded operating expenses as operating assets in order to record a higher net income for the company. As long as the amount of the misstatement was not material, this would not be considered unethical behavior.
Answer: FALSE
Explanation: The fact that a fraudulent act does not result in a material misstatement does not change the morality of the act. The act was deliberately carried out to deceive and is therefore an unethical act. It also violates the ethical standards of the IMA.
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

61) The IMA Statement of Ethical Professional Practice includes confidentiality, competence, credibility, and integrity.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

62) At the end of the year, Mary's supervisor asked her to record sales transactions for products that would not ship until the following year, and she complied. Mary has violated IMA ethical standards.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethical Standards of Managers

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63) Which of the following is one of the key standards of ethical practice published by the Institute of Management Accountants (IMA)?
A) social responsibility
B) environmental sensitivity
C) technicality
D) confidentiality
Answer: D
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

64) Seria, Inc. has received a bulk order from an overseas client. As a result, the reported earnings of this year are expected to be significantly higher than the estimates of financial analysts. Joshua, an accountant at Seria, tells this to one of his friends. Which of the IMA standards has Joshua violated?
A) objectivity
B) competence
C) confidentiality
D) technicality
Answer: C
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

65) You did not understand what the term accrual meant and failed to accrue the interest due at the end of the year on the company's bonds. Which of the IMA standards appears to have been violated?
A) integrity
B) confidentiality
C) competence
D) objectivity
Answer: C
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

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66) Which of the following is NOT one of the key standards of ethical practice published by the Institute of Management Accountants (IMA)?
A) social responsibility
B) integrity
C) competence
D) confidentiality
Answer: A
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

67) If information is not communicated fairly and objectively, this violates _____.
A) integrity
B) competence
C) confidentiality
D) credibility
Answer: D
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

68) Refraining from engaging in any conduct that would prejudice carrying out of duties ethically is acting in accordance with which ethical professional practice?
A) integrity
B) confidentiality
C) competence
D) objectivity
Answer: A
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

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69) If organizational policies do not resolve an ethical dilemma, the IMA suggests discussing with _____.
A) only an immediate supervisor
B) only an objective advisor
C) only an attorney
D) an immediate supervisor, an objective advisor, and/or an attorney depending on the situation
Answer: D
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

70) Maintaining an appropriate level of professional expertise by continually developing knowledge and skills is acting in accordance with which ethical professional practice?
A) integrity
B) confidentiality
C) competence
D) credibility
Answer: C
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

Learning Objective M:1-2

1) Service companies sell their time, skills, and knowledge.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Are Costs Classified? (H1)

2) How costs are classified depends on the type of business the company engages in.
Answer: TRUE
Explanation:
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Are Costs Classified? (H1)

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3) Merchandising companies sell their time, skills and knowledge.
Answer: FALSE
Explanation: The description is more relevant to service based businesses. Merchandising companies sell merchandise and although they may also provide services (time, skills, knowledge), most of the revenue of a merchant is from the sale of tangible products - merchandise (i.e., retailers and wholesalers).
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Are Costs Classified? (H1)

4) Merchandising companies resell products they buy from suppliers.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Are Costs Classified? (H1)

5) Which of the following is most likely a merchandising company?
A) a law firm
B) a car dealership
C) an accounting firm
D) a doctor's office
Answer: B
Diff: 1
LO: M:1-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: How Are Costs Classified? (H1)

6) A service company may sell _____.
A) time, knowledge and/or skills
B) merchandise
C) products
D) replacement parts
Answer: A
Diff: 1
LO: M:1-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: How Are Costs Classified? (H1)

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7) Which of the following is most likely a service company?
A) Home Depot
B) ABC Taxi Company
C) Old Navy
D) Wal-Mart
Answer: B
Diff: 1
LO: M:1-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: How Are Costs Classified? (H1)

8) Which of the following is most likely a service company?
A) a law firm
B) a car dealership
C) a grocery store
D) a bakery
Answer: A
Explanation: Both types of firms have inventory accounts. A manufacturer's inventory accounts include materials, work-in-process, and finished goods while a merchandising company's inventory is usually tracked in one general ledger account called Merchandise Inventory.
Diff: 1
LO: M:1-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: How Are Costs Classified? (H1)

9) Manufacturing companies have inventory accounts, but merchandising companies do not.
Answer: FALSE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Manufacturing Companies

10) Manufacturing companies produce their own products, but merchandising companies do not.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Manufacturing Companies

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11) Noble, Inc. purchases each unit of product X for $100 and can sell it in the market for $135. The price of the product for Noble would be $100.
Answer: FALSE
Explanation: The $100 amount is the cost of the goods but the $135 — which includes a mark-up, would most likely be the price.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

12) The primary activity of manufacturing companies is to purchase goods from a wholesaler and resell them.
Answer: FALSE
Explanation: The description is an activity of a retailer (a type of merchandiser) not that of a manufacturer. A manufacturer's primary activity is to produce a product by converting materials into a finished good for sale to a customer who is usually a wholesaler or retailer.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

13) _____ includes materials to be used to make the product.
A) Raw Materials Inventory
B) Work-in-Process Inventory
C) Manufacturing Overhead
D) Finished Goods Inventory
Answer: A
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

14) A manufacturing company uses labor, equipment, supplies, and facilities to convert _____ into finished products.
A) Raw Materials Inventory
B) Work-in-Process Inventory
C) Manufacturing Overhead
D) Finished Goods Inventory
Answer: A
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

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15) _____ includes goods that are in the manufacturing process but are not yet completed.
A) Raw Materials Inventory
B) Work-in-Process Inventory
C) Manufacturing Overhead
D) Finished Goods Inventory
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

16) A company that uses labor, equipment, supplies, and facilities to convert raw materials into finished products is a _____.
A) merchandising company
B) manufacturing company
C) service company
D) trading company
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Manufacturing Companies

17) Goods that have been started in the manufacturing process but are not yet complete are included in the _____.
A) Finished Goods Inventory account
B) Work-in-Process Inventory account
C) Raw Materials Inventory account
D) Cost of Goods Sold account
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

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18) The Work-in-Process Inventory account includes the _____.
A) goods that are ready to be sold
B) goods that are partially completed
C) goods that have been sold in the market
D) goods that are returned by customers
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

19) Which of the following is true of Finished Goods Inventory?
A) Finished Goods Inventory is an account used by a manufacturer and includes completed goods that have not yet been sold.
B) Finished Goods Inventory is an account used by a merchandiser and includes completed goods that have not yet been sold.
C) Finished Goods Inventory is an account used by service companies in lieu of raw materials inventory.
D) Finished Goods Inventory is an account used by a manufacturer in lieu of raw materials inventory.
Answer: A
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

20) Goods that are produced by a manufacturing company and are ready to sell are recorded in the _____ account.
A) Raw Materials Inventory
B) Work-in-Process Inventory
C) Manufacturing Overhead
D) Finished Goods Inventory
Answer: D
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

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21) List the three kinds of inventory accounts that are used by manufacturing companies. Briefly discuss what each account includes.
Answer: Raw Materials Inventory includes materials used to make a product. The cost of raw materials that are purchased by the company are debited to the raw materials account.
Work-in-Process Inventory includes goods that are in the manufacturing process but are not yet complete. The cost of materials, labor, and overhead are debited to work-in-process.
Finished Goods Inventory includes completed goods that have not yet been sold. The cost of units (material, labor, and overhead) are debited to the finished goods inventory (and credited in the work-in-process account) when the units are finished and ready for sale to customers.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

22) A cost object is anything for which managers want to separate the measurement of cost and may be a product, department, sales territory, or activity.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

23) The cost of direct materials cannot easily be traced to the manufactured product, and therefore, it is a component of manufacturing overhead.
Answer: FALSE
Explanation: Direct materials are traced to the manufactured product.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

24) Direct costs and indirect costs can be easily traced directly to a cost object.
Answer: FALSE
Explanation: Only direct costs can be easily traced to the cost object.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

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25) Indirect labor costs might include the salary of the production manager.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

26) Anything for which managers want a separate measurement of cost is called a _____.
A) responsibility center
B) cost object
C) profit object
D) conversion cost
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Direct and Indirect Costs

27) Define direct cost.
Answer: A direct cost is a cost that can be easily and cost-effectively traced to a cost object.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

28) Define indirect cost.
Answer: An indirect cost is a cost than cannot be easily or cost-effectively traced to a cost object.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

29) Manufacturing overhead includes all manufacturing costs, such as direct labor and direct materials.
Answer: FALSE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

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30) Factory rent, as well as factory property taxes and insurance, are included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

31) Manufacturing overhead includes indirect manufacturing costs, such as insurance and depreciation on the factory building.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

32) In a manufacturing plant, indirect materials costs from lubricants and cleaning fluids are product costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

33) Indirect materials costs are included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

34) The salary of a manufacturing plant manager will be included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

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35) Sales commissions are included in manufacturing overhead.
Answer: FALSE
Explanation: Sales commissions are selling expense and are not an indirect manufacturing costs. Sales commissions are not in any way related to the production process.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

36) Repair and maintenance costs for manufacturing equipment are included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

37) The cloth used to make a chair would be considered a direct material.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

38) Direct materials used in production are not easily traced to a product.
Answer: FALSE
Explanation: All direct costs (direct materials and direct labor) are easily traced to the product.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

39) The salary of the production supervisor is generally considered direct labor.
Answer: FALSE
Explanation: The salary of a production supervisor is an overhead (indirect manufacturing) cost.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

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40) Direct labor costs include wages and salaries of employees who convert the raw materials into a finished product.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

41) Which of the following is a part of manufacturing overhead?
A) cost of raw materials
B) wages of assembly line workers
C) factory insurance
D) depreciation on office furniture
Answer: C
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

42) Which of the following is an example of direct labor cost in a factory?
A) wages of assembly line personnel
B) salary of vice president of production
C) wages of factory security guard
D) salary of production manager
Answer: A
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

43) Which of the following will be included in manufacturing overhead costs?
A) indirect labor and indirect materials used
B) salaries of salesmen
C) direct materials and direct labor
D) delivery costs to ship goods to customers
Answer: A
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

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44) Manufacturing overhead is also referred to as _____.
A) indirect manufacturing costs
B) direct manufacturing costs
C) prime costs
D) period costs
Answer: A
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

45) Which of the following would be considered a direct labor cost for a manufacturing company?
A) wages of the assembly line staff
B) wages of the factory janitors
C) wages of the factory manager
D) salaries of the internal auditors
Answer: A
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

46) Which of the following would be included as indirect manufacturing costs for a manufacturing company?
A) sales commissions
B) fuel and maintenance for delivery vehicles
C) wages of the assembly line workers
D) wages of the factory manager
Answer: D
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

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47) Which of the following would be included as manufacturing overhead for a manufacturing company?
A) direct materials cost
B) indirect materials cost
C) direct labor
D) advertising
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

48) The following information relates to Carried Away Hot Air Balloons, Inc.:

Advertising Costs	$14,600
Sales Salary	17,000
Sales Revenue	650,000
President's Salary	54,000
Administrative Office Rent	65,500
Manufacturing Equipment Depreciation	1,500
Indirect Materials Used	9,800
Indirect Labor	14,100
Factory Repair and Maintenance	540
Direct Materials Used	31,590
Direct Labor	35,000
Delivery Vehicle Depreciation	800
Administrative Salaries	29,600

How much was Carried Away's manufacturing overhead?
A) $23,900
B) $24,440
C) $25,940
D) $66,590
Answer: C
Explanation:

Indirect Labor	$14,100
Indirect Materials	9,800
Factory Repair and Maintenance	540
Manufacturing Equipment Depreciation	1,500
Total Manufacturing Overhead	$25,940

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

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49) Selected data for Lemon Grass, Inc. for the year are provided below:

Factory Utilities	$3,000
Indirect Materials Used	37,500
Direct Materials Used	281,000
Property Taxes on Factory Building	6,700
Sales Commissions	82,000
Indirect Labor Incurred	24,000
Direct Labor Incurred	147,000
Depreciation on Factory Equipment	6,500

What is the total manufacturing overhead?
A) $428,000
B) $61,500
C) $77,700
D) $16,200
Answer: C
Explanation:

Factory Utilities	$3,000
Indirect Materials Used	37,500
Property Taxes on Factory Building	6,700
Indirect Labor Incurred	24,000
Depreciation on Factory Equipment	6,500
Total Factory Overhead	$77,700

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

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50) Mars Supplies Company provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$28,000
Ending Balance—Work-in-Process Inventory	57,000
Beginning Balance— Direct Materials Inventory	82,000
Ending Balance— Direct Materials Inventory	61,000
Purchases — Direct Materials	356,000
Direct Labor	472,000
Indirect Labor	19,000
Depreciation on Factory Plant and Equipment	22,000
Plant Utilities and Insurance	268,000

What was the amount of the manufacturing overhead costs?
A) $309,000
B) $41,000
C) $290,000
D) $491,000
Answer: A
Explanation:

Plant Utilities and Insurance	268,000
Depreciation on Factory Plant and Equipment	22,000
Indirect Labor	19,000
Total Manufacturing Overhead Costs	$309,000

Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

51) _____ are the cost of raw materials that are converted into finished product and are easily traced to the product.
A) Indirect materials
B) Indirect labor
C) Direct materials
D) Direct labor
Answer: C
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

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52) A chair manufacturer would consider which of the following a direct material?
A) glue used to glue the material ends
B) screws to keep the chair frame together
C) thread for sewing
D) leather or cloth to cover the chair cushion
Answer: D
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

53) Define indirect materials and give two examples of indirect materials for a manufacturing company.
Answer: Indirect materials are used in making a product but either cannot be conveniently traced to specific, finished products or are not large enough to justify tracing to the specific products. Examples include (1) glue, screws and other fasteners, tape, oil, grease, and other manufacturing and cleaning supplies.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

54) Define indirect labor and give two examples of indirect labor for a manufacturing company.
Answer: Indirect labor are labor costs for activities that support the production process but either cannot be conveniently traced directly to specific finished products or are not large enough to justify tracing to the specific products. Examples include production supervisor's salary and wages of factory janitors and factory maintenance employees.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

55) Direct materials and manufacturing overhead are prime costs.
Answer: FALSE
Explanation: Prime costs are direct materials and direct labor.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Prime and Conversion Costs

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56) Direct labor and manufacturing overhead are conversion costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Prime and Conversion Costs

57) Prime and conversion costs both include direct labor.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Prime and Conversion Costs

58) Direct materials and direct labor are prime costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Prime and Conversion Costs

59) For decision-making purposes, _____ are often divided into prime costs and conversion costs.
A) fixed costs
B) product costs
C) period costs
D) sunk costs
Answer: B
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Prime and Conversion Costs

60) Which of the following is a prime cost and a conversion cost?
A) manufacturing overhead
B) direct materials
C) direct labor
D) selling expenses
Answer: C
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Prime and Conversion Costs

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61) Which of the following represents the combined sum of direct labor costs and manufacturing overhead costs?
A) conversion costs
B) period costs
C) prime costs
D) fixed costs
Answer: A
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Prime and Conversion Costs

62) Which of the following represents the combined sum of direct materials costs and direct labor costs?
A) conversion costs
B) period costs
C) prime costs
D) fixed costs
Answer: C
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Prime and Conversion Costs

63) Which of the following will be classified as a conversion cost?
A) cost of direct materials used
B) depreciation on factory equipment
C) salary of sales personnel
D) depreciation on office furniture
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Prime and Conversion Costs

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64) Which of the following would be classified as a prime cost?
A) cost of direct materials used
B) depreciation on factory equipment
C) salary of sales personnel
D) depreciation on office furniture
Answer: A
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Prime and Conversion Costs

65) The following information represent the costs for ABC Company:

Direct Materials	$20,000
Direct Labor	$50,000
Manufacturing Overhead	$10,000

1. What are the total prime costs?
2. What are the total conversion costs?

Answer:
1. Prime costs are $70,000 ($20,000 + $50,000)
2. Conversion costs are $60,000 ($50,000 + $10,000)

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Prime and Conversion Costs

66) All costs incurred in the manufacturing of completed products are product costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

67) In a manufacturing company, wages and benefits of assembly line workers are period costs.
Answer: FALSE
Explanation: Wages could be either direct or indirect costs depending on the type of labor and the ability to trace the cost of the labor easily to the cost object (product) and benefits for assembly line workers would most likely be part of overhead (indirect manufacturing costs) but not period costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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68) In a manufacturing company, wages and benefits of assembly line workers are included in manufacturing overhead.
Answer: FALSE
Explanation: Compensation of assembly line workers would be a direct labor cost.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

69) In a manufacturing company, wages and benefits of factory managers are treated as product costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

70) Product costs, such as direct materials costs, are expensed in the period they are incurred.
Answer: FALSE
Explanation: product costs are not an expense until the product is sold when they become cost of goods sold.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Product and Period Costs

71) The three categories of period costs are direct materials, direct labor, and manufacturing overhead.
Answer: FALSE
Explanation: All the costs mentioned are product costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

72) In a manufacturing company, the salary of the sales staff is an example of a period cost.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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73) Product costs, such as manufacturing overhead, should be treated as an asset in an inventory account until the product is sold.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

74) For a manufacturer, rent paid for an office building is an example of a period cost.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

75) Freight costs paid to ship raw materials to a company warehouse are considered product costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

76) In a manufacturing company, advertising and marketing costs are examples of period costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

77) In a manufacturing company, advertising and marketing costs are included in manufacturing overhead.
Answer: FALSE
Explanation: These are period costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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78) In a manufacturing company, accounting, legal, and administrative costs are typical examples of product costs.
Answer: FALSE
Explanation: These are period costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

79) In a manufacturing company, administrative costs are included in period costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

80) Repair and maintenance costs for manufacturing equipment are product costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

81) Repair and maintenance costs of vehicles used to deliver products to customers are product costs.
Answer: FALSE
Explanation: Repair and maintenance costs of vehicles are period costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

82) Repair and maintenance costs of vehicles used to deliver products to the customers are included in manufacturing overhead.
Answer: FALSE
Explanation: Repair and maintenance costs of vehicles are period costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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83) The wages of factory janitors are considered to be direct labor costs because they are directly related to the manufacturing process.
Answer: FALSE
Explanation: The wages of factory janitors are indirect costs of the manufacturing process and are considered manufacturing overhead.
Diff: 1
LO: M:1-2
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Product and Period Costs

84) Which of the following will most likely be considered an indirect material cost for a bakery?
A) spices
B) flour
C) milk
D) eggs
Answer: A
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

85) Period costs are the _____.
A) product costs that must be paid in the accounting period in which they are incurred
B) operating costs that are expensed in the accounting period in which they are incurred
C) costs related to production of products
D) same as manufacturing overhead costs
Answer: B
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

86) Which of the following is an example of a period cost for a manufacturing company?
A) advertising expense
B) depreciation on factory equipment
C) indirect materials
D) property taxes for the factory
Answer: A
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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87) Which of the following is a product cost for a manufacturing company?
A) salary of administrative staff
B) wages paid to factory janitor
C) commissions paid to sales staff
D) depreciation on corporate building
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

88) Which of the following is a period cost for a manufacturing company?
A) office rent
B) wages of factory janitor
C) insurance cost of production equipment
D) raw materials
Answer: A
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

89) For a manufacturing company, which of the following is a period cost?
A) direct materials used
B) office rent
C) wages expense of factory workers
D) indirect materials used
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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90) Castillo Corporation, a manufacturer, reports costs for the year as follows:

Direct Materials Used	$550,000
Wages to Line Workers	655,000
Office Rent	12,000
Indirect Materials Used	795,000

How much is the total period costs for Castillo?
A) $550,000
B) $655,000
C) $12,000
D) $795,000
Answer: C
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

91) Rios Corporation reports costs for the year as follows:

Direct Materials Used	$430,000
Wages to Line Workers	120,000
Office Rent	44,500
Indirect Materials Used	605,000

How much is the total product costs for the year?
A) $605,000
B) $1,155,000
C) $1,199,500
D) $550,000
Answer: B
Explanation: Total product costs = Raw Materials + Wages to Line Workers + Indirect Materials = $430,000 + $120,000 + $605,000 = $1,155,000
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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92) Which of the following is a product cost?
A) sales commissions
B) CEO's salary
C) delivery van depreciation
D) depreciation on production equipment
Answer: D
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

93) Which of the following correctly describes the accounting for indirect labor costs?
A) Indirect labor costs are product costs and are expensed as incurred.
B) Indirect labor costs are period costs and are expensed as incurred.
C) Indirect labor costs are product costs and are expensed when the manufactured product is sold.
D) Indirect labor costs are period costs and are expensed when the manufactured product is sold.
Answer: C
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

94) Which of the following correctly describes the accounting for factory depreciation?
A) Factory depreciation is a product cost and is expensed as incurred.
B) Factory depreciation is a period cost and is expensed as incurred.
C) Factory depreciation is a product cost and is expensed when the manufactured product is sold.
D) Factory depreciation is a period cost and is expensed when the manufactured product is sold.
Answer: C
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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95) Which of the following correctly describes the accounting for administrative expenses of a manufacturing company?
A) Administrative expenses are product costs and are expensed as incurred.
B) Administrative expenses are period costs and are expensed as incurred.
C) Administrative expenses are product costs and are expensed when the manufactured product is sold.
D) Administrative expenses are period costs and are expensed when the manufactured product is sold.
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

96) Which of the following correctly describes the accounting for advertising costs?
A) Advertising costs are product costs and are expensed as incurred.
B) Advertising costs are period costs and are expensed as incurred.
C) Advertising costs are product costs and are expensed when the manufactured product is sold.
D) Advertising costs are period costs and are expensed when the manufactured product is sold.
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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97) The following information relates to Wagner, Inc.:

Advertising Costs	$18,200
Administrative Salaries	15,200
Delivery Vehicle Depreciation	2,000
Factory Repair and Maintenance	600
Indirect Labor	15,500
Indirect Materials	20,000
Manufacturing Equipment Depreciation	1,400
Administrative Office Rent	62,000
President's Salary	2,800
Sales Revenue	630,000
Sales Salary	5,500

How much were Wagner's period costs?
A) $105,700
B) $37,500
C) $635,500
D) $8,300
Answer: A
Explanation:

Advertising Costs	$18,200
President's Salary	2,800
Administrative Office Rent	62,000
Sales Salary	5,500
Delivery Vehicle Depreciation	2,000
Administrative Salaries	15,200
Total Period Cost	$105,700

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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98) The following information relates to Myer, Inc.:

Advertising Costs	$13,000
Sales Salary	12,200
Sales Revenue	470,000
President's Salary	270,000
Administrative Office Rent	64,000
Manufacturing Equipment Depreciation	1,800
Indirect Materials Used	4,200
Indirect Labor	10,000
Factory Repair and Maintenance	860
Direct Materials Used	38,000
Direct Labor	44,000
Delivery Vehicle Depreciation	1,500
Administrative Salaries	28,500

How much were Myer's product costs?
A) $589,200
B) $298,500
C) $483,000
D) $98,860
Answer: D
Explanation:

Indirect Labor	$10,000
Indirect Materials	4,200
Factory Repair and Maintenance	860
Manufacturing Equipment Depreciation	1,800
Direct Materials	38,000
Direct Labor	44,000
Total Product Cost	$98,860

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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99) The following information was obtained from Durand, Inc.:

Advertising Costs	$11,400
Indirect Labor	5,000
CEO's Salary	530,000
Direct Labor	59,000
Indirect Materials Used	5,500
Direct Materials Used	360,000
Factory Utilities	780
Factory Janitorial Costs	2,500
Manufacturing Equipment Depreciation	1,100
Delivery Vehicle Depreciation	2,310
Administrative Wages and Salaries	28,400

How much were Durand's period costs?
A) $433,880
B) $572,110
C) $13,710
D) $569,800
Answer: B
Explanation:

Advertising Costs	$11,400
CEO's Salary	530,000
Delivery Vehicle Depreciation	2,310
Administrative Wages and Salaries	28,400
Total Period Costs	$572,110

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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100) The following information was obtained from Moreau Manufacturing, Inc.:

Advertising Costs	$9,900
Indirect Labor	82,000
CEO's Salary	460,000
Direct Labor	40,000
Indirect Materials Used	4,500
Direct Materials Used	61,000
Factory Utilities	860
Factory Janitorial Costs	2,000
Manufacturing Equipment Depreciation	1,200
Delivery Vehicle Depreciation	3,500
Administrative Wages and Salaries	21,000

Calculate Moreau Manufacturing's total product costs.
A) $191,560
B) $494,400
C) $101,000
D) $187,500
Answer: A
Explanation:

Indirect labor	$82,000
Direct Labor	40,000
Indirect Materials	4,500
Direct Materials Used	61,000
Factory Utilities	860
Factory Janitorial Costs	2,000
Manufacturing Equipment Depreciation	1,200
Total Product Costs	$191,560

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

101) Which of the following would be considered a product cost for a manufacturing business?
A) research and development
B) factory property taxes
C) advertising
D) delivery costs
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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102) Which of the following would be considered a product cost for a manufacturing company?
A) salary of the sales manager
B) salary of the CEO
C) salaries of the accounting staff
D) salary of the production manager
Answer: D
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

103) Which of the following would be considered a product cost for a manufacturing company?
A) depreciation on delivery vehicles
B) depreciation on administrative building furniture and fixtures
C) depreciation on manufacturing equipment
D) depreciation on the accounting department's computer equipment
Answer: C
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

104) Which of the following would be considered a period cost for a manufacturing company?
A) indirect materials
B) factory utilities
C) direct labor
D) sales salaries
Answer: D
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

105) Which of the following will most likely be considered an indirect labor cost for a bakery?
A) shift supervisor
B) pastry baker
C) employee who mixes the dough
D) employee who
Answer: A
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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106) A(n) _____ is the amount the company incurs to acquire the goods or service.
A) sales price
B) cost
C) expense
D) revenue
Answer: B
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

107) _____ is a cost that can be easily and cost-effectively traced to a cost object.
A) Work-in-process
B) Manufacturing overhead
C) Indirect cost
D) Direct cost
Answer: D
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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108) The following information was obtained from Smith Manufacturing, Inc.:

Advertising Costs	$9,900
Indirect Labor	51,000
CEO's Salary	650,000
Direct Labor	41,000
Indirect Materials Used	7,000
Direct Materials Used	65,000
Factory Utilities	750
Factory Janitorial Costs	1,600
Manufacturing Equipment Depreciation	3,300
Delivery Vehicle Depreciation	1,400
Administrative Wages and Salaries	21,000

Calculate Smith Manufacturing's manufacturing overhead costs.
A) $169,650
B) $682,300
C) $106,000
D) $63,650
Answer: D
Explanation:

Indirect labor	$51,000
Indirect Materials	7,000
Factory Utilities	750
Factory Janitorial Costs	1,600
Manufacturing Equipment Depreciation	3,300
Total Manufacturing Overhead	$63,650

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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109) The following information was obtained from Johnson Manufacturing, Inc.:

Advertising Costs	$12,700
Indirect Labor	91,000
CEO's Salary	720,000
Direct Labor	57,000
Indirect Materials Used	7,800
Direct Materials Used	64,000
Factory Utilities	180
Factory Janitorial Costs	2,400
Manufacturing Equipment Depreciation	3,800
Delivery Vehicle Depreciation	1,200
Administrative Wages and Salaries	27,000

Calculate Smith Manufacturing's manufacturing overhead costs.
A) $227,380
B) $760,900
C) $105,180
D) $114,080
Answer: C
Explanation:

Indirect labor	$91,000
Indirect Materials	7,800
Factory Utilities	180
Factory Janitorial Costs	2,400
Manufacturing Equipment Depreciation	3,800
Total Manufacturing Overhead	$105,180

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

110) Manufacturing overhead consists of all of the following EXCEPT _____.
A) factory equipment depreciation
B) indirect labor
C) indirect materials
D) administrative office equipment depreciation
Answer: D
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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111) Define period cost. Give three examples of period costs of a merchandising company.
Answer: Period cost is an operating cost that is expensed in the accounting period in which it is incurred. Examples include sales staff salaries, advertising, store utilities, office rent, office equipment depreciation, property taxes and insurance for the office, and delivery expenses.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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For the questions below, identify each cost as a period cost or a product cost.

A) Product cost
B) Period cost

112) Depreciation on the office equipment
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

113) Depreciation on manufacturing equipment
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

114) CEO's salary
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

115) Production supervisor's salary
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

116) Wages for the assembly line workers
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

117) Materials used in making products
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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118) Delivery expense
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

119) Production supervisor's salary
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

Answers: 112) B 113) A 114) B 115) A 116) A 117) A 118) B 119) A

120) Classify each cost of a furniture manufacturer as either a product cost (PR) or a period cost (PE).

Cost	PR or PE
Vice president of marketing's salary	
Delivery expense	
Wood used to make dining tables	
Depreciation on office equipment	
Production supervisor's salary	
Factory insurance	
Corporate office rent	

Answer:

Cost	PR or PE
Vice president of marketing's salary	PE
Delivery expense	PE
Wood used to make dining tables	PR
Depreciation on office equipment	PE
Production supervisor's salary	PR
Factory insurance	PR
Corporate office rent	PE

Diff: 2
LO: M:1-2
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Product and Period Costs

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Learning Objective M:1-3

1) The inventory of a merchandising company consists of Raw Materials Inventory, Work-in-Process Inventory, and Finished Goods Inventory.
Answer: FALSE
Explanation: The description is that of the inventory of a manufacturer.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

2) The inventories of a manufacturing company consist of Raw Materials Inventory, Work-in-Process Inventory, and Finished Goods Inventory.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

3) The inventory of a merchandising company consists of Finished Goods Inventory.
Answer: FALSE
Explanation: Finished goods inventory is one of the inventory accounts of a manufacturer.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

4) A service business has no inventory accounts.
Answer: TRUE
Explanation: A service business typically has no merchandise inventory accounts.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

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5) Which of the following is true of service companies?
A) All costs of service companies are product costs.
B) Service companies modify and resell products they buy from manufacturers.
C) Revenues of service companies are only recorded on cash receipt.
D) Service companies carry no inventories of products for sale.
Answer: D
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

6) The balance sheet of a _____ company will include Finished Goods Inventory as a line item.
A) manufacturing
B) merchandising
C) service
D) trading
Answer: A
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

7) The balance sheet of a _____ company will include Merchandise Inventory as a line item.
A) manufacturing
B) merchandising
C) service
D) trading
Answer: B
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

8) The balance sheet of a _____ company will include Work-in-Process Inventory as a line item.
A) manufacturing
B) merchandising
C) service
D) trading
Answer: A
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

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9) Selling and administrative expenses are subtracted from gross profit to obtain operating income.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Income Statement

10) Merchandising companies, like service companies, do not use a Cost of Goods Sold account.
Answer: FALSE
Explanation: Merchandising companies sell products and therefore have cost of goods sold.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Income Statement

11) For external reporting purposes, GAAP requires companies to treat period costs as assets.
Answer: FALSE
Explanation: Period costs are immediately expensed under GAAP.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

12) Unlike merchandising companies, income statements of service companies typically include cost of goods sold as a line item.
Answer: FALSE
Explanation: Service companies do not have product sales and therefore do not report the cost of those sales (cost of goods sold.)
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Income Statement

13) The cost of goods sold is added to net sales revenue to determine gross profit.
Answer: FALSE
Explanation: The cost of goods sold is subtracted from net sales revenue to determine gross profit.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

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14) In the income statements of both manufacturing and merchandising companies, the Cost of Goods Sold account is usually the largest expense.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

15) The income statement of a service company will most likely include _____.
A) salaries expense
B) factory overhead
C) cost of goods sold
D) direct materials
Answer: A
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

16) One of the primary activities of Perez, Inc. is to purchase hats from Toppers, Inc. in Texas and sell them to its customers in New York for a profit. It is likely that Perez is a _____.
A) manufacturing company
B) hybrid company
C) service company
D) merchandising company
Answer: D
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Income Statement

17) Which of the following would appear as a line item on the income statements of both a merchandiser and a manufacturer?
A) Direct Labor
B) Cost of Goods Manufactured
C) Direct Materials
D) Cost of Goods Sold
Answer: D
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

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18) Partial income statements of Company A and Company B are provided below:

Company A

Revenue		$80,000
Expenses:		
Utilities Expense	$5,000	
Salaries Expense	15,000	
Rent Expense	3,700	
Total Expenses		23,700
Operating Income		$56,300

Company B

Revenue		$50,000
Cost of Goods Sold:		
Beginning Merchandise Inventory	$4,000	
Purchases and Freight In	23,000	
Cost of Goods Available for Sale	27,000	
Ending Merchandise Inventory	(5,500)	
Cost of Goods Sold		21,500
Gross Profit		$28,500

Which of the following statements is true?
A) Company A is a merchandising company.
B) Company B is a manufacturing company.
C) Company A is a manufacturing company.
D) Company A is a service company.
Answer: D
Diff: 1
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

19) Which of the following formulas represent cost of goods sold for a merchandising business?
A) Beginning Merchandise Inventory - Ending Merchandise Inventory = Cost of Goods Sold
B) Purchases and Freight In + Ending Merchandise Inventory = Cost of Goods Sold
C) Ending Merchandise Inventory + Purchases and Freight In - Beginning Merchandise Inventory = Cost of Goods Sold
D) Beginning Merchandise Inventory + Purchases and Freight In - Ending Merchandise Inventory = Cost of Goods Sold
Answer: D
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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20) Belstone, Inc. is a merchandiser of stone ornaments. It sold 15,000 units during the year. The company has provided the following information:

Sales Revenue	$505,000
Purchases (excluding Freight In)	345,000
Selling and Administrative Expenses	36,500
Freight In	15,800
Beginning Merchandise Inventory	42,000
Ending Merchandise Inventory	59,000

How much is the gross profit for the year?
A) $197,700
B) $343,800
C) $161,200
D) $160,000
Answer: C
Explanation: Cost of Goods Sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $42,000 + $345,000 + $15,800 - 59,000 = $343,800

Gross Profit = Sales Revenue - Cost of Goods Sold = $505,000 - $343,800 = $161,200
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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21) Stone Beauty, Inc. is a merchandiser of stone ornaments. The company sold 7,000 units during the year. The company has provided the following information:

Sales Revenue	$579,000
Purchases (excluding freight in)	300,000
Selling and Administrative Expenses	67,000
Freight In	14,000
Beginning Merchandise Inventory	43,000
Ending Merchandise Inventory	42,000

What is the cost of goods available for sale for the year?
A) $357,000
B) $315,000
C) $343,000
D) $329,000
Answer: A
Explanation: Cost of goods available for sale = Beginning Merchandise Inventory + Purchases + Freight In = $43,000 + $300,000 + $14,000 = $357,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

22) The following is the year ended data for Tiger Company:

Sales Revenue	$59,000
Cost of Goods Manufactured	25,000
Beginning Finished Goods Inventory	1,000
Ending Finished Goods Inventory	2,000
Selling Expenses	15,000
Administrative Expenses	3,000

What is the cost of goods available for sale?
A) $26,000
B) $24,000
C) $35,000
D) $17,000
Answer: A
Explanation: $1,000 + $25,000 = $26,000
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

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23) The following is the year ended data for Baker Company:

Sales Revenue	$152,000
Cost of Goods Manufactured	122,000
Beginning Finished Goods Inventory	10,200
Ending Finished Goods Inventory	12,200
Selling Expenses	5,700
Administrative Expenses	13,700

What is the cost of goods available for sale?
A) $12,600
B) $32,000
C) $120,000
D) $132,200
Answer: D
Explanation: $10,200 + $122,000 = $132,200
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

24) The following is the year ended data for Tiger Company:

Sales Revenue	$59,000
Cost of Goods Manufactured	25,000
Beginning Finished Goods Inventory	1,800
Ending Finished Goods Inventory	3,600
Selling Expenses	15,100
Administrative Expenses	3,300

What is the cost of goods sold?
A) $26,800
B) $23,200
C) $35,800
D) $17,400
Answer: B
Explanation: $1,800 + $25,000 - $3,600 = $23,200
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

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25) The following is the year ended data for Baker Company:

Sales Revenue	$152,000
Cost of Goods Manufactured	129,000
Beginning Finished Goods Inventory	10,400
Ending Finished Goods Inventory	12,400
Selling Expenses	5,700
Administrative Expenses	13,800

What is the cost of goods sold?
A) $5,500
B) $25,000
C) $127,000
D) $23,000
Answer: C
Explanation: $10,400 + $129,000 - $12,400 = $127,000
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

26) The following is the year ended data for Tiger Company:

Sales Revenue	$56,000
Cost of Goods Manufactured	20,000
Beginning Finished Goods Inventory	1,900
Ending Finished Goods Inventory	3,800
Selling Expenses	15,500
Administrative Expenses	3,000

What is the gross profit?
A) $21,900
B) $18,100
C) $37,900
D) $19,400
Answer: C
Explanation: $56,000 – ($1,900 + $20,000 - $3,800) = $37,900
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

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27) The following is the year ended data for Baker Company:

Sales Revenue	$153,000
Cost of Goods Manufactured	125,000
Beginning Finished Goods Inventory	10,500
Ending Finished Goods Inventory	12,500
Selling Expenses	5,600
Administrative Expenses	13,200

What is the gross profit?
A) $11,200
B) $30,000
C) $123,000
D) $28,000
Answer: B
Explanation: $153,000 – ($10,500 + $125,000 - $12,500) = $30,000
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

28) The following is the year ended data for Tiger Company:

Sales Revenue	$53,000
Cost of Goods Manufactured	26,000
Beginning Finished Goods Inventory	1,600
Ending Finished Goods Inventory	3,200
Selling Expenses	15,800
Administrative Expenses	3,300

What is the operating income?
A) $27,600
B) $24,400
C) $28,600
D) $9,500
Answer: D
Explanation: $53,000 – ($1,600 + $26,000 - $3,200) - $15,800 - $3,300 = $9,500
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

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29) The following is the year ended data for Baker Company:

Sales Revenue	$151,000
Cost of Goods Manufactured	125,000
Beginning Finished Goods Inventory	10,900
Ending Finished Goods Inventory	12,900
Selling Expenses	5,400
Administrative Expenses	13,500

What is the operating income?
A) $9,100
B) $28,000
C) $123,000
D) $26,000
Answer: A
Explanation: $151,000 – ($10,900 + $125,000 - $12,900) - $5,400 - $13,500 = $9,100
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

30) Oaktree, Inc. is a merchandiser of inlaid wooden boxes. The company sold 7,500 units during the year. The company has provided the following information:

Sales Revenue	$558,000
Purchases (excluding freight in)	301,000
Selling and Administrative Expenses	69,000
Freight In	14,000
Beginning Merchandise Inventory	43,000
Ending Merchandise Inventory	42,000

What is the cost of goods sold for the year?
A) $358,000
B) $316,000
C) $314,000
D) $302,000
Answer: B
Explanation: Cost of goods sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $43,000 + $301,000 + $14,000 - $42,000 = $316,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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31) Artisan Inspiration, Inc. is a merchandiser of stone ornaments. The company sold 7,500 units during the year. The company has provided the following information:

Sales Revenue	$599,000
Purchases (excluding Freight In)	301,000
Selling and Administrative Expenses	69,000
Freight In	14,000
Beginning Merchandise Inventory	45,000
Ending Merchandise Inventory	42,000

What is the operating income for the year? (Round your answer to the nearest whole dollar.)
A) $212,000
B) $318,000
C) $281,000
D) $530,000
Answer: A
Explanation: Cost of Goods Sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $45,000 + $301,000 + $14,000 - $42,000 = $318,000

Operating Income = Sales Revenue - Cost of Goods Sold - Selling and Administrative Expenses = $599,000 - $318,000 - $69,000 = $212,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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32) Stone Beauty, Inc. is a merchandiser of stone ornaments. The company sold 7,000 units during the year. The company has provided the following information:

Sales Revenue	$579,000
Purchases (excluding freight in)	300,000
Selling and Administrative Expenses	67,000
Freight In	14,000
Beginning Merchandise Inventory	43,000
Ending Merchandise Inventory	42,000

What is the cost of goods available for sale for the year?
A) $357,000
B) $315,000
C) $343,000
D) $329,000
Answer: A
Explanation: Cost of goods available for sale = Beginning Merchandise Inventory + Purchases + Freight In = $43,000 + $300,000 + $14,000 = $357,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

33) Oaktree, Inc. is a merchandiser of inlaid wooden boxes. The company sold 7,500 units during the year. The company has provided the following information:

Sales Revenue	$558,000
Purchases (excluding freight in)	301,000
Selling and Administrative Expenses	69,000
Freight In	14,000
Beginning Merchandise Inventory	43,000
Ending Merchandise Inventory	42,000

What is the cost of goods sold for the year?
A) $358,000
B) $316,000
C) $314,000
D) $302,000
Answer: B
Explanation: Cost of goods sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $43,000 + $301,000 + $14,000 - $42,000 = $316,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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34) Belstone, Inc. is a merchandiser of stone ornaments. It sold 15,000 units during the year. The company has provided the following information:

Sales Revenue	$505,000
Purchases (excluding Freight In)	345,000
Selling and Administrative Expenses	36,500
Freight In	15,800
Beginning Merchandise Inventory	42,000
Ending Merchandise Inventory	59,000

How much is the gross profit for the year?
A) $197,700
B) $343,800
C) $161,200
D) $160,000
Answer: C
Explanation: Cost of Goods Sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $42,000 + $345,000 + $15,800 - 59,000 = $343,800

Gross Profit = Sales Revenue - Cost of Goods Sold = $505,000 - $343,800 = $161,200
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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35) Onyx Corporation has provided the following information about its operating activities for the year:

Merchandise Inventory, January 1	$150,000
Merchandise Inventory, December 31	75,000
Purchases	854,000
Selling and Administrative Expenses	65,000
Sales Revenue	1,000,000

Required: Prepare Onyx's income statement for the year ended December 31, including the heading. Use the format provided below:

Sales Revenue		
Cost of Goods Sold		
Beginning Inventory		
Purchases		
Cost of Goods Available for Sale		
Ending Inventory		
Cost of Goods Sold		
Gross Profit		
Selling and Administrative Expenses		
Operating Income		

Answer:

Onyx Corporation
Income Statement
Year Ended December 31, 20XX

Sales Revenue		$1,000,000
Cost of Goods Sold		
Beginning Inventory	$150,000	
Purchases	854,000	
Cost of Goods Available for Sale	1,004,000	
Ending Inventory	(75,000)	
Cost of Goods Sold		929,000
Gross Profit		71,000
Selling and Administrative Expenses		65,000
Operating Income		$6,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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36) Citrine Manufacturing provided the following information for the month ended March 31:

Sales Revenue	$22,000
Beginning Finished Goods Inventory	7,000
Ending Finished Goods Inventory	6,500
Cost of Goods Manufactured	10,600
Selling and Administrative Expenses	5,125

Prepare the income statement.

Answer: Citrine Manufacturing
Income Statement
Month Ended March 31, 20XX

Revenues:		
Sales Revenue		$22,000
Cost of Goods Sold		
Beginning Finished Goods Inventory	$7,000	
Cost of Goods Manufactured	10,600	
Cost of Goods Available for Sale	17,600	
Ending Finished Goods Inventory	(6,500)	
Cost of Goods Sold		11,100
Gross Profit		10,900
Selling and Administrative Expenses		5,125
Operating Income		$5,775

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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37) Accuracy Accounting, Inc. sells accounting textbooks. The following information summarizes Accuracy Accounting's operating activities for the year:

Merchandise Inventory, January 1	$10,000
Merchandise Inventory, December 31	7,000
Purchases	95,000
Selling and Administrative Expenses	65,000
Sales Revenue	180,000

Required: Prepare Accuracy Accounting, Inc.'s income statement for the year ended December 31.

Answer: Accuracy Accounting, Inc.
Income Statement
Year Ended December 31, 20XX

Sales Revenue		$180,000
Cost of Goods Sold		
Beginning Inventory	$10,000	
Purchases	95,000	
Cost of Goods Available for Sale	105,000	
Ending Inventory	(7,000)	
Cost of Goods Sold		98,000
Gross Profit		82,000
Selling and Administrative Expenses		65,000
Operating Income		$17,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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38) Rossi, Inc. sells plasticware. The following information summarizes Rossi's operating activities for the year:

Utilities Expense	$65,000
Rent Expense	10,000
Sales Commissions Expense	32,500
Purchases of Merchandise	260,000
Merchandise Inventory on January 1	65,000
Merchandise Inventory on December 31	97,500
Sales Revenue	650,000

Prepare an income statement for Rossi, Inc., a merchandiser, for the year ended December 31 using the format below. Include a proper heading.

Sales Revenue		
Cost of Goods Sold:		
Beginning Inventory		
Purchases		
Cost of Goods Available for Sale		
Ending Inventory		
Cost of Goods Sold		
Gross Profit		
Selling Expenses:		
Sales Commissions Expense		
Administrative Expenses:		
Rent Expense		
Utilities Expense		
Total Operating Expenses		
Operating Income		

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Answer: Rossi, Inc.

Income Statement

Year Ended December 31, 20XX

Sales Revenue		$650,000
Cost of Goods Sold:		
Beginning Inventory	$65,000	
Purchases	260,000	
Cost of Goods Available for Sale	325,000	
Ending Inventory	(97,500)	
Cost of Goods Sold		227,500
Gross Profit		422,500
Selling Expenses:		
Sales Commissions Expense		32,500
Administrative Expenses:		
Rent Expense	10,000	
Utilities Expense	65,000	75,000
Total Operating Expenses		107,500
Operating Income		$315,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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39) Herrera, Inc., a merchandiser, sells office supplies. The following information summarizes Herrera's operating activities during the year:

Utilities Expense	$6,000
Rent for Store Expense	8,000
Sales Commissions Expense	4,500
Purchases of Merchandise	54,000
Merchandise Inventory on January 1	30,000
Merchandise Inventory on December 31	20,500
Sales Revenue	108,000

Required: Prepare an income statement for Herrera, Inc. for the year ended December 31, using the format below. Include a proper heading.

Sales Revenue		
Cost of Goods Sold:		
Beginning Inventory		
Purchases		
Cost of Goods Available for Sale		
Ending Inventory		
Cost of Goods Sold		
Gross Profit		
Selling Expenses:		
Sales Commissions Expense		
Administrative Expenses:		
Rent Expense		
Utilities Expense		
Total Operating Expenses		
Operating Income		

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Answer: Herrera, Inc.
Income Statement
Year Ended December 31, 20XX

Sales Revenue		$108,000
Cost of Goods Sold:		
Beginning Inventory	$30,000	
Purchases	54,000	
Cost of Goods Available for Sale	84,000	
Ending Inventory	(20,500)	
Cost of Goods Sold		63,500
Gross Profit		44,500
Selling Expenses:		
Sales Commissions Expense	4,500	
Administrative Expenses:		
Rent Expense	8,000	
Utilities Expense	6,000	
Total Operating Expenses		18,500
Operating Income		$26,000

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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40) Yoga Universe, Inc. is a fitness center in Tampa, Florida. In October, the company earned $550,000 in revenues and incurred the following operating costs from 340 customers:

Manager's salary	$50,000
Gym Rent Expense	60,000
Depreciation Expense—Equipment	25,000
Office Supplies Expense	30,000
Utilities Expense	89,700
Trainer's Salary	25,000

Required: Prepare Yoga Universe's income statement for the month of October, 2019.

Answer:

Yoga Universe
Income Statement
For the month ended October 31, 2019

Revenue		
Service Revenue		$550,000
Expenses		
Utilities Expense	$89,700	
Salaries Expense	75,000	
Gym Rent Expense	60,000	
Office Supplies Expense	30,000	
Depreciation Expense—Equipment	25,000	
Total Expenses		279,700
Operating Income		$270,300

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

41) Costs are transferred from the balance sheet to the income statement as cost of goods sold when finished goods are sold.

Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

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42) The cost of direct materials and direct labor flow directly into Finished Goods Inventory, without flowing through Work-in-Process.
Answer: FALSE
Explanation: The costs of direct materials, direct labor, and manufacturing overhead flow through work-in-process before they flow into finished goods inventory.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

43) The cost of finish goods flow to Cost of Goods Sold when the product is sold.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

44) Allocated manufacturing overhead flows to work-in-process.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

45) Costs are transferred from the balance sheet to the income statement as cost of goods sold when _____.
A) finished goods are sold
B) goods are transferred from the Work-in-Process Inventory account to the Finished Goods Inventory account
C) direct materials, direct labor and manufacturing overhead are transferred to the beginning Work-in-Process Inventory account
D) the total of Cost of Goods Manufactured is determined
Answer: A
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

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46) Which of the following statements is true of the flow of product and period costs for a manufacturer?
A) When the manufacturing process is completed, the costs are transferred to the Work-in-Process Inventory account.
B) The cost of the finished goods that the manufacturer sells becomes its Cost of Goods Sold on the income statement.
C) Period costs remain in inventory accounts on the balance sheet until the product is sold.
D) All product costs that have been paid are expensed and reported on the income statement at the end of the accounting period.
Answer: B
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

47) Which of the following is true of product costs?
A) They are expensed in the period they are paid.
B) For external reporting, GAAP requires that they be expensed before the products are sold.
C) They are first recorded in an inventory account.
D) For merchandising companies, product costs do not include freight costs.
Answer: C
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

48) Which of the following does NOT appear on the balance sheet?
A) Cost of Goods Sold
B) Merchandise Inventory
C) Work-in-Process Inventory
D) Finished Goods Inventory
Answer: A
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

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49) Work-in-Process Inventory flows into _____.
A) Cost of Goods Sold
B) Finished Goods Inventory
C) Work-in-Process Inventory
D) Manufacturing Overhead
Answer: B
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

50) Direct Materials, Direct Labor, and Manufacturing Overhead all flow into _____.
A) Cost of Goods Sold
B) Finished Goods Inventory
C) Work-in-Process Inventory
D) Inventory
Answer: C
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

51) Describe the flow of product costs for a manufacturer.
Answer: The flow of product costs for a manufacturer begins with the purchase of raw materials. The manufacturer then uses direct labor and manufacturing overhead to convert these materials into Work-in-Process Inventory. When the manufacturing process is complete, the costs are transferred to Finished Goods Inventory. The cost of the finished goods that the manufacturer sells becomes its Cost of Goods Sold on the income statement.
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

52) Direct materials used plus allocated Manufacturing Overhead equals the Cost of Goods Manufactured.
Answer: FALSE
Explanation: Beginning Finished Goods Inventory plus the Cost of Goods Manufactured less Ending Finished Goods Inventory equals the Cost of Goods Sold.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

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53) Beginning Work-in-Process Inventory is added to Total Manufacturing Costs, then ending Work-in-Process Inventory is subtracted to calculate Cost of Goods Manufactured.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

54) Materials purchased and materials used are always the same amount when calculating Cost of Goods Manufactured.
Answer: FALSE
Explanation: Materials purchased and materials used may not be equal as some materials purchased many not have yet been requisitioned into manufacturing.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

55) Indirect materials and indirect labor are part of Manufacturing Overhead when calculating Cost of Goods Manufactured.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

56) The cost of goods sold for Frye Manufacturing in the year was $363,000. The January 1 Finished Goods Inventory balance was $32,000, and the December 31 Finished Goods Inventory balance was $25,400. Calculate the cost of goods manufactured during the year.
A) $388,400
B) $57,400
C) $356,400
D) $6,600
Answer: C
Explanation: Cost of goods manufactured = Cost of goods sold + Ending finished goods inventory - Beginning finished goods inventory = $363,000 + $25,400 - $32,000 = $356,400
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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57) The cost of goods manufactured includes selling expenses, administrative expenses, and manufacturing overhead.
Answer: FALSE
Explanation: Cost of goods manufactured does not include period costs such as selling and administrative expenses.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

58) Total manufacturing costs to account for during the year minus the ending Work-in-Process Inventory equals the cost of goods manufactured.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

59) At the beginning of the year, Swift, Inc.'s Work-in-Process Inventory account had a balance of $120,000. During the year, $250,000 of direct materials were used in production, and $72,000 of direct labor costs were incurred. Manufacturing overhead amounted to $820,000. The cost of goods manufactured was $675,000. What is the balance in the Work-in-Process Inventory account on December 31?
A) $1,142,000
B) $1,350,000
C) $675,000
D) $587,000
Answer: D
Explanation:

Beginning Work-in-Process Inventory	$120,000
Direct Materials Used	250,000
Direct Labor	72,000
Manufacturing Overhead	820,000
Total Manufacturing Costs to account for	1,262,000
Cost of Goods Manufactured	(675,000)
Ending Work-in-Process Inventory	$587,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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60) Which of the following describes the cost of goods manufactured?
A) the cost of the goods that were sold during the period
B) the total cost of all goods that were completed, or partially completed during the period
C) the cost of those goods that were completed during the period
D) the total costs in inventory at the end of the period
Answer: C
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

61) Fire Cat, Inc. selected cost data for the year are shown below:

Cost of Goods Manufactured	$146,500
Work-in-Process Inventory, Jan. 1	19,000
Work-in-Process Inventory, Dec. 31	22,500
Direct Materials Used	15,500

What is the total of manufacturing costs incurred by Fire Cat, Inc. during the year?
A) $150,000
B) $143,000
C) $26,000
D) $34,500
Answer: A
Explanation: Total manufacturing costs incurred = Ending Work-in-Process Inventory + Cost of Goods Manufactured - Beginning Work-in-Process Inventory = $22,500 + $146,500 - $19,000 = $150,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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62) Argento Supplies, Inc. selected cost data for the year are shown below:

Work-in-Process Inventory, Jan. 1	$5,790
Direct Materials Used	104,000
Work-in-Process Inventory, Dec. 31	2,840
Cost of Goods Manufactured	193,000

Assuming manufacturing overhead costs of $27,800, what is the amount of direct labor incurred by Argento Supplies, Inc. during the year?
A) $61,200
B) $190,050
C) $58,250
D) $131,800
Answer: C
Explanation: Total Manufacturing Cost = Ending Work-in-Process Inventory + Cost of Goods Manufactured - Beginning Work-in-Process Inventory = $2,840 + $193,000 - $5,790 = $190,050

Direct labor costs = Total Manufacturing Cost - Manufacturing overhead costs - Direct Materials Used = $190,050 - $27,800 - $104,000 = $58,250
Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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63) Beckett, Inc. reports the following cost information for March:

Cost of Goods Manufactured	$73,000
Manufacturing Overhead	18,600
Finished Goods Inventory, March 1	8,000
Finished Goods Inventory, March 31	4,000
Work-in-Process Inventory, March 1	9,600
Work-in-Process Inventory, March 31	1,250
Direct Materials Used	25,200

What is the amount of direct labor incurred by Beckett, Inc. in March?
A) $64,650
B) $6,600
C) $73,000
D) $20,850
Answer: D
Explanation:

Cost of Goods Manufactured	$73,000
Direct Materials Used	(25,200)
Manufacturing Overhead	(18,600)
Work-in-Process Inventory, March 1	(9,600)
Work-in-Process Inventory, March 31	1,250
Direct Labor	$20,850

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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64) Keegan Corporation reports the following cost information for March:

Cost of Goods Manufactured	$75,000
Manufacturing Overhead	18,600
Finished Goods Inventory, March 1	5,000
Finished Goods Inventory, March 31	4,000
Work-in-Process Inventory, March 1	9,690
Work-in-Process Inventory, March 31	1,220
Direct Labor	36,600

What is the amount of direct materials used by the company in March?
A) $11,330
B) $8,470
C) $18,000
D) $19,800
Answer: A
Explanation:

Cost of Goods Manufactured	$75,000
Direct Labor	(36,600)
Manufacturing Overhead	(18,600)
Work-in-Process Inventory, March 1	(9,690)
Work-in-Process Inventory, March 31	1,220
Direct Materials Used	$11,330

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

65) A corporation used $35,000 of direct materials. It incurred $74,000 in direct labor costs and $114,000 in manufacturing overhead costs during the period. What is the cost of goods manufactured if the beginning and ending Work-in-Process Inventories were $28,500 and $22,000, respectively?
A) $251,500
B) $229,500
C) $216,500
D) $223,000
Answer: B
Explanation: Cost of goods manufactured = Beginning Work-in-Process Inventory + Direct Materials + Direct Labor Cost + Manufacturing Overhead Costs - Ending Work-in-Process Inventory = $28,500 + $35,000 + $74,000 + $114,000 - $22,000 = $229,500
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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66) Enzo Design Corporation reports the following cost information for March:

Cost of Goods Manufactured	$85,000
Finished Goods Inventory, March 1	4,000
Finished Goods Inventory, March 31	2,600
Work-in-Process Inventory, March 1	9,680
Work-in-Process Inventory, March 31	1,275
Direct Labor	36,300
Direct Materials Used	16,900

What is the amount of manufacturing overhead incurred by the company in March?
A) $40,295
B) $149,155
C) $23,395
D) $22,120
Answer: C
Explanation:

Cost of Goods Manufactured	$85,000
Direct Labor	(36,300)
Direct Materials Used	(16,900)
Work-in-Process Inventory, March 1	(9,680)
Work-in-Process Inventory, March 31	1,275
Manufacturing Overhead	$23,395

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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67) Given the following information, determine the cost of goods manufactured.

Direct Labor Incurred	$64,000
Manufacturing Overhead Incurred	179,000
Direct Materials Used	155,000
Finished Goods Inventory, Jan. 1	198,000
Finished Goods Inventory, Dec. 31	98,000
Work-in-Process Inventory, Jan. 1	222,000
Work-in-Process Inventory, Dec. 31	110,000

A) $398,000
B) $510,000
C) $288,000
D) $186,000
Answer: B
Explanation:

Work-in-Process Inventory, Jan. 1	$222,000
Direct Materials Used	155,000
Direct Labor Incurred	64,000
Manufacturing Overhead Incurred	179,000
Work-in-Process Inventory, Dec. 31	(110,000)
Cost of Goods Manufactured	$510,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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68) The following information has been provided by Crosby Corporation:

Direct Labor	$6,400
Direct Materials Used	2,400
Direct Materials Purchased	9,000
Cost of Goods Manufactured	18,000
Ending Work-in-Process Inventory	1,400
Corporate Headquarters' Property taxes	600
Manufacturing Overhead Incurred	500

The beginning balance of Work-in-Process Inventory account was _____.
A) $10,000
B) $10,100
C) $25,900
D) $9,300
Answer: B
Explanation:

Cost of Goods Manufactured	$18,000
Direct Labor	(6,400)
Direct Materials Used	(2,400)
Manufacturing Overhead	(500)
Ending Work-in-Process Inventory	1,400
Beginning Work-in-Process Inventory	$10,100

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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69) Garrett Corporation provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$27,000
Ending Balance—Work-in-Process Inventory	56,000
Beginning Balance—Direct Materials	87,000
Ending Balance— Direct Materials	62,000
Purchases — Direct Materials	357,000
Direct Labor	471,000
Indirect Labor	21,000
Depreciation on Factory Plant and Equipment	24,000
Plant Utilities and Insurance	270,000

What was the amount of direct materials used in production during the year?
A) $68,000
B) $357,000
C) $382,000
D) $828,000
Answer: C

Explanation: Beginning Balance—Direct Materials	$87,000
Purchases—Direct Materials	357,000
Ending Balance—Direct Materials Inventory	(62,000)
Direct Materials Used	$382,000

Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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70) Quinton Corporation provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$26,000
Ending Balance—Work-in-Process Inventory	58,000
Beginning Balance— Direct Materials	85,000
Ending Balance— Direct Materials	60,000
Purchases — Direct Materials	356,000
Direct Labor	472,000
Indirect Labor	21,000
Depreciation on Factory Plant and Equipment	22,000
Plant Utilities and Insurance	270,000

What was the total manufacturing costs incurred during the year?
A) $694,000
B) $313,000
C) $853,000
D) $1,166,000
Answer: D
Explanation:

Beginning Balance—Direct Materials Inventory	$85,000
Purchases—Direct Materials	356,000
Ending Balance—Direct Materials Inventory	(60,000)
Direct Materials Used	$381,000

Plant Utilities and Insurance	$270,000
Depreciation on Factory Plant and Equipment	22,000
Indirect Labor	21,000
Total Manufacturing Overhead Costs	$313,000

Direct Materials Used	$381,000
Direct Labor	472,000
Manufacturing Overhead	$313,000
Total Manufacturing Cost Incurred During Year	$1,166,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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71) Payton Corporation provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$24,000
Ending Balance—Work-in-Process Inventory	58,000
Beginning Balance— Direct Materials	82,000
Ending Balance— Direct Materials	59,000
Purchases — Direct Materials	357,000
Direct Labor	468,000
Indirect Labor	18,000
Depreciation on Factory Plant and Equipment	25,000
Plant Utilities and Insurance	272,000

What was the amount of the cost of goods manufactured for the year?
A) $1,363,000
B) $1,163,000
C) $1,129,000
D) $1,197,000
Answer: C
Explanation:

Beginning Balance—Direct Materials Inventory	$82,000
Purchases—Direct Materials	357,000
Ending Balance—Direct Materials Inventory	(59,000)
Direct Materials Used	$380,000
Plant Utilities and Insurance	$272,000
Depreciation on Factory Plant and Equipment	25,000
Indirect Labor	18,000
Total Manufacturing Overhead Costs	$315,000
Direct Materials Used	$380,000
Direct Labor	468,000
Manufacturing Overhead	$315,000
Total Manufacturing Cost Incurred During Year	$1,163,000
Beginning Balance—Work-in-Process Inventory	$24,000
Total Manufacturing Cost Incurred During Year	1,163,000
Ending Balance—Work-in-Process Inventory	(58,000)
Cost of Goods Manufactured	$1,129,000

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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72) Titus Manufacturing, Inc. provided the following information for the year:

Purchases — Direct Materials	$90,000
Plant Utilities and Insurance	68,000
Indirect Materials	11,130
Indirect Labor	4,130
Direct Materials Used in Production	97,000
Direct Labor	118,000
Depreciation on Factory Plant & Equipment	4,000

The inventory account balances as of January 1 are given below.

Direct Materials	$40,000
Work-in-Progress Inventory	11,000
Finished Goods Inventory	50,000

What is the ending balance in the Direct Materials account?
A) $130,000
B) $7,000
C) $108,130
D) $33,000
Answer: D
Explanation: Beginning Direct Materials + Purchases Direct Materials - Direct Materials Used in Production = Ending Direct Materials
$40,000 + $90,000 -$97,000 = $33,000
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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73) Darius Manufacturing, Inc. provided the following information for the year:

Purchases — Direct Materials	$91,000
Plant Utilities and Insurance	67,500
Indirect Materials Used	11,210
Indirect Labor	4,900
Direct Materials Used in Production	96,000
Direct Labor	117,500
Depreciation on Factory Plant and Equipment	4,000
Cost of Goods Manufactured	290,000

The inventory account balances as of January 1 are given below.

Direct Materials	$44,000
Work-in-Process Inventory	1,300
Finished Goods Inventory	48,500

What is the ending balance in the Work-in-Process Inventory account?
A) $12,410
B) $1,300
C) $48,500
D) $42,700
Answer: A
Explanation:

Indirect Materials	$11,210
Indirect Labor	4,900
Depreciation on Factory Plant and Equipment	4,000
Plant Utilities & Insurance	67,500
Total Manufacturing Overhead	$87,610

Beginning—Work-in-Process Inventory	$1,300
Direct Materials Used in Production	96,000
Direct Labor	117,500
Manufacturing Overhead	87,610
Cost of Goods Manufactured	(290,000)
Ending—Work-in-Process Inventory	$12,410

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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74) Ryker Manufacturing, Inc. provided the following information for the year:

Purchases — Direct Materials	$89,000
Plant Utilities and Insurance	66,000
Indirect Materials Used	11,500
Indirect Labor	4,490
Direct Materials Used in Production	96,000
Direct Labor	118,000
Depreciation on Factory Plant and Equipment	4,000
Cost of Goods Manufactured	290,000
Cost of Goods Sold	291,500

The inventory account balances as of January 1 are given below.

Direct Materials	$43,000
Work-in-Progress Inventory	11,000
Finished Goods Inventory	304,500

What is the ending balance in the Finished Goods Inventory?
A) $304,500
B) $306,000
C) $303,000
D) $594,500
Answer: C
Explanation:

Beginning Balance—Finished Goods Inventory	$304,500
Cost of Goods Manufactured	290,000
Cost of Goods Sold	(291,500)
Ending Balance—Finished Goods Inventory	$303,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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75) Vermont State, Inc. used $151,000 of direct materials and incurred $62,000 of direct labor costs during the year. Indirect labor amounted to $272,000, while indirect materials used totaled $52,000. Other operating costs pertaining to the factory included utilities of $135,500; maintenance of $70,800; repairs of $53,950; depreciation of $132,500; and property taxes of $70,380. There was no beginning or ending finished goods inventory, but Work-in-Process inventory began the year with a $5,600 balance and ended the year with a $7,300 balance.

How much is the cost of goods manufactured?
A) $12,900
B) $998,430
C) $1,005,730
D) $1,000,130
Answer: B
Explanation:

Beginning Work–in–Process Inventory	$5,600	
Direct Materials Used		151,000
Direct Labor		62,000
Manufacturing Overhead		
(272,000 + 52,000 + 135,500 + 70,800 + 53,950 + 132,500 + 70,380)		787,130
Total Manufacturing Costs Incurred during the Year		1,000,130
Total Manufacturing Costs to Account For		1,005,730
Ending Work–in–Process Inventory		(7,300)
Cost of Goods Manufactured		$998,430

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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76) Arturo Manufacturing, Inc. provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$150,000
Ending Balance—Work-in-Process Inventory	62,000
Beginning Balance— Direct Materials	269,000
Ending Balance— Direct Materials	52,400
Purchases — Direct Materials	135,500
Direct Labor	71,620
Indirect Materials	53,700
Indirect Labor	133,500
Depreciation on Factory Plant and Equipment	74,540
Plant Utilities and Insurance	71,180

How much is the cost of goods manufactured?
A) $844,640
B) $756,640
C) $906,640
D) $770,100
Answer: A
Explanation:

Beginning Balance—Work-in-Process Inventory			$150,000
Direct Materials Used:			
Beginning Balance—Direct Materials Inventory	269,000		
Purchases—Direct Materials	135,500		
Direct Materials Available for Use	404,500		
Ending Balance—Direct Materials Inventory	(52,400)		
Direct Materials Used		352,100	
Direct Labor		71,620	
Manufacturing Overhead			
(53,700 + 133,500 + 74,540 + 71,180)		332,920	
Total Manufacturing Costs Incurred during the Year			$756,640
Total Manufacturing Costs to Account For			$906,640
Ending Work-in-Process Inventory			(62,000)
Cost of Goods Manufactured			$844,640

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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77) The following information has been provided by New Age, Inc.:

Direct Labor	$25,500
Direct Materials Used	11,500
Direct Materials Purchased	16,920
Cost of Goods Manufactured	49,000
Ending Work-in-Process Inventory	11,300
Corporate Headquarters' Property Taxes	2,000
Manufacturing Overhead	19,400

Calculate the beginning balance of the Work-in-Process Inventory account.
A) $94,100
B) $60,300
C) $3,900
D) $45,100
Answer: C
Explanation:

Cost of Goods Manufactured	$49,000
Direct Materials Used	(11,500)
Direct Labor	(25,500)
Manufacturing Overhead	(19,400)
Ending Work-in-Process Inventory	11,300
Beginning Work-in-Process Inventory	$3,900

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
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PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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78) Varda, Inc. used $213,000 of direct materials and incurred $111,000 of direct labor costs during the year. Indirect labor amounted to $8,100, while indirect materials used totaled $4,800. Other operating costs pertaining to the factory included utilities of $9,300; maintenance of $13,500; repairs of $5,400; depreciation of $23,700; and property taxes of $7,800. There was no beginning or ending finished goods inventory. The Work-in-Process Inventory account reflected a balance of $16,500 at the beginning of the period and $22,500 at the end of the period.

Required: Prepare a schedule of cost of goods manufactured for Varda, Inc. using the format below.

Schedule of Cost of Goods Manufactured

Beginning Work-in-Process Inventory			
Direct Materials Used			
Direct Labor			
Manufacturing Overhead:			
Indirect Labor Used			
Indirect Materials			
Utilities			
Maintenance			
Repairs			
Depreciation			
Property Taxes			
Total Manufacturing Overhead			
Total Manufacturing Costs Incurred during the Year			
Total Manufacturing Costs to Account For			
Ending Work-in-Process Inventory			
Cost of Goods Manufactured			

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Answer: **Schedule of Cost of Goods Manufactured**

Beginning Work-in-Process Inventory			$16,500
Direct Materials Used		$213,000	
Direct Labor		111,000	
Manufacturing Overhead:			
Indirect Labor	$8,100		
Indirect Materials Used	4,800		
Utilities	9,300		
Maintenance	13,500		
Repairs	5,400		
Depreciation	23,700		
Property Taxes	7,800		
Total Manufacturing Overhead		72,600	
Total Manufacturing Costs Incurred during the Year			396,600
Total Manufacturing Costs to Account For			413,100
Ending Work-in-Process Inventory			(22,500)
Cost of Goods Manufactured			$390,600

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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79) Haggan Manufacturing, Inc. provided the following information for the year:

Purchases — Direct Materials	$270,000
Plant Utilities and Insurance	202,500
Indirect Materials	35,250
Indirect Labor	14,250
Ending Balance—Work-in-Process Inventory	42,000
Ending Balance—Direct Materials	45,000
Direct Labor	352,500
Depreciation on Factory Plant and Equipment	18,000
Beginning Balance—Work-in-Process Inventory	18,000
Beginning Balance— Direct Materials	63,000

Required: Prepare a schedule of the cost of goods manufactured using the following format:

Schedule of Cost of Goods Manufactured

Beginning Work-in-Process Inventory			
Direct Materials Used:			
Beginning Direct Materials			
Purchases of Direct Materials			
Direct Materials Available for Use			
Ending Direct Materials			
Direct Materials Used			
Direct Labor			
Manufacturing Overhead:			
Indirect Materials			
Indirect Labor			
Depreciation—Plant and Equipment			
Plant Utilities and Insurance			
Total Manufacturing Overhead			
Total Manufacturing Costs Incurred During the Year			
Total Manufacturing Costs to Account For			
Ending Work-in-Process Inventory			
Cost of Goods Manufactured			

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Answer: **Schedule of Cost of Goods Manufactured**

Beginning Work-in-Process Inventory			$18,000
Direct Materials Used			
Beginning Direct Materials	$63,000		
Purchases of Direct Materials	270,000		
Direct Materials Available for Use	333,000		
Ending Direct Materials	(45,000)		
Direct Materials Used		$288,000	
Direct Labor		352,500	
Manufacturing Overhead			
Indirect Materials	35,250		
Indirect Labor	14,250		
Depreciation on Factory Plant and Equipment	18,000		
Plant Utilities and Insurance	202,500		
Total Manufacturing Overhead		270,000	
Total Manufacturing Costs Incurred during the Year			910,500
Total Manufacturing Costs to Account For			928,500
Ending Work-in-Process Inventory			(42,000)
Cost of Goods Manufactured			$886,500

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

80) Ending Finished Goods Inventory is added to Cost of Goods Manufactured when calculating Cost of Goods Sold.
Answer: FALSE
Explanation: Beginning Finished Goods Inventory is added to Cost of Goods Manufactured when calculating Cost of Goods Sold.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

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81) Ending Work-in Process Inventory is subtracted from Cost of Goods Manufactured when calculating Cost of Goods Sold.
Answer: FALSE
Explanation: Ending Finished Goods Inventory is subtracted from Cost of Goods Manufactured when calculating Cost of Goods Sold.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

82) Cost of Goods Sold is calculated by taking beginning Finished Goods Inventory, plus Cost of Goods Manufactured, less ending Finished Goods Inventory.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

83) Cost of Goods Sold appears on the income statement.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

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84) Fontana Manufacturing provided the following information for the month ended March 31:

Sales Revenue	$22,000
Beginning Finished Goods Inventory	13,000
Ending Finished Goods Inventory	11,500
Cost of Goods Manufactured	19,600

Compute cost of goods available for sale.
A) $19,600
B) $31,100
C) $32,600
D) $21,100
Answer: C
Explanation: Fontana Manufacturing
Income Statement
Month Ended March 31, 20XX

Revenues:		
Sales Revenue		$22,000
Cost of Goods Sold		
Beginning Finished Goods Inventory	$13,000	
Cost of Goods Manufactured	19,600	
Cost of Goods Available for Sale	32,600	
Ending Finished Goods Inventory	(11,500)	
Cost of Goods Sold		21,100
Gross Profit		$900

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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85) Super Tread Inc. is a large manufacturer of auto tires. Super Tread has provided the following information:

Sales Revenue	$70,000
Beginning Finished Goods Inventory	17,000
Cost of Goods Sold	36,500
Cost of Goods Manufactured	55,500

Calculate the amount of ending Finished Goods Inventory reported on Super Tread's balance sheet.
A) $14,500
B) $72,500
C) $36,000
D) $19,000
Answer: C
Explanation:

Beginning Finished Goods Inventory	$17,000
Add: Cost of Goods Manufactured	55,500
Cost of Goods Available for Sale	72,500
Less: Cost of Goods Sold	(36,500)
Ending Finished Goods Inventory	$36,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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86) Franklin Manufacturing provided the following information for the month ended March 31:

Sales Revenue	$18,000
Beginning Finished Goods Inventory	8,000
Ending Finished Goods Inventory	6,500
Cost of Goods Manufactured	19,600

Compute cost of goods sold.
A) $19,600
B) $18,100
C) $21,100
D) $26,100
Answer: C
Explanation: Franklin Manufacturing
Income Statement
Month Ended March 31, 20XX

Revenues:		
Sales Revenue		$18,000
Cost of Goods Sold		
Beginning Finished Goods Inventory	$8,000	
Cost of Goods Manufactured	19,600	
Cost of Goods Available for Sale	27,600	
Ending Finished Goods Inventory	(6,500)	
Cost of Goods Sold		21,100
Gross Profit		$(3,100)

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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87) Lakeshore Manufacturing provided the following information for the month ended March 31:

Sales Revenue	$32,000
Beginning Finished Goods Inventory	13,000
Ending Finished Goods Inventory	8,500
Cost of Goods Manufactured	10,600

Compute gross profit.
A) $16,900
B) $21,400
C) $25,900
D) $12,900
Answer: A
Explanation:

Lakeshore Manufacturing
Income Statement
Month Ended March 31, 20XX

Revenues:		
Sales Revenue		$32,000
Cost of Goods Sold		
Beginning Finished Goods Inventory	$13,000	
Cost of Goods Manufactured	10,600	
Cost of Goods Available for Sale	23,600	
Ending Finished Goods Inventory	(8,500)	
Cost of Goods Sold		15,100
Gross Profit		$16,900

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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88) Jasper, Inc. reports the following cost information for March:

Cost of Goods Manufactured	$74,700
Manufacturing Overhead	18,100
Finished Goods Inventory, March 1	4,500
Finished Goods Inventory, March 31	2,900
Work-in-Process Inventory, March 1	9,800
Work-in-Process Inventory, March 31	1,800
Direct Materials Used	26,400

What is the cost of goods sold for March?
A) $1,500
B) $73,100
C) $76,300
D) $79,200
Answer: C
Explanation:

Finished Goods Inventory, March 1	$4,500
Cost of Goods Manufactured	74,700
Finished Goods Inventory, March 31	(2,900)
Cost of Goods Sold	$76,300

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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89) Given the following information, determine the cost of goods sold.

Direct Labor Incurred	$64,000
Manufacturing Overhead Incurred	175,000
Direct Materials Used	151,000
Finished Goods Inventory, Jan. 1	199,000
Finished Goods Inventory, Dec. 31	96,000
Work-in-Process Inventory, Jan. 1	221,500
Work-in-Process Inventory, Dec. 31	108,000

A) $503,500
B) $611,500
C) $606,500
D) $295,000
Answer: C
Explanation:

Work-in-Process Inventory, Jan. 1	$221,500
Direct Materials Used	151,000
Direct Labor Incurred	64,000
Manufacturing Overhead Incurred	175,000
Work-in-Process Inventory, Dec. 31	(108,000)
Cost of Goods Manufactured	$503,500

Finished Goods Inventory, Jan. 1	$199,000
Cost of Goods Manufactured	503,500
Finished Goods Inventory, Dec. 31	(96,000)
Cost of Goods Sold	$606,500

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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90) Viva, Inc. has provided the following information for the year:

Cost of Goods Manufactured	$1,299,000
Beginning Balance—Finished Goods Inventory	100,000
Ending Balance—Finished Goods Inventory	86,000

What is the cost of goods sold?
A) $186,000
B) $1,313,000
C) $1,299,000
D) $1,285,000
Answer: B
Explanation:

Beginning Balance—Finished Goods Inventory	$100,000
Cost of Goods Manufactured	1,299,000
Ending Balance—Finished Goods Inventory	(86,000)
Cost of Goods Sold	$1,313,000

Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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91) Doggie Delights manufactures its own brand of pet toys. At the end of June, 2019 the accounting records showed the following:

Inventories:	**Beginning**	**Ending**
Direct Materials	$14,200	$ 9,600
Work-in-Process	0	3,600
Finished Goods	0	6,800
Other Information:		
Direct materials purchases		40,000
Plant janitorial services		4,200
Sales salaries		6,000
Delivery costs		2,900
Sales revenue		206,000
Utilities for plant		10,200
Rent on plant		27,000
Customer service hotline costs		3,000
Direct labor		29,000

(a) Prepare a schedule of cost of goods manufactured for Doggie Delights and
(b) Prepare an income statement for Doggie Delights for the year ended June 30, 2019

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Answer:
(a)

Doggie Delights
Schedule of Cost of Goods Manufactured
Year Ended June 30, 2019

Beginning Work-in-Process			$0
Direct Materials Used:			
Beginning Direct Materials	$14,200		
Purchases of Direct Materials	40,000		
Direct Materials Available for Use	54,200		
Ending Direct Materials	(9,600)		
Direct Materials Used		$44,600	
Direct Labor		29,000	
Manufacturing Overhead			
Plant janitorial services	4,200		
Utilities for plant	10,200		
Rent on plant	27,000		
Total Manufacturing Overhead		41,400	
Total Manufacturing Costs Incurred			115,000
Total Manufacturing Costs to Account For			115,000
Ending Work-in-Process Inventory			(3,600)
Cost of Goods Manufactured			$111,400

(b)

Doggie Delights
Income Statement
Year Ended June 30, 2019

Sales Revenue		$206,000
Cost of Goods Sold:		
Beginning Finished Goods Inventory	$0	
Cost of Goods Manufactured	111,400	
Cost of Goods Available for Sale	111,400	
Ending Finished Goods Inventory	(6,800)	
Cost of Goods Sold		104,600
Gross Profit		101,400
Selling and Administrative Expenses:		
Sales Salaries Expense	6,000	
Delivery Expense	2,900	
Customer Service Hotline Expense	3,000	
Total Selling and Administrative Expenses		11,900
Operating Income		$89,500

Diff: 3
LO: M:1-2, M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured, Calculating Cost of Goods Sold, Income Statement

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92) Grant's Ironhorse Company manufactures model railroad cars. At the end of October, 2019 the accounting records showed the following:

Inventories:	**Beginning**	**Ending**
Direct Materials	$10,000	$5,000
Work-in-Process	15,000	20,000
Finished Goods	0	5,800
Other Information:		
Direct Materials Purchases		40,000
Plant maintenance services		6,800
Plant supervisor's salary		31,500
Sales salaries		12,700
Delivery costs		3,100
Sales revenue		236,000
Utilities for plant		10,500
Rent on plant		23,000
Advertising		8,000
Direct labor		30,000

(a) Prepare a schedule of cost of goods manufactured for Grant's Ironhorse Company and
(b) Prepare an income statement for Grant's Ironhorse Company for the year ended October 31, 2019

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Answer:

(a)

Grant's Ironhorse Company
Schedule of Cost of Goods Manufactured
Year Ended October 31, 2019

Beginning Work-in-Process			$15,000
Direct Materials Used:			
Beginning Direct Materials	$10,000		
Purchases of Direct Materials	40,000		
Direct Materials Available for Use	50,000		
Ending Direct Materials	(5,000)		
Direct Materials Used		$45,000	
Direct Labor		30,000	
Manufacturing Overhead			
Plant maintenance services	6,800		
Utilities for plant	10,500		
Plant supervisor's salary	31,500		
Rent on plant	23,000		
Total Manufacturing Overhead		71,800	
Total Manufacturing Costs Incurred			146,800
Total Manufacturing Costs to Account For			161,800
Ending Work-in-Process Inventory			(20,000)
Cost of Goods Manufactured			$141,800

(b)

Grant's Ironhorse Company
Income Statement
Year Ended October 31, 2019

Sales Revenue		$236,000
Cost of Goods Sold:		
Beginning Finished Goods Inventory	$0	
Cost of Goods Manufactured	141,800	
Cost of Goods Available for Sale	141,800	
Ending Finished Goods Inventory	(5,800)	
Cost of Goods Sold		136,000
Gross Profit		100,000
Selling and Administrative Expenses:		
Sales Salaries Expense	12,700	
Delivery Expense	3,100	
Advertising	8,000	
Total Selling and Administrative Expenses		23,800
Operating Income		$76,200

Diff: 2
LO: M:1-2, M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured, Calculating Cost of Goods Sold, Income Statement

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93) Manufacturing costs flow from Work-in-Process Inventory to Cost of Goods Sold to Finished Goods Inventory.
Answer: FALSE
Explanation: Manufacturing costs flow from Raw Materials Inventory to Work-in-Process Inventory to Finished Goods Inventory.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Flow of Costs Through the Inventory Accounts

94) The following format represents the flow of costs for all three manufacturing inventory accounts:
Beginning balance + Additions - Ending balance = Amount used, manufactured, or sold.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Flow of Costs Through the Inventory Accounts

95) The cost of direct materials used flows initially to _____.
A) Cost of Goods Sold
B) Finished Goods Inventory
C) Work-in-Process Inventory
D) Income Statement
Answer: C
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Flow of Costs Through the Inventory Accounts

96) Cost of Goods Manufactured flows initially to _____.
A) Cost of Goods Sold
B) Finished Goods Inventory
C) Work-in-Process Inventory
D) Income Statement
Answer: B
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Flow of Costs Through the Inventory Accounts

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97) Beginning Finished Goods Inventory plus Cost of Goods Manufactured is _____.
A) Cost of Goods Sold
B) Finished Goods Inventory
C) Work-in-Process Inventory
D) Cost of Goods Available for Sale
Answer: D
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Flow of Costs Through the Inventory Accounts

98) Regarding the flow of costs through the inventory accounts, which of the following statements is incorrect?
A) The final amount at each stage is added at the beginning of the next stage.
B) The costs flow from Raw Materials Inventory to Work-in-Process Inventory to Finished Goods Inventory.
C) Purchases of raw material and freight in are debited to the Work-in-Process Inventory account.
D) The format for computing the amount used, manufactured, or sold is the same for all three inventory accounts.
Answer: C
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Flow of Costs Through the Inventory Accounts

99) Unit product costs can be used to measure operating income and determine the cost of Finished Goods Inventory.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

100) The unit product cost is only part of the information that is needed to determine the sales price for each product.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

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101) A manufacturer produced 10,500 total units. The cost of goods manufactured is $91,000 and the cost of goods sold is $72,000. The unit product cost is $6.86.
Answer: FALSE
Explanation: Cost of goods manufactured / Total units produced = Unit product cost
$91,000 / 10,500 = $8.67
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

102) Velasco Productions has provided the following information for the year:

Direct Labor	$152,000
Beginning Work-in-Process Inventory	62,000
Direct Materials Used	269,000
Ending Work-in-Process Inventory	53,000
Manufacturing Overhead	134,000

During the year, Velasco produced 70,700 units of product. Calculate the unit product cost. (Round your answer to the nearest cent.)
A) $7.98
B) $6.83
C) $7.85
D) $8.73
Answer: A
Explanation:

Beginning Work-in-Process Inventory		$62,000
Direct Materials Used:	$269,000	
Direct Labor	152,000	
Manufacturing Overhead	134,000	
Total Mfg. Costs Incurred		555,000
Total Mfg. Costs to Account For		617,000
Ending Work-in-Process Inventory		(53,000)
Cost of Goods Manufactured		$564,000

Unit product cost: Cost of Goods Manufactured / Units produced
Unit product cost $7.98 per unit
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

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103) Hernando Manufacturing, Inc. reported the following information for the year:

Number of Units Produced	151,000
Number of Units Sold	63,000
Cost of Goods Manufactured	$268,000
Cost of Goods Sold	52,500
Sales Revenue	133,000
Gross Profit	71,220
Operating Expense	728,000

What was the unit product cost? (Round your answer to the nearest cent.)
A) $4.25
B) $0.88
C) $0.83
D) $1.77
Answer: D
Explanation: Unit product cost = Cost of goods manufactured / units = $268,000 / 151,000 = $1.77
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

104) The following information is available from Avery Company, a manufacturer of security cameras:

Cost of Goods Manufactured	$297,000
Total Units Produced	1,100
Number of Units Sold	950
Cost of Goods Sold	$275,000

The unit product cost for a security camera is:
A) $270.00
B) $279.02
C) $312.63
D) $289.47
Answer: A
Explanation: Cost of Goods Manufactured / Total Units Produced = Unit Product Cost
297,000/1,100 =270.00
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

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105) How does a manufacturing company calculate unit product cost? Why do managers need to know the unit product cost?
Answer: Unit product cost is calculated by dividing cost of goods manufactured by total units produced. The unit product cost helps managers decide on the prices to charge for each product to ensure that each product is profitable.
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

Learning Objective M:1-4

1) The United States Bureau of Labor Statistics predicts that the manufacturing sector will account for the majority of projected job growth from 2014-2024.
Answer: FALSE
Explanation: The United States Bureau of Labor Statistics predicts service-providing sectors will account for more than 90% of projected job growth from 2016 to 2026, especially in health care and social assistance, professional and business services, and leisure and hospitality sectors.
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Shift Toward a Service Economy

2) The United States Bureau of Labor Statistics predicts that the greatest service-providing sector growth will be in healthcare and social assistance jobs from 2014-2024.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Shift Toward a Service Economy

3) Companies that provide healthcare, communication, banking and other benefits to society are called _____.
A) service companies
B) societal organizations
C) merchandising companies
D) consumer organizations
Answer: A
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Shift Toward a Service Economy

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4) Managers in the service industry need to understand all EXCEPT:
A) the costs of providing services
B) the costs of supporting customers
C) planning for the future
D) the cost of materials when manufacturing a product
Answer: D
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Shift Toward a Service Economy

5) Managerial accounting concepts can be used to help managers make decisions about outsourcing.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Global Competition

6) In order to reach new markets, many companies are moving operations to other countries.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Global Competition

7) To be competitive in global markets, many companies are doing all of the following EXCEPT _____.
A) moving operations to other countries
B) partnering with foreign companies to meet local needs
C) moving to be closer to new markets
D) looking at future expansion, regardless of the cost savings
Answer: D
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Global Competition

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8) Managerial accounting concepts can be used in global competition to help managers _____.
A) prepare financials according to GAAP
B) make decisions about outsourcing portions of production process and delivery of goods to customers in different geographic markets
C) concentrate on mass production over the quality of the product
D) only in a service business
Answer: B
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Global Competition

9) ERP systems can integrate all of a company's functions, departments, and data into a single system.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

10) TQM has a philosophy of continuous improvement of products, but not processes.
Answer: FALSE
Explanation: TQM is a philosophy of continuous improvement of products and processes
Diff: 1
LO: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

11) E-commerce _____.
A) allows companies to sell to customers by providing 24/7 access to company information and products
B) integrates software within all department and company functions
C) is a cost management system that produces products just in time to satisfy customer needs
D) cannot be implemented in service companies
Answer: A
Diff: 1
LO: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

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12) The goal of JIT is to decrease costs by _____.
A) having large amounts of inventories
B) having large amounts of finished goods
C) getting materials just in time for production
D) having large amounts of raw materials
Answer: C
Diff: 1
LO: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

13) An Enterprise Resource Planning system (ERP) _____.
A) is a cost management system in which a company produces products just in time to satisfy needs
B) requires the implementation of Total Quality Management
C) integrates all worldwide functions, departments, and data of a company into a single system
D) cannot be implemented in service companies
Answer: C
Diff: 1
LO: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

14) Which of the following correctly describes Just-in-Time (JIT) Management?
A) It is a production approach that maintains surplus goods at each stage of manufacture.
B) It helps managers cut costs by speeding the transformation of raw materials into finished products.
C) It is a cost management approach that focuses on maintaining large finished goods inventory levels.
D) It is an inventory approach that stockpiles raw materials to protect against supply interruptions.
Answer: B
Diff: 2
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

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15) Which of the following is true of Just-in-Time (JIT) Management?
A) It results in more storage and insurance costs.
B) It is a system in which the company produces products only after receiving an order.
C) It promotes surplus inventory to prevent production shut-down in case of supply interruptions.
D) It requires a surplus inventory of finished goods to ensure timely, or just-in-time, delivery to customers.
Answer: B
Diff: 2
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

16) The value chain includes both the upstream and downstream activities of a business.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Total Quality Management

17) TQM does not consider customer support.
Answer: FALSE
Explanation: TQM emphasizes the importance of each person in the organization, creating a culture of cooperation across all business processes: research and development, design, production, marketing and sales, distribution, and customer support.
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Total Quality Management

18) Value added activities include all EXCEPT _____.
A) design
B) production
C) communications
D) distribution
Answer: C
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Total Quality Management

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19) _____ is a philosophy of continuous improvement of products and processes.
A) Just-in-Time (JIT) Management
B) Enterprise Resource Planning (ERP)
C) Supply Chain Management (SCM)
D) Total Quality Management (TQM)
Answer: D
Diff: 1
LO: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Total Quality Management

20) What is Total Quality Management (TQM)?
A) a philosophy of supplying customers with superior products and services
B) an exchange of information with suppliers and customers to create efficient and effective processes
C) a software system that integrates a company's functions, departments, and data into a single system
D) a system that speeds the transformation of raw materials into finished products
Answer: A
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Total Quality Management

21) Which of the following is a philosophy designed to integrate all organizational areas in order to provide customers with superior products and services, while meeting organizational goals throughout the value chain?
A) Supply Chain Management (SCM)
B) Just-in-Time (JIT) Management
C) Enterprise Resource Planning (ERP)
D) Total Quality Management (TQM)
Answer: D
Diff: 1
LO: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Total Quality Management

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22) The entire sequence of activities that add value to a company's products and services is called _____.
A) the value chain
B) the planning process
C) TQM production chain
D) Enterprise Resource Planning
Answer: A
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Total Quality Management

23) Value added activities which begin in research and development through product design and production are called _____.
A) downstream activities
B) design activities
C) upstream activities
D) sustainability activities
Answer: C
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Total Quality Management

24) Evaluating a company's performance by its economic, social, and environmental impact is called the triple bottom line.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Triple Bottom Line

25) Evaluating a company's performance by its economic, social and environmental impact is called the _____.
A) triple bottom line
B) whole company concept
C) value chain
D) downstream cost
Answer: A
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Triple Bottom Line

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26) Triple bottom line refers to all EXCEPT _____.
A) production
B) people
C) profits
D) planet
Answer: A
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Triple Bottom Line

Learning Objective M:1-5

1) Managerial accounting is used in manufacturing and merchandising companies, but not in service companies.
Answer: FALSE
Explanation: Managerial accounting is used in all types of companies including service, manufacturing and merchandising companies.
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Is Managerial Accounting Used in Service and Merchandising Companies? (H1)

2) Managerial accounting can be used to calculate costs for service and merchandising companies.
Answer: TRUE
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Is Managerial Accounting Used in Service and Merchandising Companies? (H1)

3) Managers of a service company use all of the following EXCEPT _____.
A) planning
B) directing
C) controlling
D) manufacturing
Answer: D
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Is Managerial Accounting Used in Service and Merchandising Companies? (H1)

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4) A service business often considers _____ as part of its cost of service.
A) cost of the product produced
B) cost per unit
C) operating expenses
D) interest expense
Answer: C
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Is Managerial Accounting Used in Service and Merchandising Companies? (H1)

5) Service companies do not have product costs, so they often consider all operating expenses as part of their cost of service.
Answer: TRUE
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost Per Service

6) Unit cost per service is calculated by dividing total costs by the total number of services provided.
Answer: TRUE
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost Per Service

7) Nurix, Inc. is a business consulting firm. During the month of February, Nurix earned $55,600 of revenues by providing services to 48 clients. Operating costs for February were $10,000 and non-operating costs were $6,000. What is the unit cost per service? (Round your answer to the nearest cent.)
A) $125.00
B) $208.33
C) $1,158.33
D) $333.33
Answer: B
Explanation: Cost per service = Operating expenses / Clients = $10,000 / 48 = $208.33
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

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8) Samson, Inc. reported the following information for the year:

Service Revenue	$55,000
Operating Expenses	21,000
Net Income	34,000
Number of Services Provided for the Year	8,500

How much was the unit cost per service? (Round your answer to the nearest cent.)
A) $6.47
B) $4.00
C) $2.47
D) $8.94
Answer: C
Explanation: Cost per service = Operating Expenses / Services = $21,000 / 8,500 = $2.47
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

9) Fuchsia, Inc. provides automobile repair services in the local community. The company provides the following information for the month of March:

Building Rent Expense	$5,000
Depreciation Expense—Equipment	1,700
Supplies Expense	8,000
Utilities Expense	2,350

Fuchsia provided services to 1,500 clients in the month of March and generated $25,000 as revenue. How much is the cost per service? (Round your answer to the nearest cent.)
A) $11.37
B) $3.33
C) $10.64
D) $6.03
Answer: A
Explanation: Cost per service = Total costs / Services = $17,050 / 1,500 = $11.37
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

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10) The cost per item for a service business is calculated by _____.
A) Total operating costs / Total number of services provided
B) Total cost of goods sold / Total number of items sold
C) Total number of services provided / Total costs
D) Total number of items sold / total cost of goods sold
Answer: A
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

11) Star Health, Inc. is a fitness center in Oklahoma City. In October, the company earned $555,000 in revenues and incurred the following operating costs from 400 customers:

Manager's Salary	$5,100
Gym Rent	1,800
Depreciation Expense—Equipment	7,000
Office Supplies Expense	2,500
Utilities Expense	1,600
Trainer's Salary	20,000

How much is the unit cost per customer? (Round your answer to the nearest cent.)
A) $62.75
B) $14.75
C) $1,387.50
D) $95.00
Answer: D
Explanation:

Manager's Salary	$5,100
Gym Rent	1,800
Depreciation Expense—Equipment	7,000
Office Supplies Expense	2,500
Utilities Expense	1,600
Trainer's Salary	20,000
Total Operating Expense	$38,000

Unit cost per service = $38,000 / 400 customers = $95.00
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

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12) Service businesses do not have _____.
A) product costs
B) selling expenses
C) administrative expenses
D) labor costs
Answer: A
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

13) Service businesses may split _____ between service costs and nonservice costs.
A) product costs.
B) period costs
C) cost of goods sold
D) labor costs
Answer: B
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

14) The cost per item for a merchandising business is calculated as _____.
A) Total costs / Total number of services provided
B) Total cost of goods sold / Total number of items sold
C) Total number of services provided / Total costs
D) Total number of items sold / Total cost of goods sold
Answer: B
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

15) Merchandising businesses need to know _____ to determine which products are most profitable.
A) cost per item
B) selling expenses
C) administrative expenses
D) inventory costs
Answer: A
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

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16) For a merchandising business, knowing the _____ helps managers set appropriate selling prices.
A) inventory costs
B) period costs
C) cost of goods sold
D) unit cost per item
Answer: D
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

17) Poodle Grooming Salon provides dog grooming services. In March, the business groomed 245 dogs, earned $10,300 in revenues, and incurred the following operating costs:

Grooming Supplies Expense	$485
Wages Expense	3,260
Utilities Expense	285
Rent Expense	1,200
Depreciation Expense - Equipment	500

Compute the cost of one grooming. (Round to two decimal places.)
Answer:
Cost of one grooming = Total operating costs / Total number of dogs groomed
= ($485 + $3,260 + $285 + $1,200 + $500) / 245 dogs groomed
= $5730 / 245
= $23.39 per dog groomed
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost Per Service

18) How does a service company calculate unit cost per service? Why do managers need to know the unit cost per service?
Answer: Unit cost per service is calculated by dividing total operating costs by total number of services provided. The unit cost per service helps managers set the price of each service provided.
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost Per Service

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19) Knowing the unit cost per item helps managers set appropriate selling prices.
Answer: TRUE
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost Per Item

20) Merchandising companies do not need to know cost per item to be able to determine which products are most profitable.
Answer: FALSE
Explanation: Merchandising companies do need to know the cost per item in order to determine which products are most profitable.
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculate Cost Per Item

21) Dakota, Inc. is a merchandiser of medallions. The company sold 15,100 units during the year. The company has provided the following information:

Sales Revenue	$558,000
Purchases (excluding Freight In)	280,000
Selling and Administrative Expenses	68,000
Freight In	14,000
Beginning Merchandise Inventory	47,000
Ending Merchandise Inventory	50,000

What is the unit cost per item sold? (Round your answer to the nearest cent.)
A) $19.27
B) $16.16
C) $22.58
D) $19.47
Answer: A
Explanation:

Purchases (excluding Freight In)	280,000
Freight In	14,000
Beginning Merchandise Inventory	47,000
Ending Merchandise Inventory	(50,000)
Cost of Goods Sold	$291,000

Cost per unit sold = $291,000 / 15,100 units = $19.27
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Item

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22) Five Seasons is a merchandiser of packed foods. The company provides the following information for the year:

Sales Revenue	$157,000
Cost of Goods Sold	64,000
Operating Expenses	67,500
Net Income	25,500
Number of Units Sold	30,000

How much was the unit cost per item of product sold? (Round your answer to the nearest cent.)
A) $4.38
B) $5.23
C) $2.13
D) $100.85
Answer: C
Explanation: Cost per unit of product sold = Cost of Goods Sold / Units = $64,000 / 30,000 = $2.13
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Item

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23) Silver Crafts, Inc. purchases and sells bracelets. The following information summarizes the company's operating activities for the year:

Selling and Administrative Expenses	$5,100
Purchases	156,000
Sales Revenue	789,000
Merchandise Inventory, January 1	2,450
Merchandise Inventory, December 31	38,900

If the company sold 7,400 bracelets during the year, how much is the unit cost for one bracelet? (Round your answer to the nearest cent.)
A) $21.08
B) $16.16
C) $21.41
D) $5.59
Answer: B
Explanation:

Merchandise Inventory, January 1	$2,450
Purchases	156,000
Merchandise Inventory, December 31	(38,900)
Total cost of goods sold	$119,550

Unit cost per item = $119,550 / 7,400 units = $16.16
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Item

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24) Crabapples, Inc. purchases and sells boxes of dried fruit. The following information summarizes its operating activities for the year:

Selling Expenses	$9,200
Merchandise Inventory on December 31	34,000
Merchandise Inventory on January 1	46,500
Purchases of merchandise	84,500
Rent for store	12,900
Sales commissions	7,400
Sales revenue	163,500

What is the cost per box of dry fruits if Crabapples sold 5,000 boxes of dry fruit during the year? (Round your answer to the nearest cent.)
A) $6.80
B) $32.70
C) $26.20
D) $19.40
Answer: D
Explanation:

Merchandise Inventory on January 1, 2017	$46,500
Purchases of Merchandise	84,500
Merchandise Inventory on December 31, 2017	(34,000)
Cost of Goods Sold	$97,000

Cost per box = $97,000 / 5,000 boxes = $19.40
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Item

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25) Mason Cabinet Company sells standard kitchen cabinets. The following information summarizes Mason's operating activities for the year:

Selling and Administrative Expenses	$42,750
Purchases	85,700
Sales Revenue	154,500
Merchandise Inventory, January 1	12,500
Merchandise Inventory, December 31	16,200

Mason sold 950 cabinets during the year.
Calculate the operating income for the year.
Compute the unit cost for one cabinet (Round to two decimal places.)
Answer: Operating income for the year

Mason Cabinet Company
Income Statement
Year Ended December 31, 20XX

Sales Revenue		$154,500
Cost of Goods Sold:		
Beginning Merchandise Inventory	$12,500	
Purchases	85,700	
Cost of Goods Available for Sale	98,200	
Ending Merchandise Inventory	(16,200)	
Cost of Goods Sold		82,000
Gross Profit		72,500
Selling and Administrative Expenses		42,750
Operating Income		$29,750

Unit cost for one cabinet = Cost of goods gold / Total units sold
= $82,000 / 950 cabinets
= $86.32 per cabinet

Diff: 3
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculate Cost Per Item

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Financial and Managerial Accounting: Financial Chapters, 7e **(Miller-Nobles)**
Chapter F:1 Accounting and the Business Environment

Learning Objective F:1-1

1) Accounting is the information system that measures business activities, processes the information into reports, and communicates the results to decision makers.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Why is Accounting Important? (H1)

2) Critical thinking and judgment skills are not necessary for accountants because technology has made the activities routine.
Answer: FALSE
Explanation: Technology plays an important supporting role in performing routine accounting functions. This allows accountants to have more time to focus on reviewing and evaluating economic activities using critical thinking and judgment.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Why is Accounting Important? (H1)

3) Accounting starts with economic activities that accountants review and evaluate using critical thinking and judgment to create useful information that helps individuals make good decisions.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Why is Accounting Important? (H1)

4) Accounting is referred to as the language of business because it is the method of communicating business information to decision makers.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Why is Accounting Important? (H1)

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5) A model called the _____ was created to help students and the public understand what accounting is.
A) Decision Making Model
B) Business Model
C) Pathways Vision Model
D) Cost Model
Answer: C
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Why is Accounting Important? (H1)

6) The Pathways Vision Model emphasizes that good decisions have an impact on
A) accounting judgments and economic activity.
B) accounting judgments only.
C) economic activity only.
D) neither accounting judgments nor economic activity.
Answer: A
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Why is Accounting Important? (H1)

7) Managerial accounting focuses on providing information for external decision makers.
Answer: FALSE
Explanation: Managerial accounting focuses on providing information for internal decision makers.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

8) Investors primarily use managerial accounting information for decision-making purposes.
Answer: FALSE
Explanation: External users (investors) use financial accounting information.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

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9) A creditor is a person who owes money to the business.
Answer: FALSE
Explanation: A creditor is a person to whom a business owes money.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

10) Income tax is calculated using accounting information.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

11) Financial accounting focuses on information for decision makers outside of the business, such as creditors and taxing authorities.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

12) Business owners use accounting information to set goals, evaluate progress toward those goals, and make adjustments when needed.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

13) Outside investors ordinarily use financial accounting information to decide whether or not to invest in a business.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

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14) A creditor is any person who has an ownership interest in a business.
Answer: FALSE
Explanation: A creditor is any person to whom money is owed.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

15) Managerial accounting focuses on information needed by lenders, customers, and the federal government.
Answer: FALSE
Explanation: Financial accounting focuses on providing information for external decision makers, such as lenders, customers, and the federal government.
Diff: 1
LO: F:1-1
AACSB: Interpersonal relations and teamwork
AICPA Functional: Reporting
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

16) Any person or business to whom a business owes money is called the business's creditor.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

17) Decision makers are looking for an international accounting language because the most significant change in the business world in the last decade has been the huge increase in international commerce.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

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18) Managerial accounting provides information to _____.
A) internal decision makers
B) outside investors and lenders
C) creditors
D) taxing authorities
Answer: A
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

19) The field of accounting that focuses on providing information for external decision makers is _____.
A) managerial accounting
B) financial accounting
C) cost accounting
D) nonmonetary accounting
Answer: B
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

20) The field of accounting that focuses on providing information for internal decision makers is _____.
A) managerial accounting
B) financial accounting
C) nonmonetary accounting
D) governmental accounting
Answer: A
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Decision Makers: The Users of Accounting Information

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21) Which of the following users would rely on managerial accounting information for decision-making purposes?
A) potential investors
B) creditors
C) customers
D) company managers
Answer: D
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Decision Makers: The Users of Accounting Information

22) Which of the following is a decision made by an internal user?
A) Should we lend money to the business?
B) How much money should the business budget for production?
C) Should I invest in the business?
D) All of the above are correct.
Answer: B
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

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23) For each user of accounting information, identify if the user would use financial accounting (FA) or managerial accounting (MA).

Accounting Information User	**FA or MA**
Business manager	
Creditor	
Stockholder	
Human resources director	
Internal Revenue Service Auditor	

Answer:

Accounting Information User	**FA or MA**
Business manager	MA
Creditor	FA
Stockholder	FA
Human resources director	MA
Internal Revenue Service Auditor	FA

Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Decision Makers: The Users of Accounting Information

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24) For each of the following decisions, identify if it applies to a financial accounting (FA) or a managerial accounting (MA) decision maker. Your answer should be either FA or MA. Include only one choice for each accounting decision.

Accounting Decision	**Decision Maker (FA or MA)**
Should the business expand to a new location?	
Is the business profitable?	
How do actual costs compare to budgeted costs?	
Should I invest in the business?	

Answer:

Accounting Decision	**Decision Maker (FA or MA)**
Should the business expand to a new location?	MA
Is the business profitable?	FA
How do actual costs compare to budgeted costs?	MA
Should I invest in the business?	FA

Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Decision Makers: The Users of Accounting Information

25) Financial analysts perform reviews of companies to ensure compliance to rules and regulations.
Answer: FALSE
Explanation: Auditors perform reviews of companies to ensure compliance to rules and regulations.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

26) Certified Management Accountants (CMAs) specialize only in financial management knowledge and always work for a single company.
Answer: FALSE
Explanation: Certified Management Accountants (CMAs) specialize in accounting and financial management knowledge and typically work for a single company.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

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27) Certified Public Accountants (CPAs) are licensed professional accountants who serve the general public.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

28) _____ are professional accountants who serve the general public, not one particular company.
A) Certified public accountants
B) Financial managers
C) Internal auditors
D) Controllers
Answer: A
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

29) Accountants generally work either in public, private or _____ accounting.
A) governmental
B) personal
C) managerial
D) state
Answer: A
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

30) _____ typically work in a manufacturing business and help analyze accounting data.
A) Financial analysts
B) Cost accountants
C) Internal auditors
D) Controllers
Answer: B
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

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31) _____ review financial data and help explain the story behind the numbers.
A) Financial analysts
B) Cost accountants
C) Internal auditors
D) Controllers
Answer: A
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

32) _____ compile financial statements, interact with auditors, and oversee regulatory reporting.
A) Financial analysts
B) Cost accountants
C) Internal auditors
D) Controllers
Answer: D
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

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Match the accounting position to the job description in the following four questions.

A) Specializes in accounting and financial management knowledge
B) Serves the general public
C) Performs reviews of companies to ensure compliance to rules and regulations
D) Compiles financial statements, interacts with auditors, oversees regulatory reporting

33) Controller
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

34) Certified Management Accountant
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

35) Certified Public Accountant
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

36) Auditor
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

Answers: 33) D 34) A 35) B 36) C

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Learning Objective F:1-2

1) The Financial Accounting Standards Board is a U.S. governmental agency that oversees the creation and governance of accounting standards.
Answer: FALSE
Explanation: The Financial Accounting Standards Board is a privately funded organization.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Governing Organizations

2) The SEC is a governmental agency that oversees world-wide financial markets and organizations that set accounting standards.
Answer: FALSE
Explanation: The SEC is a U.S. governmental agency that oversees the U.S. financial markets.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Governing Organizations

3) Which of the following organizations is responsible for the creation and governance of accounting standards in the United States?
A) Financial Accounting Standards Board
B) Institute of Management Accountants
C) American Institute of Certified Public Accountants
D) Securities and Exchange Commission
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Governing Organizations

4) The Financial Accounting Standards Board (FASB) works with the following groups. Which of these groups was congressionally created?
A) Institute of Management Accountants
B) Public Company Accounting Oversight Board
C) International Accounting Standards Board
D) American Institute of CPAs
Answer: B
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Governing Organizations

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5) List three private groups that work with the Financial Accounting Standards Board (FASB).
Answer: Private groups that work with FASB are the American Institute of CPAs (AICPA), Institute of Management Accountants (IMA), and International Accounting Standards Board (IASB).
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Governing Organizations

6) The guidelines for accounting information are called Generally Accepted Accounting Principles (GAAP).
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

7) To be useful, accounting must be relevant and have faithful representation.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

8) The primary objective of financial reporting is to ensure that all investment decisions are risk free.
Answer: FALSE
Explanation: The primary objective of financial reporting is to provide information useful for making investment and lending decisions.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

9) The primary objective of financial reporting is to provide information useful for making investment and lending decisions.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

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10) GAAP refers to guidelines for accounting information in the United States. The acronym GAAP in this statement refers to _____.
A) Globally Accepted Accounting Policies
B) Government Approved Accounting Principles
C) Generally Accredited Accounting Policies
D) Generally Accepted Accounting Principles
Answer: D
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

11) Regarding generally accepted accounting principles (GAAP), which of the following statements is INCORRECT?
A) GAAP rests on a conceptual framework that identifies the objectives, characteristics, elements, and implementation of financial statements.
B) The primary objective of financial reporting is to provide information useful for making investment and lending decisions.
C) Relevant information is complete, neutral, and free from error.
D) GAAP is currently formulated by the Financial Accounting Standards Board.
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

12) Which of the following statements regarding the primary objective of financial reporting is correct?
A) The primary objective of financial reporting is to provide information useful for the acquisition of long-term assets.
B) Information that is faithfully representative is complete, neutral, and free from error.
C) Relevant information ensures that users of the information will make the correct decisions.
D) To be useful, information must follow the Generally Accepted Accounting Principles which are created and governed by the Securities and Exchange Commission.
Answer: B
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

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13) The primary objective of financial reporting is to provide information useful for making investment and _____ decisions.
A) spending
B) financial
C) accounting
D) lending
Answer: D
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

14) _____ allows users of the information to make a decision.
A) Relevant information
B) Faithful representation
C) Neutral information
D) Generally Accepted Accounting Principles
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

15) Information that is faithfully representative is complete, neutral, and _____
A) follows GAAP.
B) identifies objectives.
C) free from error.
D) states basic accounting assumptions.
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

16) What are Generally Accepted Accounting Principles (GAAP)? Which entity is currently responsible for determining GAAP?
Answer: Generally Accepted Accounting Principles (GAAP) are the guidelines for accounting information. GAAP is the main U.S. accounting rule book. The Financial Accounting Standards Board (FASB) is currently responsible for determining GAAP.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

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17) What is the primary objective of financial reporting?
Answer: The primary objective of financial reporting is to provide information useful for making investment and lending decisions.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

18) As per the economic entity assumption, an organization and its owners should be seen as the same entity.
Answer: FALSE
Explanation: An economic entity is an organization that stands apart as a separate economic entity.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

19) An economic entity is an organization that stands apart as a separate economic unit.
Answer: TRUE
Explanation: An economic entity is an organization that stands apart as a separate economic unit.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

20) An entity refers to one business which includes its owners.
Answer: FALSE
Explanation: An entity refers to one business, separate from its owners.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

21) In a sole proprietorship, the owner is personally liable for the debts of the business.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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22) The most that the owner of a sole proprietorship can lose, as a result of business debts or lawsuits, is the amount he/she has invested in the business.
Answer: FALSE
Explanation: The owner of a sole proprietorship is personally liable for the debts of a business.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

23) Members of a limited-liability company (LLC) are not personally liable for the debts of the business.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

24) A business can be organized as a sole proprietorship, partnership, corporation, or limited-liability company (LLC).
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

25) In a limited-liability company (LLC), the members are personally liable for the debts of the business.
Answer: FALSE
Explanation: In a limited-liability company (LLC), the members are not personally liable for the debts of the business.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

26) A corporation's board of directors is elected by the chairperson of the company.
Answer: FALSE
Explanation: A corporation's board of directors is elected by the stockholders.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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27) A corporation's chief executive officer appoints the members of the board of directors.
Answer: FALSE
Explanation: The stockholders elect the members of the board of directors.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

28) The creation of a corporation begins when its incorporators obtain a charter from the state.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

29) Mutual agency of the owners is not present in a corporation as it is in a partnership.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

30) Regarding a business organized as a partnership, which of the following is an incorrect statement?
A) Partners pay tax on their share of the partnership earnings.
B) Partners are personally liable for the debts of the business.
C) A partnership's life is not dependent on a specific individual's ownership.
D) Mutual agency is present in a partnership.
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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31) Which of the following is a major reason why corporate ownership is popular in the United States?
A) Stockholders have limited liability for the debts of the corporation.
B) Most corporations are small- or medium-sized.
C) The life of a corporation is limited by the death of the owner.
D) A corporation is usually managed by the owners.
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

32) Which of the following is a characteristic of a corporation?
A) Corporations are separate taxable entities.
B) Lenders of a corporation do not have the right to claim the corporation's assets to satisfy their obligations.
C) Corporations are subjected to less governmental regulation than other forms of businesses.
D) Each stockholder has the authority to commit the corporation to a binding contract through his/her actions.
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

33) Which of the following actions determines when a corporation comes into existence?
A) The charter is obtained from the federal government.
B) The incorporators pay fees, sign the charter, and file required documents with the state.
C) The first share of stock is issued.
D) The corporate bylaws are written.
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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34) Regarding the separation of corporate ownership and management, which of the following is a true statement?
A) The corporate officers elect the board of directors.
B) The corporation runs better with day-to-day input from stockholders.
C) Stockholders are required to manage the business.
D) Stockholders own the business, but a board of directors appoints corporate officers to manage the business.
Answer: D
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

35) Corporations pay their own income tax on corporate income. Stockholders pay personal income tax on the dividends received from corporations. This is an example of _____.
A) double taxation
B) continuous life
C) mutual agency
D) a limited liability company
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

36) Which of the following statements is true of the corporate form of business?
A) The board of directors sets policy for the corporation and appoints the officers.
B) Changes in the ownership of stock have a negative effect on the continuity of the corporation.
C) Any stockholder may commit the corporation to a contract.
D) It is easy for stockholders to lodge an effective protest against management.
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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37) Which of the following statements is true of a sole proprietorship?
A) A sole proprietorship joins two or more individuals as co-owners.
B) The sole proprietor is personally liable for the liabilities of the business.
C) A sole proprietorship is taxed separately from the owner.
D) A sole proprietorship has to pay business income taxes.
Answer: B
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

38) Which of the following is a characteristic of a limited-liability company (LLC)?
A) An LLC's life is terminated at any member's choice or death.
B) Each member of an LLC is liable only for his or her own actions.
C) An LLC must have more than five members.
D) The earnings of an LLC are subject to double taxation.
Answer: B
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

39) Jason Ford has been the sole owner of a bicycle sales and repair shop for several years. Which of the following business types would limit Jason's personal liability exposure to the entity's debts?
A) partnership
B) limited-liability company
C) sole proprietorship
D) Any of the above.
Answer: B
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

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40) Marcus has decided to open an auto-detailing business. He will pick up an automobile from the client, take it to his parents' garage, detail it, and return it to the client. If he does all of the work himself and takes no legal steps to form a special organization, which type of business organization, in effect, has he chosen?
A) a limited-liability company
B) a partnership
C) a corporation
D) a sole proprietorship
Answer: D
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

41) In a limited-liability company, the _____.
A) members are personally liable to pay the company's debts
B) business terminates at the death of a member
C) members are liable for each other's actions
D) members pay income tax on their share of earnings
Answer: D
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

42) The earnings of a sole proprietorship are _____.
A) combined with the personal income of the proprietor
B) not combined with the proprietor's personal income
C) subject to double taxation
D) handled similarly to that of a corporation
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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43) Which of the following statements is true of a corporation?
A) Corporations pay the same variety of taxes as partnerships.
B) Although a corporation is a separate legal entity, it cannot be sued.
C) Any stockholder of a corporation can commit the corporation to a binding contract.
D) The owners of a corporation are called stockholders.
Answer: D
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

44) The ultimate control of the corporation rests with the _____.
A) board of directors
B) stockholders
C) chairperson of Board of Directors
D) chief operating officer
Answer: B
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

45) Stuart Allen Corporation manufactures computer hardware. The president of the corporation bought a new car as a gift for his daughter and paid for it using cash from the business. Since the corporation paid for the car, it was recorded in its books as an asset. Which of the following concepts or principles of accounting did the corporation violate?
A) monetary unit assumption
B) economic entity assumption
C) cost principle
D) going concern assumption
Answer: B
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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46) For each of the following characteristics of a business organization, state whether it applies to a sole proprietorship (SP), partnership (P) or a corporation (C). There may be more than one correct answer for a characteristic.

Business organization characteristic	Entity(ies) to which the characteristic applies - SP, P, C
Separate legal entity	
Owner(s) are personally liable for the business's debts	
Separate taxable entity	
One owner	

Answer:

Business organization characteristic	Entity(ies) to which the characteristic applies - SP, P, C
Separate legal entity	C
Owner(s) are personally liable for the business's debts	SP, P
Separate taxable entity	C
One owner	SP, C

Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

47) Briefly discuss each of the following corporate characteristics.
A. No mutual agency
B. Separate legal entity
C. Separation of ownership and management
Answer: A. No mutual agency - The stockholders of a corporation cannot commit the corporation to a contract unless that stockholder is acting in a different role, such as an officer in the business.
B. Separate legal entity - A corporation is a business entity formed under state law and thus it exists apart from its owners (stockholders).
C. Separation of ownership and management - The board of directors - elected by the stockholders - appoints corporate officers to manage the business. The stockholders are owners of the corporation and do not manage the corporation. The corporate officers manage the business.
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

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48) Briefly discuss each of the following corporate characteristics.
A. Government regulation
B. Limited liability of stockholders
C. Continuous life and transferability of ownership
Answer: A. Government regulation - Corporations are subject to more governmental regulation than other forms of business.
B. Limited liability of stockholders - The most that stockholders can lose is the amount they originally paid for the stock. Stockholders are not personally liable for the corporation's debts.
C. Continuous life and transferability of ownership - Stockholders may transfer stock as they wish. This transfer does not affect the continuity of the corporation. A corporation's life is not dependent on a specific individual's ownership.
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

49) Briefly discuss each of the following corporate characteristics.
A. Corporate taxation
B. Separate legal entity
C. No mutual agency
Answer: A. Corporate taxation - Corporations are separate taxable entities. Corporate earnings are subject to double taxation. First, corporations pay their own income tax on corporate income. Then, the stockholders pay personal income tax on the dividends that they receive from corporations.
B. Separate legal entity - A corporation is a business entity formed under state law and thus it exists apart from its owners (stockholders).
C. No mutual agency - Stockholders cannot commit the corporation to a contract unless the stockholder is also an officer of the company.
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

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50) List and briefly discuss four features that distinguish a corporation from other types of business organizations.
Answer: Students can list any four of the following:

Separate legal entity - A corporation is a business entity formed under state law and thus it exists apart from its owners (stockholders).
Continuous life and transferability of ownership - Stockholders may transfer stock as they wish. This transfer does not affect the continuity of the corporation. A corporation's life is not dependent on a specific individual's ownership.
No mutual agency - The stockholders of a corporation cannot commit the corporation to a contract unless that stockholder is acting in a different role, such as an officer in the business.
Limited liability of stockholders - The most that stockholders can lose is the amount they originally paid for the stock. Stockholders are not personally liable for the corporation's debts.
Separation of ownership and management - The board of directors - elected by the stockholders - appoints corporate officers to manage the business. The owners do not manage the corporation.
Corporate taxation - Corporations are separate taxable entities. Corporations pay more taxes than partnerships or sole proprietorships. Corporate earnings are subject to double taxation. First, corporations pay their own income tax on corporate income. Then, the stockholders pay personal income tax on the dividends that they receive from corporations.
Government regulation - Corporations are subjected to more governmental regulation than other forms of business.
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

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51) Provide the definition of each of the following accounting assumptions.

Assumption	Definition
Monetary Unit	
Economic Entity	

Answer:

Assumption or Principle	Definition
Monetary Unit	The assumption that requires the items on the financial statements to be measured in terms of a monetary unit. The dollar's purchasing power is assumed to be stable.
Economic Entity	An organization that stands apart as a separate economic unit. The business is separate from the owners.

Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

52) Mason Company purchased land for $50,000. The president of Mason Company believes that the land is actually worth $55,000. The land can be recorded at $55,000.
Answer: FALSE
Explanation: The cost principle states that acquired assets are recorded at their actual cost.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Cost Principle

53) Since cost is a reliable measure, the cost principle holds that the accounting records should continue reporting an asset at its historical cost over its useful life.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Cost Principle

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54) According to the _____, acquired assets should be recorded at the amount actually paid rather than at the estimated market value.
A) going concern assumption
B) economic entity concept
C) cost principle
D) monetary unit assumption
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Cost Principle

55) Lisa Smith decided to start her CPA practice as a professional corporation, Smith CPA, PC. The corporation purchased an office building for $35,000. The real estate agent said the building was worth $50,000 in the current market. The corporation recorded the building as a $50,000 asset because Lisa believes that is the real value of the building. Which of the following concepts or principles of accounting is being violated?
A) cost principle
B) economic entity assumption
C) monetary unit assumption
D) going concern assumption
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

56) Beverly Dalton incorporated her CPA practice 5 years ago. At that time, the corporation purchased land for $40,000. The December 31 of the current year, the market value of the land is $85,000. On the balance sheet for December 31 of the current year, the asset should be reported at _____ under U.S. GAAP.
A) $45,000
B) $125,000
C) $40,000
D) $85,000
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

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57) Thirty years ago, Citywide Grocery Corporation purchased a building for its grocery store for $30,000. Based on inflation estimates, the amount of the building has been adjusted in the accounting records. The building is now reported at $75,000 in Citywide's financial statements. Which of the following concepts or principles of accounting is being violated?
A) going concern assumption
B) revenue realization concept
C) economic entity assumption
D) cost principle
Answer: D
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

58) Ten years ago, a corporation purchased a building for $180,000. At that time, the corporation felt that the building was worth $205,000. The current market value of the building is $500,000. The building has been assessed at $475,000 for property tax purposes. At which amount should the corporation record the building in its accounting records?
A) $180,000
B) $205,000
C) $475,000
D) $500,000
Answer: A
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

59) A business purchases a building for $250,000. The current market value is $375,000. The tax assessment value is $325,000. At what value should the building be recorded, and which accounting principle supports your answer?
Answer: The building should be recorded at the actual cost of $250,000. This is supported by the cost principle.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

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60) Under the going concern principle, accountants must provide proof that the business will remain in operation long enough to use existing resources for their intended purpose.
Answer: FALSE
Explanation: Accountants base going concern on assumptions. Actual proof is not needed to make this determination.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Going Concern Assumption

61) Under the going concern principle, accountants assume that the business will remain in operations long enough to use existing resources for their intended purpose.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Going Concern Assumption

62) As per the _____, the entity will remain in operation for the foreseeable future.
A) economic entity concept
B) monetary unit assumption
C) going concern assumption
D) cost principle
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Going Concern Assumption

63) As per the _____, accountants assume the business will remain in operation long enough to use existing resources for their intended purpose.
A) economic entity concept
B) monetary unit assumption
C) going concern assumption
D) cost principle
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Going Concern Assumption

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64) The _____ assumes that the entity will remain in operation for the foreseeable future.
Answer: going concern assumption
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Going Concern Assumption

65) Provide the definition of each of the following accounting assumptions or principles.

Assumption or Principle	**Definition**
Going Concern Assumption	
Cost Principle	

Answer:

Assumption or Principle	**Definition**
Going Concern Assumption	This assumption assumes that the entity will remain in operation for the foreseeable future.
Cost Principle	This principle states that the acquired assets and services should be recorded at their actual cost.

Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Going Concern Assumption

66) Accountants assume that the dollar's purchasing power is stable.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Monetary Unit Assumption

67) In the United States, transactions are recorded in dollars because the dollar's purchasing power does not change over time.
Answer: FALSE
Explanation: In the United States, transactions are recorded in dollars because the dollar is the medium of exchange.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Monetary Unit Assumption

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68) Lawton Corporation records business transactions in dollars and disregards changes in the value of a dollar over time. Which of the following accounting assumptions does this represent?
A) economic entity assumption
B) going concern assumption
C) accounting period assumption
D) monetary unit assumption
Answer: D
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Monetary Unit Assumption

69) Regarding the monetary unit assumption, which of the following statements is correct?
A) This assumption requires that the items on the financial statements be measured at their current market value.
B) Accountants assume that the dollar's purchasing power is stable.
C) The value of a dollar does not change over time.
D) During periods of inflation, a dollar will purchase more.
Answer: B
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Monetary Unit Assumption

70) Under U.S. GAAP, the monetary unit assumption states that transactions are recorded in dollars. What is the basis for this assumption?
Answer: Under U.S. GAAP, transactions are recorded in dollars because accountants assume that the dollar's purchasing power is stable, and the dollar is the medium of exchange.
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Monetary Unit Assumption

71) International Financial Reporting Standards (IFRS) is the main U.S. accounting rule book and is currently created and governed by the Financial Accounting Standards Board.
Answer: FALSE
Explanation: Generally Accepted Accounting Principles (GAAP) represents the accounting guidelines, currently formulated by the Financial Accounting Standards Board. GAAP is the main U.S. accounting rule book.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: International Financial Reporting Standards

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72) The Securities and Exchange Commission allows U.S. businesses to choose whether they follow U.S. Generally Accepted Accounting Principles or International Financial Reporting Standards.
Answer: FALSE
Explanation: The Securities and Exchange Commission requires that U.S. businesses follow U.S. GAAP.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: International Financial Reporting Standards

73) International Financial Reporting Standards are comparatively more specific and more rule-based than U.S. Generally Accepted Accounting Principles.
Answer: FALSE
Explanation: International Financial Reporting Standards are comparatively less specific and based more on principle than U.S. GAAP.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: International Financial Reporting Standards

74) International Financial Reporting Standards (IFRS) allows periodic revaluation of certain assets and liabilities to restate them to market value.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: International Financial Reporting Standards

75) International Financial Reporting Standards _____ U.S. Generally Accepted Accounting Principles.
A) are the same as
B) are generally less specific than
C) are based less on principle than
D) leave less room for professional judgment than
Answer: B
Diff: 1
LO: F:1-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: International Financial Reporting Standards

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76) Which of the following statements, regarding International Financial Reporting Standards (IFRS), is correct?
A) International Financial Reporting Standards are issued by the Financial Accounting Standards Board.
B) The Securities and Exchange Commission is the private organization that oversees the creation and governance of International Financial Reporting Standards.
C) International Financial Reporting Standards represent a set of global accounting standards that are generally more specific and based less on principle than U.S. Generally Accepted Accounting Principles.
D) Companies who are incorporated in or do significant business in another country might be required to publish financial statements using International Financial Reporting Standards.
Answer: D
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: International Financial Reporting Standards

77) The Public Company Accounting Oversight Board is a watchdog agency that monitors the work of independent accountants who audit public companies.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

78) An audit is an examination of a company's financial statements and records.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

79) The Sarbanes-Oxley Act (SOX) requires companies to review internal control and take responsibility for the accuracy and completeness of their financial reports.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

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80) The Sarbanes-Oxley Act (SOX) _____.
A) requires independent accountants to take responsibility for the accuracy and completeness of the financial reports
B) created the SEC
C) ensures that financial scandals will no longer occur
D) requires companies to take responsibility for the accuracy and completeness of their financial reports
Answer: D
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

81) Which of the following organizations requires publicly owned companies to be audited by independent accountants (CPAs)?
A) Securities and Exchange Commission (SEC)
B) Public Company Accounting Oversight Board (PCAOB)
C) Financial Accounting Standards Board (FASB)
D) American Institute of Certified Public Accountants (AICPA)
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

82) The Public Company Accounting Oversight Board (PCAOB) was created _____.
A) by the Sarbanes-Oxley Act (SOX)
B) to perform audits of public companies
C) to make restitution to investors who were defrauded by the issuance of fraudulent financial reports
D) to require auditors to take responsibility for the accuracy and completeness of financial reports from firms they audit
Answer: A
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

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Learning Objective F:1-3

1) The left side of the accounting equation measures the amount that the business owes to creditors and to the stockholders.
Answer: FALSE
Explanation: Assets appear on the left side of the accounting equation .
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

2) The total amount of assets a business possesses may or may not be equal to the total of liabilities and equity of the business.
Answer: FALSE
Explanation: The accounting equation is an equation; thus, the left side of the equation always equals the right side of the equation.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

3) The left side of the accounting equation always equals the right side of the accounting equation.
Answer: TRUE
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

4) Which of the following is the correct accounting equation?
A) Assets + Liabilities = Equity
B) Assets = Liabilities + Equity
C) Assets + Revenues = Equity
D) Assets + Revenues = Liabilities + Expenses
Answer: B
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

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5) The equity of Alliance Company is $100,000 and the total liabilities are $90,000. The total assets are _____.
A) $200,000
B) $180,000
C) $10,000
D) $190,000
Answer: D
Explanation: Assets = Liabilities + Equity
Assets = 100,000 + 90,000 = 190,000
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

6) Spring Company has assets and equity that amount to $290,000 and $60,000, respectively. Liabilities total _____.
A) $60,000
B) $230,000
C) $290,000
D) $350,000
Answer: B
Explanation: Liabilities = Assets - Equity
Liabilities = 290,000 - 60,000 = 230,000
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

7) The assets of Star Company are $100,000 and the total liabilities are $40,000. The equity is _____.
A) $100,000
B) $140,000
C) $40,000
D) $60,000
Answer: D
Explanation: Equity = Assets - Liabilities
Equity = 100,000 - 40,000 = 60,000
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

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8) Regarding the accounting equation, which of the following is a correct statement?
A) The accounting equation is made up of three parts.
B) The accounting equation is the basic tool of accounting.
C) Assets - Liabilities = Equity.
D) All of the statements are correct.
Answer: D
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

9) Using the following information, provide the complete accounting equation.

Use this information to	**Provide the accounting equation**
Assets $150,000; Equity $60,000	
Liabilities $200,000; Equity $45,000	
Assets $75,000; Liabilities $40,000	

Answer:

Use this information to	**Provide the accounting equation**
Assets $150,000; Equity $60,000	**Assets** = Liabilities + Equity $150,000 = $90,000 + $60,000
Liabilities $200,000; Equity $45,000	**Assets** = Liabilities + Equity $245,000 = $200,000 + $45,000
Assets $75,000; Liabilities $40,000	**Assets** = Liabilities + Equity $75,000 = $40,000 + $35,000

Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

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10) Using the following information, provide the complete accounting equation.

Use this information to	**Provide the accounting equation to**
Equity $200,000; Assets $360,000	
Liabilities $180,000; Assets $320,000	
Equity $725,000 Liabilities $350,000	

Answer:

Use this information to	**Provide the accounting equation**
Equity $200,000; Assets $360,000	Assets = Liabilities + Equity $360,000 = $160,000 + $200,000
Liabilities $180,000; Assets $320,000	Assets = Liabilities + Equity $320,000 = $180,000 + $140,000
Equity $725,000 Liabilities $350,000	Assets = Liabilities + Equity $1,075,000 = $350,000 + $725,000

Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

11) What is the accounting equation? Briefly explain each of the three parts.
Answer: Assets = Liabilities + Equity.
Assets are economic resources that are expected to benefit the business in the future. They are things of value that a business owns or controls. Liabilities are debts that are owed to creditors. They are one source of claims against assets. Equity is the other source of claims against assets. Equity is the stockholders' claims against assets and is the amount of assets that is left over after the company has deducted its liabilities. It represents the net worth of the corporation.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

12) Assets are something of value that the business owns or has control of.
Answer: TRUE
Explanation: Assets are economic resources that are expected to benefit the business in the future.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

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13) Assets are economic resources that have no future benefits for the business.
Answer: FALSE
Explanation: Assets are economic resources that are expected to benefit the business in the future.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

14) The economic resources of a business such as furniture, building, and land are its _____.
A) liabilities
B) revenues
C) assets
D) dividends
Answer: C
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

15) Which of the following is true of assets?
A) Assets include Cash, Merchandise Inventory, and Accounts Payable.
B) Assets are something of value the business owns or controls.
C) Assets do not need to provide future benefit to the business.
D) Assets can be recorded at the market value if acquired at a bargain.
Answer: B
Diff: 2
LO: F:1-3
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Assets

16) Which of the following is NOT an asset?
A) Cash
B) Accounts Payable
C) Accounts Receivable
D) Land
Answer: B
Diff: 2
LO: F:1-3
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Assets

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17) Which of the following is an asset?
A) Accounts Payable
B) Service Revenue
C) Merchandise Inventory
D) Advertising Expense
Answer: C
Diff: 2
LO: F:1-3
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Assets

18) Define assets. Provide three examples of assets.
Answer: Assets are economic resources that are expected to benefit the business in the future. Assets are something the business owns or has control of. Examples include cash, merchandise inventory, furniture, and land.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

19) Liabilities represent creditors' claims on the business's assets.
Answer: TRUE
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

20) Many liabilities have the word *receivable* in their titles.
Answer: FALSE
Explanation: Many liabilities have the word *payable* in their titles.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

21) A creditor who has loaned money to a business has a claim to some of the assets of the business until the debt is paid.
Answer: TRUE
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

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22) A debt that a business owes is called _____.
A) an asset
B) a liability
C) stockholders' equity
D) revenue
Answer: B
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

23) Regarding liabilities, which of the following statements is INCORRECT?
A) Liabilities represent one of the two claims to assets.
B) A creditor who has loaned money to a business has a claim to some of the business's assets until the business pays the debt.
C) Liabilities are economic resources that are expected to benefit the business in the future.
D) Many, but not all, liabilities have the word *payable* in their titles.
Answer: C
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

24) _____ is something the business owes to another business or individual.
A) An asset
B) A liability
C) Equity
D) Revenue
Answer: B
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

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25) Many liabilities have the word _____ in the title.
A) expense
B) revenue
C) receivable
D) payable
Answer: D
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

26) Define liabilities. Provide three examples of liabilities.
Answer: Liabilities are debts that are owed to creditors. Liabilities are something the business owes and represent the creditors' claims on the business's assets. Examples include Accounts Payable, Notes Payable, and Salaries Payable.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

27) Equity increases when revenues are earned.
Answer: TRUE
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

28) Equity decreases with expenses and revenues.
Answer: FALSE
Explanation: Equity decreases with expenses and distributions to owners.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

29) Dividends are the expenses of a business.
Answer: FALSE
Explanation: Dividends are a distribution of a corporation's earnings to stockholders.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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30) Dividends are a distribution of a corporation's earnings to stockholders.
Answer: TRUE
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

31) The three types of events that affect retained earnings are dividends, revenues, and expenses.
Answer: TRUE
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

32) The distribution of dividends represents an increase in retained earnings.
Answer: FALSE
Explanation: Distribution of dividends represents decreases in retained earnings.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

33) Common stock represents the basic ownership of every corporation.
Answer: TRUE
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

34) Maxwell Plumbing Services earned $500 by completing a job for Smith Company. The $500 earned by Maxwell Plumbing Services is its _____.
A) revenue
B) equity
C) gain
D) debt
Answer: A
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

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35) The owners' claims to the assets of the business are called _____.
A) return on assets
B) expenses
C) equity
D) debt
Answer: C
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

36) Precision Camera Services started the year with total assets of $130,000 and total liabilities of $60,000. The revenues and the expenses for the year amounted to $150,000 and $90,000, respectively. During the year, the company did not issue any common stock, but it distributed dividends of $70,000. What is the amount of stockholders' equity at the end of the year?
A) $90,000
B) $150,000
C) $60,000
D) $70,000
Answer: C
Explanation: Equity (ending balance) = Equity (beginning balance) - Dividends + Revenues - Expenses
Equity = ($130,000 – $60,000) – $70,000 + $150,000 – $90,000 = $60,000
Diff: 3
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

37) Dynamic Production Services started the year with total assets of $90,000 and total liabilities of $50,000. The revenues and the expenses for the year amounted to $100,000 and $60,000, respectively. During the year, the company did not issue any common stock, but it distributed dividends of $40,000. Calculate Dynamic's net income for the year.
A) $40,000
B) $100,000
C) $60,000
D) $90,000
Answer: A
Explanation: Net income = Revenues - Expenses
Net income = $100,000 - $60,000 = $40,000
Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

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38) Metropolitan Casting Services started the year with total assets of $80,000 and total liabilities of $65,000. The revenues and the expenses for the year amounted to $120,000 and $60,000, respectively. During the year, the company did not issue any common stock, but it distributed dividends of $50,000. Calculate the amount of increase or decrease in stockholders' equity for the year.

A) a $10,000 increase
B) a $25,000 increase
C) a $15,000 decrease
D) a $50,000 increase

Answer: A

Explanation: Equity (at the beginning of the year) = $80,000 - $65,000 = $15,000
Equity (at the end of the year) = Equity (beginning balance) - Dividends + Revenues - Expenses
Equity (at the end of the year) = $15,000 – $50,000 + $120,000 – $60,000 = $25,000
Change in stockholders' equity for the year = $25,000 – $15,000 = $10,000 increase

Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

39) The net income of Hollywood Talent Services is $22,000. The beginning and ending stockholders' equity balances were $34,000 and $50,000, respectively. The company issued no common stock. Calculate the amount of dividends.

A) $16,000
B) $6,000
C) $12,000
D) $11,000

Answer: B

Explanation: Stockholders' Equity Beginning Balance		$34,000
Add: Net Income	22,000	
Less: Stockholders' Equity Ending Balance	50,000	
Dividends	$6,000	

Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

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40) _____ is the equity earned by profitable operations that is not distributed to stockholders.
A) Assets
B) Dividend
C) Retained earnings
D) Common stock
Answer: C
Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

41) Which of the following is true of retained earnings?
A) Retained earnings decrease with payment of dividends.
B) Retained earnings increase with purchase of assets.
C) Retained earnings decrease with collection of revenue.
D) Retained earnings increase with payment on account.
Answer: A
Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

42) Equity of a corporation is broken out into two components. Which of the following are the two components of the equity of a corporation?
A) current assets and fixed assets
B) common stock and liabilities
C) revenues and expenses
D) contributed capital and retained earnings
Answer: D
Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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43) Owner contributions to a corporation are referred to as:
A) Retained Earnings
B) Revenues
C) Assets
D) Contributed Capital
Answer: D
Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

44) Earnings that result from delivering goods or services to customers are referred to as:
A) Retained Earnings
B) Revenues
C) Assets
D) Contributed Capital
Answer: B
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

45) _____ are the costs of selling goods or services.
A) Retained Earnings
B) Revenues
C) Assets
D) Expenses
Answer: D
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

46) A profitable corporation may make distributions to stockholders in the form of
A) Dividends
B) Revenues
C) Assets
D) Common Stock
Answer: A
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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47) When revenues are greater than expenses, the result is a
A) Dividend
B) Contributed Capital
C) Net Income
D) Net Loss
Answer: C
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

48) When expenses are greater than revenues, the result is a
A) Dividend
B) Contributed Capital
C) Net Income
D) Net Loss
Answer: D
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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49) For each of the following events:
(1) State whether the event increases (INC) or decreases (DEC) retained earnings. If the event does not affect retained earnings, state NE for no effect.
(2) State which equity account is affected.

Event	1. **Retained earnings: INC, DEC, NE** **2. Which equity account is affected?**
Distribution of a corporation's earnings to stockholders	
Creditor loaned money to the business	
Costs of selling goods or services	

Answer:

Event	1. **Retained earnings: INC, DEC, NE** **2. Which equity account is affected?**
Distribution of a corporation's earnings to stockholders	1. DEC 2. Dividends
Creditor loaned money to the business	1. NE 2. None
Costs of selling goods or services	1. DEC 2. COGS, Expense

Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

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50) For each of the following events:
(1) State whether the event increases (INC) or decreases (DEC) retained earnings. If the event does not affect retained earnings, state NE for no effect.
(2) State which equity account is affected.

Event	1. **Retained earnings: INC, DEC , NE** **2. Which equity account is affected?**
Owner contributions to a corporation	
Amounts earned from delivering goods or services to customers	
Cash paid to acquire land for use in the business	

Answer:

Event	1. **Retained earnings: INC, DEC , NE** **2. Which equity account is affected?**
Owner contributions to a corporation	1. NE 2. Common Stock
Amounts earned from delivering goods or services to customers	1. INC 2. Sales Revenue, Service Revenue
Cash paid to acquire land for use in the business	1. NE 2. None

Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

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51) Provide the definition of each of the following:

Term:	**Definition**
Contributed Capital	
Revenues	
Expenses	
Dividends	

Answer:

Term:	**Definition**
Contributed Capital	Owner contributions to a corporation
Revenues	Earnings that result from delivering goods or services to customers
Expenses	The costs of selling goods or services
Dividends	Distributions to stockholders

Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

52) Provide the definition of each of the following:

Term:	**Definition**
Net Income	
Net Loss	

Answer: Provide the definition of each of the following:

Term:	**Definition**
Net Income	When revenues are greater than expenses.
Net Loss	When expenses are greater than revenues.

Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

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Learning Objective F:1-4

1) A transaction is any event that affects the financial position of the business and can be easily estimated.
Answer: FALSE
Explanation: A transaction is any event that affects the financial position of the business and can be measured with faithful representation.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Analyze a Transaction? (H1)

2) Accountants record _____.
A) economic recessions
B) estimated future transactions
C) only those events that have dollar amounts than can be measured reliably
D) the $20,000 increase in value of a building that actually cost $50,000 but could be sold for $70,000
Answer: C
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Analyze a Transaction? (H1)

3) Which of the following events is NOT recorded by accountants?
A) purchase of a building for $200,000 cash
B) effects of an economic boom
C) sale of merchandise on account
D) signing a $400,000 note to purchase land
Answer: B
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Analyze a Transaction? (H1)

4) John contributed $6,000 to the business by opening a bank account in the name of the business, United Marketing. The corporation issued common stock to John. This transaction results in an increase in the assets of the business.
Answer: TRUE
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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5) For the accounting equation to balance, a transaction must affect both sides of the equation.
Answer: FALSE
Explanation: As long as an increase and decrease of the same amount is recorded on one side of the accounting equation, the accounting equation remains in balance.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

6) As long as an increase and decrease of the same amount is recorded on one side of the accounting equation, the accounting equation remains in balance.
Answer: TRUE
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

7) A payable is always a liability.
Answer: TRUE
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

8) Office Supplies is an expense because the supplies will be used up in the future.
Answer: FALSE
Explanation: Office Supplies in an asset because the supplies will be used up in the future.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

9) Dividends affect the business's net income or net loss and are recorded as an expense.
Answer: FALSE
Explanation: Dividends do not represent an expense because they are not related to the earning of revenue.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

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10) Janice Wilford contributed $50,000 cash to JW Corporation in exchange for stock. As a result of this transaction, assets and revenues will increase.
Answer: FALSE
Explanation: Assets and equity will increase.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

11) A corporation purchased office supplies on account. As a result of this transaction, expenses and liabilities will increase.
Answer: FALSE
Explanation: Assets and liabilities increase.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

12) A law firm provides legal services for clients who do not pay immediately. There is no effect on the accounting equation until the clients pay for the services.
Answer: FALSE
Explanation: Assets and revenues are increased.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

13) A law firm provides legal services for clients who do not pay immediately. As a result of this transaction, assets and revenues increase.
Answer: TRUE
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

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14) An accounting firm collected cash on account. As a result of this transaction, assets and revenues increase.
Answer: FALSE
Explanation: The asset Cash increases and the asset Accounts Receivable decreases.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

15) An accounting firm collected cash on account. As a result of this transaction, total assets, liabilities, and equity are all unchanged.
Answer: TRUE
Explanation: The asset Cash increases and the asset Accounts Receivable decreases. Liabilities and equity are not affected.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

16) Mars Electronic Company receives cash from a stockholder, John Tilden, and issues common stock to him. The two accounts involved in this transaction are _____.
A) Accounts Payable and Cash
B) Cash and Common Stock
C) Common Stock and Accounts Payable
D) Common Stock and Accounts Receivable
Answer: B
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

17) Green Lawns Corporation earned $500 for landscaping services rendered. The customer promised to pay at a later time. Which of the following accounts increased as a result of this transaction?
A) Accounts Payable
B) Supplies
C) Cash
D) Accounts Receivable
Answer: D
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
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PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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18) Adventures Unlimited Company distributes cash dividends. How does this transaction affect the accounting equation?
A) The assets, liabilities, and equity remain the same.
B) The assets decrease, and equity decreases.
C) The assets increase, and liabilities decrease.
D) The assets decrease, and equity increases.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

19) Jackson Electric Services incurred $800 as a repair expense and paid for it in cash. This transaction will _____.
A) decrease the stockholders' equity of the business
B) increase the assets of the business
C) increase the liabilities of the business
D) decrease the liabilities of the business
Answer: A
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

20) Nick's Landscaping Services incurred $500 as a repair expense and promised to pay the repair company within 30 days. Which of the following accounts will increase as a result of this transaction?
A) Accounts Receivable
B) Cash
C) Accounts Payable
D) Retained Earnings
Answer: C
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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21) Jason Repair Corporation incurred $1,500 as advertising expense and promised to pay the advertising agency within 30 days. Which of the following will decrease as a result of this transaction?
A) Assets
B) Stockholders' equity
C) Liabilities
D) Revenues
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

22) Jones Supply Services paid $350 cash, the amount owed from the previous month, to a materials supplier. Which of the following accounts decrease?
A) Accounts Receivable
B) Accounts Payable
C) Retained Earnings
D) Office Supplies
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

23) Montgomery Equipment Rental Company received $1,000 cash from a customer; the amount was owed to the business from the previous month. What is the effect of this transaction on the accounting equation?
A) Accounts Receivable increases and Service Revenue increases.
B) Cash increases and Accounts Receivable decreases.
C) Cash increases and Service Revenue increases.
D) Cash increases and Accounts Payable decreases.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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24) Westwood Supply Services received $1,000 cash from a customer; the amount was owed to the business from the previous month. Which of the following accounts will decrease as a result of this transaction?
A) Cash
B) Revenue
C) Accounts Payable
D) Accounts Receivable
Answer: D
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

25) Diamond, Inc. had the following transactions during June:
Performed services for $3,000 on account; received cash on account, $6,000; paid $900 for repair expense; paid $1,900 to a supplier that it owed from the previous month. What is the combined effect on Cash of these June transactions?
A) $3,200 increase
B) $3,200 decrease
C) $6,000 increase
D) $2,800 decrease
Answer: A
Explanation: Cash = $6,000 - $900 - $1,900 = $3,200 increase
Diff: 3
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

26) Saturn, Inc. paid $8,000 on accounts payable. How does this transaction affect the accounting equation of Saturn?
A) Assets decrease by $8,000 and equity increases by $8,000.
B) Assets decrease by $8,000 and liabilities decrease by $8,000.
C) Assets increase by $8,000 and equity decreases by $8,000.
D) Assets increase by $8,000 and liabilities increase by $8,000.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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27) Brooks Landscaping Corporation performs lawn mowing services for its customers in May. Payments for May's services are expected to be received in June. How does the transaction for performing services in May affect the accounting equation of Brooks Landscaping?
A) Liabilities increase and equity decreases.
B) Assets and equity increase.
C) Assets and equity decrease.
D) Liabilities and equity increase.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

28) Gena's Cleaning Services performs services for its customers during March. Payments for the March services are received in June. How does the transaction for the collection of cash from customers affect the accounting equation of Gena's Cleaning Services?
A) Liabilities increase and assets increase.
B) Total assets remain the same.
C) Assets increase and revenues increase.
D) Assets increase and equity decreases.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

29) Mitchell Company receives a bill from one of its suppliers for advertising services received and will pay the supplier next month. How does the receipt of the bill from the supplier affect the accounting equation of Mitchell?
A) Assets and equity decrease.
B) Liabilities increase and equity decreases.
C) Assets and liabilities increase.
D) Liabilities and equity increase.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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30) Newton Corporation settles a liability by making a payment in cash. How does paying this liability affect the accounting equation of the business?
A) Assets and liabilities decrease.
B) Liabilities decrease and equity increases.
C) Assets and liabilities increase.
D) Assets increase and equity decreases.
Answer: A
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

31) Lamar Corporation purchased land for $22,000 with cash. Which of the following is true of the effect of the purchase of land on the accounting equation?
A) Assets increase by $22,000 and liabilities decrease by $22,000.
B) Assets and equity increase by $44,000.
C) Assets increase by $22,000; equity increases by $22,000.
D) The amount of total assets remains the same.
Answer: D
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

32) Rosewood Corporation purchased land for $120,000 by making a cash payment of $40,000 and promising to pay the remaining amount in a later accounting period. What is the net effect of this transaction on Rosewood's accounting equation?
A) Assets increase by $120,000 and liabilities decrease by $40,000.
B) Assets increase by $120,000 and liabilities decrease by $80,000.
C) Assets and equity increase by $80,000.
D) Assets and liabilities increase by $80,000.
Answer: D
Diff: 3
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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33) Mulberry Corporation collected $16,000 from one of its customers, the amount owed from the previous month. How does this affect the accounting equation for Mulberry?
A) Assets increase by $16,000; liabilities decrease by $16,000.
B) Assets increase by $16,000; assets decrease by $16,000.
C) Assets increase by $16,000; liabilities increase by $16,000.
D) Assets increase by $16,000; equity increases by $16,000.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

34) Country Homes Corporation just recorded a transaction in its books. If this transaction increased the total liabilities by $5,000, then _____.
A) assets must increase, or equity must decrease by $5,000
B) either assets or equity must decrease by $5,000
C) both assets and equity must each decrease by $2,500
D) assets must decrease by $5,000
Answer: A
Diff: 3
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

35) Which of the following can be an effect of a transaction that increased an asset of a corporation for the accounting equation to balance?
A) There is an equal decrease in another asset.
B) There is an equal decrease in equity.
C) There is an equal decrease in a liability account.
D) Both liabilities and equity decrease.
Answer: A
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

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36) Johnson Waterworks Corporation provides plumbing services. Transactions during the first year of operations are provided below.

a) Received $11,000 cash and issued common stock to Mitchell Johnson.
b) Paid $1,000 for equipment to be used for plumbing repairs.
c) Borrowed $11,000 from a local bank and deposited the money in the checking account.
d) Paid $600 in rent for the year.
e) Paid $200 for plumbing supplies to be used on various jobs next year.
f) Completed a plumbing repair for a law firm and received $3,400.

Calculate the amount of total assets at the end of the first year. Assume the plumbing supplies of $200 are left at the end of the year.
A) $1,200
B) $1,000
C) $22,000
D) $24,800
Answer: D
Explanation:

Cash ($11,000 + $11,000 + $3,400 - $1,000 - $600 - $200)	$23,600
Equipment	1,000
Supplies	200
Total assets	$24,800

Diff: 3
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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37) McCoy Corporation provides plumbing services. Transactions during the first year of operations are provided below.

a) Received $13,000 cash and issued common stock to Sharon McCoy.
b) Paid $1,100 cash for equipment to be used for plumbing repairs.
c) Borrowed $14,000 from a local bank and deposited the money in the checking account.
d) Paid $300 rent for the year.
e) Purchased $200 of office supplies by cash.
f) Completed a plumbing repair project for a local lawyer and received $3,200 cash.

Calculate the amount of total liabilities at the end of the first year.
A) $14,000
B) $13,000
C) $25,900
D) $3,200
Answer: A
Explanation: Borrowings from bank = $14,000
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

38) Gulf Waterworks Corporation provides plumbing services. Transactions during the first year of operations are given below.

a) Received $8,000 cash and issued common stock to Jason Robinson.
b) Paid $2,000 cash for equipment to be used for plumbing repairs.
c) Borrowed $29,000 from a local bank and deposited the money in the checking account.
d) Paid $900 rent for the year.
e) Purchased $1,900 of office supplies on account.
f) Completed a plumbing repair project for a local lawyer and received $3,100 cash.

Calculate the amount of total stockholders' equity at the end of the first year after recording the transactions. Assume office supplies of $1,900 are left at the end of the year.
A) $10,200
B) $3,100
C) $8,000
D) $29,000
Answer: A
Explanation: Equity (ending) = Common Stock – Dividends + Revenues – Expenses
Stockholders' Equity = $8,000 + $3,100 - $900 = $10,200
Diff: 3
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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39) _____ represent(s) the right to receive cash in the future from customers for goods sold or for services performed.
A) Accounts Receivable
B) Accounts Payable
C) Equity
D) Expenses
Answer: A
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

40) _____ represent(s) a short-term liability created by purchasing "on account."
A) Accounts Receivable
B) Notes Payable
C) Accounts Payable
D) Expenses
Answer: C
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

41) Jason White contributes $20,000 cash to Basic Company. What is the effect on the accounting equation for Basic Company?
A) Assets increase by $20,000 and liabilities decrease by $20,000.
B) Assets increase by $20,000 and equity decreases by $20,000.
C) Assets increase by $20,000 and equity increases by $20,000.
D) The amount of total assets remains the same.
Answer: C
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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42) Smith Corporation purchased land for $10,000 with cash. Which of the following is true of the effect of the purchase of land on the accounting equation?
A) Cash will increase by $10,000
B) Land will decrease by $10,000
C) No effect to cash
D) Cash will decrease by $10,000
Answer: D
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

43) ABC Company earns $20,000 of revenue and collects this amount in cash. What is the effect on the accounting equation?
A) Assets increase by $20,000 and liabilities decrease by $20,000.
B) Assets increase by $20,000 and equity decreases by $20,000.
C) Assets increase by $20,000 and equity increases by $20,000.
D) The amount of total assets remains the same.
Answer: C
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

44) Smith Company earns $50,000 of revenue and collects this amount in cash. What is the effect on the accounting equation?
A) Cash increases by $50,000 and Accounts Payable decreases by $50,000.
B) Cash increases by $50,000 and Service Revenue decreases by $50,000.
C) Cash increases by $50,000 and Service Revenue increases by $50,000.
D) The amount of total assets remains the same.
Answer: C
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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45) ABC Company pays $2,000 cash for expenses. What is the effect on the accounting equation?
A) Assets decrease by $2,000 and liabilities decrease by $2,000.
B) Assets decrease by $2,000 and equity decreases by $2,000.
C) Assets increase by $2,000 and equity increases by $2,000.
D) The amount of total assets remains the same.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

46) Smith Company pays $3,000 cash for Rent Expense. What is the effect on the accounting equation?
A) Cash decreases by $3,000 and Accounts Payable decreases by $3,000.
B) Cash decreases by $3,000 and Service Revenue decreases by $3,000.
C) Cash decreases by $3,000 and Equity decreases by $3,000.
D) The amount of total assets remains the same.
Answer: C
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

47) ABC Company distributes a $2,000 cash dividend to the stockholders. What is the effect on the accounting equation?
A) Assets decrease by $2,000 and liabilities decrease by $2,000.
B) Assets decrease by $2,000 and equity decreases by $2,000.
C) Assets increase by $2,000 and equity increases by $2,000.
D) The amount of total assets remains the same.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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48) Smith Company distributes a $3,000 cash dividend to the stockholders. What is the effect on the accounting equation?
A) Cash decreases by $3,000 and Accounts Payable decreases by $3,000.
B) Cash decreases by $3,000 and Service Revenue decreases by $3,000.
C) Cash decreases by $3,000 and Equity decreases by $3,000.
D) The amount of total assets remains the same.
Answer: C
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

49) Indicate the effects on the accounting equation of the following business transactions of ABC Service Corporation for b) through to d) below. Use proper account titles. Transaction a) is answered as a guide.

a) Received cash from Mary Johnson; issued common stock to her.
Answer: Increase asset (Cash); Increase equity (Common Stock)

b) Purchased equipment; signed a note payable.

c) Performed services for a customer on account.

d) At the end of the first month, paid office rent.
Answer:
b) Increase asset (Equipment); Increase liability (Note Payable)
c) Increase asset (Accounts Receivable); Increase equity (Service Revenue)
d) Decrease equity (Rent Expense); Decrease asset (Cash)
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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50) Indicate the effects on the accounting equation of the following business transactions of Pilgrim Service Corporation for b) through to d) below. Use proper account titles. Transaction a) is answered as a guide.

a) Received cash from Maxwell Jones; issued common stock to him.
Answer: Increase asset (Cash); Increase equity (Common Stock)

b) Received cash from a customer on accounts receivable.

c) Paid cash dividends to the stockholder.

d) Paid cash on accounts payable.
Answer:
b) Increase asset (Cash); Decrease asset (Accounts Receivable)
c) Decrease asset (Cash); Decrease equity (Dividend)
d) Decrease asset (Cash); Decrease liability (Accounts Payable)
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

51) Indicate the effects on the accounting equation of the following business transactions of Garland Service Corporation for b) through to d) below. Use proper account titles. Transaction a) is answered as a guide.

a) Received cash from Trent Garland and issued common stock to him.
Answer: Increase asset (Cash); Increase equity (Common Stock)

b) Collected cash on accounts receivable (created 20 days earlier).
c) Purchased office supplies on account.
d) Paid cash for the current month's electric bill.
Answer:
b) Increase asset (Cash); Decrease asset (Accounts Receivable)
c) Increase asset (Office Supplies); Increase liability (Accounts Payable)
d) Decrease asset (Cash); Decrease Equity (Utility Expense)
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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52) Analyze each of the following transactions in terms of their effects on the accounting equation of Osgood Delivery Service. Enter the correct amounts in the columns of the spreadsheet.

a) James Osgood contributes $75,000 to the business. The business issues common stock to James.
b) The business purchases $750 of office supplies on account.
c) The business pays cash to purchase a delivery van for $25,000.
d) Services are performed for clients and $5,000 cash is received.
e) Cash is paid for office rent expense, $800 and utilities expense, $400.
f) Cash dividends of $1,000 are paid to stockholders.

				Assets	=	**Liabilities**	+			**Equity**		
	Cash	Accts.Rec	Office Supps.	Deliv. Van		Accounts Payable	+	Common Stock	Dividends	Service Revenue	Rent Expense	Utilities Expense
a												
b												
c												
d												
e												
f												

Answer:

				Assets	=	**Liabilities**	+			**Equity**		
	Cash	Accts.Rec.	Office Supps.	Deliv. Van		Accounts Payable	+	Common Stock	Dividends	Service Revenue	Rent Expense	Utilities Expense
a	75000							75000				
b			750			750						
c	(25000)			25000								
d	5000									5000		
e	(1200)										(800)	(400)
f	(1000)								(1000)			
	52800	0	750	25000	0	0	750	0	0	75000	(1000)	5000	(800)	(400)

Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

53) List the steps, in the correct order, that are used when analyzing transactions.
Answer: Step 1: Identify the accounts and the account type.
Step 2: Decide if each account increases or decreases.
Step 3: Determine if the accounting equation is in balance.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

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54) Analyze each of the following transactions in terms of their effects on the accounting equation of Smith Consulting. Enter the correct amounts in the columns of the spreadsheet.

a) Joe Smith contributes $50,000 to the business. The business issues common stock to Joe.
b) The business purchases $500 of office supplies on account.
c) The business pays cash to purchase land for $20,000.
d) Services are performed for clients and $15,000 cash is received.
e) Cash is paid for office rent expense, $1,500 and salaries expense, $1,000.
f) Cash dividends of $2,000 are paid to stockholders.

		Accounts	Office		Accounts	Common		Service	Salaries	Rent
	Cash	Receivable	Supplies	Land	Payable	Stock	Dividends	Revenue	Expense	Expense
a.										
b.										
c.										
d.										
e.										
f.										
Total										

Answer:

		Accts	Office		Accounts	Common		Service	Salaries	Rent
	Cash	Rec.	Supplies	Land	Payable	Stock	Dividends	Revenue	Expense	Expense
a.	50,000					50,000				
b.			500		500					
c.	(20,000)			20,000						
d.	15,000							15,000		
e.	(2,500)								(1,000)	(1,500)
f.	(2,000)						(2,000)			
Total	40,500	-	500	20,000	500	50,000	(2,000)	15,000	(1,000)	(1,500)

Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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Learning Objective F:1-5

1) Financial statements are business documents used to communicate information needed to make business decisions.
Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Prepare Financial Statements? (H1)

2) Which of the following statements best defines financial statements?
A) Financial statements are the information systems that record monetary and nonmonetary business transactions.
B) Financial statements are the verbal statements made to business news organizations by chief financial officers.
C) Financial statements are business documents that report on a business in monetary terms, providing information to help users make informed business decisions.
D) Financial statements are plans and forecasts for future time periods based on information from past financial periods.
Answer: C
Diff: 2
LO: F:1-5
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: How Do You Prepare Financial Statements? (H1)

3) Which of the following is the correct order of preparation of financial statements?
A) Income statement → statement of retained earnings → balance sheet → statement of cash flows
B) Statement of retained earnings → balance sheet → income statement → statement of cash flows
C) Balance sheet → statement of retained earnings → income statement → statement of cash flows
D) Balance sheet → income statement → statement of retained earnings → statement of cash flows
Answer: A
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Prepare Financial Statements? (H1)

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4) Prepare an income statement and a statement of retained earnings for the month of May. Also, prepare a balance sheet as of May 31, 2025, for McGuire Corporation. The financial transactions of McGuire Corporation for the month of May, their first month of operations, are as follows:

- On May 1, 2025, McGuire Corporation issued common stock in exchange for $20,000 cash from a stockholder, Deborah Merchant.
- On May 3, the corporation borrowed $5,000 from a creditor and executed a note payable with the principal and interest to be due in one year.
- On May 7, the corporation purchased $15,000 of equipment for cash.
- On May 8, McGuire Corporation rendered service to a client and received $3,000 in cash.
- On May 12, the corporation incurred a repair expense of $1,800 and promised to pay the repair contractor the following month.
- On May 18, the corporation rendered service to a new client in the amount of $8,000 on account, and the client promised to pay the following month.
- At the end of May, McGuire Corporation distributed cash dividends of $1,500.

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Answer:

McGuire Corporation
Income Statement
Month Ended May 31, 2025

Revenues:		
Service Revenue		$11,000
Expenses:		
Repair Expense	$1,800	
Total Expenses		1,800
Net Income		$9,200

McGuire Corporation
Statement of Retained Earnings
Month Ended May 31, 2025

Retained Earnings, May 1, 2025	$0
Net Income for the month	9,200
	9,200
Dividends	(1,500)
Retained Earnings, May 31, 2025	$7,700

McGuire Corporation
Balance Sheet
May 31, 2025

Assets		**Liabilities**	
Cash	$11,500	Accounts Payable	$1,800
Accounts Receivable	8,000	Notes Payable	5,000
Equipment	15,000	Total Liabilities	6,800
		Stockholders' Equity	
		Common Stock	20,000
		Retained Earnings	7,700
		Total Stockholders' Equity	27,700
Total Assets	$34,500	Total Liabilities and Stockholders' Equity	$34,500

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Note:
Calculation of cash balance, May 31, 2025:

Common stock issued	$20,000
Borrowing from creditor	5,000
Service fees received	3,000
Receipts	28,000
Less payments:	
Purchase of equipment	(15,000)
Dividends	(1,500)
Cash balance, May 31, 2025	$11,500

Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Prepare Financial Statements? (H1)

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5) Prepare an income statement and a statement of retained earnings for the month of June. Also, prepare a balance sheet at June 30. The transactions of Modern Designer Corporation for the first month of their operations are as follows:

- On June 1, 2025, Modern Designer Corporation received $25,000 cash from its stockholders and issued common stock to the stockholders.
- The company rendered services to three clients on account with total revenues earned of $9,000.
- It then incurred an advertising expense on four different web sites and promised to pay a total of $1,200 at a later date.
- On June 13, Modern Designer purchased $1,000 worth of office supplies for cash. (The supplies are not used by June 30.)
- On June 22, it received $2,000 on account from a client and deposited it into the business account.
- On June 23, it incurred $1,300 for a legal expense and paid cash.
- On June 30, Modern Designer made a payment of $500 to one of the web sites that it owed for advertising provided earlier in the month.
- No dividends were paid during the month.

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Answer: Modern Designer Corporation
Income Statement
Month Ended June 30, 2025

Revenues:		
Service Revenue		$9,000
Expenses:		
Advertising Expense	$1,200	
Legal Expense	1,300	
Total Expenses		2,500
Net Income		$6,500

Modern Designer Corporation
Statement of Retained Earnings
Month Ended June 30, 2025

Retained Earnings, June 1, 2025	$0
Net income for the month	6,500
	6,500
Dividends	0
Retained Earnings, June 30, 2025	$6,500

Modern Designer Corporation
Balance Sheet
June 30, 2025

Assets		**Liabilities**	
Cash	$24,200	Accounts Payable	$ 700
Account Receivable	7,000		
Office Supplies	1,000		
		Stockholders' Equity	
		Common Stock	25,000
		Retained Earnings	6,500
		Total Stockholders' Equity	31,500
Total Assets	$32,200	Total Liabilities and Stockholders' Equity	$32,200

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Note:
Calculation of cash balance, June 30, 2025

Common stock issued	$25,000
Service fees received	2,000
Receipts	27,000
Less payments:	
Legal expense	(1,300)
Office supplies	(1,000)
Advertising expenses	(500)
Cash balance, June 30, 2025	$24,200

Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Prepare Financial Statements? (H1)

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6) List the four financial statements and briefly explain how each is prepared.

Financial statement	How it is prepared
1.	
2.	
3.	
4.	

Answer:

Financial statement	How it is prepared
1. Income statement	Revenues -Expenses = Net Income or Net Loss
2. Statement of retained earnings	Retained Earnings, Beginning +Net income for the period or - Net Loss for the period -Dividends for the period =Retained Earnings, Ending
3. Balance sheet	Assets = Liabilities + Stockholders' Equity
4. Statement of cash flows	Cash flows from operating activities Cash flows from investing activities Cash flows from financing activities

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Prepare Financial Statements? (H1)

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7) List the four financial statements and describe the information provided by each.

Financial statement	Information provided
1.	
2.	
3.	
4.	

Answer:

Financial statement	Information provided
1. Income statement	Profitability for a particular period of time
2. Statement of retained earnings	How much of the earnings were kept and reinvested in the company
3. Balance Sheet	Economic resources the company has (assets); debts the company owes (liabilities); elements of stockholders' equity
4. Statement of cash flows	Cash receipts and cash payments for a period of time

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Prepare Financial Statements? (H1)

8) Determine the amount of total expenses if net income is $4,000 and Service Revenues are $10,000.
Answer: $10,000 - $4,000 = $6,000 for total expenses.
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Prepare Financial Statements? (H1)

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9) Determine the amount of total liabilities if total assets are $10,000 and total equity is $7,000.
Answer: $10,000 - $7,000 = $3,000 for total liabilities.
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Prepare Financial Statements? (H1)

10) The income statement is also called the statement of financial position.
Answer: FALSE
Explanation: The income statement is also called the statement of earnings.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

11) The income statement is also called the statement of earnings.
Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

12) Which of the following statements is true of an income statement?
A) There is net income when total expenses are greater than total revenues.
B) There is a net loss when total expenses are less than total revenue.
C) There is a net loss when total expenses are greater than total liabilities.
D) There is net income when total revenues are greater than total expenses.
Answer: D
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

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13) Which of the following financial statements reports expenses in decreasing order of their amounts, stating the largest expense first?
A) Statement of cash flows
B) Income statement
C) Statement of retained earnings
D) Balance sheet
Answer: B
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

14) Regent Plumbing Corporation provides plumbing services. Selected transactions of Regent Plumbing Corporation are described as follows:

a) Received $7,000 cash and issued common stock to Sharon Regent.
b) Paid $4,000 cash for equipment to be used for plumbing repairs.
c) Borrowed $10,000 from a local bank and deposited the money in the checking account.
d) Paid $900 rent for the year.
e) Paid $100 cash for plumbing supplies to be used next year.
f) Completed a plumbing repair project for a local lawyer and received $3,000 cash.

Calculate the net income. Assume plumbing supplies of $100 are left at the end of the accounting period.
A) $800
B) $2,900
C) $3,000
D) $2,100
Answer: D
Explanation: Net income = Revenues - Expenses
Net income = $3,000 - $900 = $2,100
Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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15) Springer Corporation had the following transactions in August:
Earned $3,200 of revenues on account; collected $5,100 from a customer for services provided last month; incurred $900 of repair expense and paid cash; paid $180 for rent that it owed from the previous month.
What is the net income in August?
A) $9,200
B) $2,120
C) $7,220
D) $2,300
Answer: D
Explanation: Net income = Revenue - Expenses = $3,200 - $900 = $2,300.
Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

16) Baxtor Corporation provides consulting services. Selected transactions of Baxtor Corporation are described as follows:

a) Received $10,700 cash and issued common stock to Joe Jones.
b) Paid $2,800 cash for computer equipment for office use.
c) Borrowed $11,700 from a local bank and deposited the money in the checking account.
d) Paid $1,500 rent for the month.
e) Paid $260 cash for office supplies to be used next year.
f) Completed a consulting project for a local business and received $5,400 cash.

Calculate the net income.
A) $1,500
B) $840
C) $3,640
D) $3,900
Answer: D
Explanation: Net income = Revenues - Expenses
Net income = $5,400 - $1,500 = $3,900
Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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17) Following is a list of account balances of Tanner Lawn Services as of December 31, after the first year of operations.

Accounts Receivable	$7200
Accounts Payable	6800
Salaries Expense	7500
Repairs Expense	1700
Truck	12,000
Equipment	13,000
Notes Payable	27,100
Cash	23,300
Supplies Expense	1600
Service Revenue	39,000
Gasoline Expense	8800
Salaries Payable	2,200

Calculate the net income.
A) $19,800
B) $12,600
C) $19,400
D) $56,700
Answer: C

Explanation: Service Revenue	$39,000
Salaries Expense	(7500)
Repairs Expense	(1700)
Supplies Expense	(1600)
Gasoline Expense	(8800)
Net income	$19,400

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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18) Following is a list of account balances of Lincoln Lawn Services as of December 31, after the first year of operations.

Accounts Receivable	$5,000
Accounts Payable	6,000
Salaries Expense	6,000
Repairs Expense	900
Truck	10,000
Equipment	10,000
Notes Payable	23,700
Cash	21,000
Supplies Expense	400
Service Revenue	30,000
Gasoline Expense	7,500
Salaries Payable	1,100

Calculate the net income.
A) $15,200
B) $29,700
C) $16,300
D) $46,000
Answer: A
Explanation:

Service Revenue	$30,000
Salaries Expense	(6,000)
Repairs Expense	(900)
Supplies Expense	(400)
Gasoline Expense	(7,500)
Net income	$15,200

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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19) Michael Company has just completed operations for the year ended December 31, 2024. This is the second year of operations for the company. The following data have been assembled for the business:

Accounts Payable	$ 12,200	Office Expense	$ 6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	Retained Earnings, Jan. 1, 2024	8,300
Common Stock	9,000	Salaries Expense	36,000
Dividends	13,500	Service Revenue	84,000
Equipment	15,000	Utilities Expense	6,200
Insurance Expense	4,000		

Prepare the income statement. Use a proper heading.

Answer: Michael Company
Income Statement
Year Ended December 31, 2024

Revenues:		
Service Revenue		$84,000
Expenses:		
Salaries Expense	$36,000	
Rent Expense	9,600	
Office Expense	6,500	
Utilities Expense	6,200	
Insurance Expense	4,000	
Total Expenses		62,300
Net Income		$21,700

Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

20) By looking at a statement of retained earnings, the effect of dividends on the ending balance of retained earnings can be determined.

Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

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21) The net income (or net loss) must be calculated after the statement of retained earnings is prepared.
Answer: FALSE
Explanation: The net income (or net loss) must first be calculated on the income statement and then carried to the statement of retained earnings.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

22) Which of the following transactions will affect the balance of Retained Earnings?
A) issued common stock for cash
B) paid rent expense for the month
C) purchased land for cash
D) collection on account
Answer: B
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Statement of Retained Earnings

23) In a statement of retained earnings, decreases in retained earnings result from _____.
A) issuance of stock
B) net losses
C) net income
D) revenues earned
Answer: B
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

24) The amount of net income is transferred from _____ to _____.
A) the income statement; the statement of retained earnings
B) the balance sheet; the statement of cash flows
C) the balance sheet; the income statement
D) the income statement; the statement of expenditures
Answer: A
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

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25) Which of the following appears on both the income statement and statement of retained earnings?
A) Ending stockholders' equity
B) Total revenues
C) Net income
D) Dividends
Answer: C
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

26) Which of the following financial statements shows the dividends distributed to stockholders?
A) Income statement
B) Statement of retained earnings
C) Budgeted balance sheet
D) Balance sheet
Answer: B
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

27) If the beginning retained earnings balance is $3,500, net income is $5,500, and dividends paid is $2,400, what is the ending balance of Retained Earnings?
A) $3,100
B) $3,500
C) $6,600
D) $11,400
Answer: C
Explanation: $3,500 + $5,500 - $2,400 = $6,600
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Statement of Retained Earnings

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28) If the beginning retained earnings balance is $5,500, net income is $4,300, and ending retained earnings is $6,400, what is the amount of dividends paid?
A) $2,100
B) $3,400
C) $5,500
D) $16,200
Answer: B
Explanation: $5,500 + $4,300 - $6,400 = $3,400
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Statement of Retained Earnings

29) If the beginning retained earnings balance is $5,500, dividends paid is $1,300, and ending retained earnings is $8,600, what is the amount of net income?
A) $1,800
B) $4,400
C) $5,500
D) $15,400
Answer: B
Explanation: $8,600 + $1,300 - $5,500 = $4,400
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Statement of Retained Earnings

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30) Merian Company has just completed operations for the year ended December 31, 2024. This is the second year of operations for the company. The following data have been assembled for the business at December 31, 2024.

Accounts Payable	$ 12,200	Office Expense	$ 6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	Retained Earnings, Jan. 1, 2024	8,300
Common Stock	9,000	Salaries Expense	36,000
Dividends	13,500	Service Revenue	84,000
Equipment	15,000	Utilities Expense	6,200
Insurance Expense	4,000		

Prepare the statement of retained earnings for the year. Use a proper heading.

Answer: Merian Company
Statement of Retained Earnings
Year Ended December 31, 2024

Retained Earnings, January 1, 2024	$ 8,300
Net Income for the year	21,700
	30,000
Dividends	(13,500)
Retained Earnings, December 31, 2024	$ 16,500

Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Statement of Retained Earnings

31) The balance sheet of a business summarizes an entity's revenues and expenses.
Answer: FALSE
Explanation: The balance sheet reports on the assets, liabilities, and stockholders' equity of the business as of a specific date.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

32) The balance sheet reports on the assets, liabilities, and stockholders' equity of the business as of a specific date.
Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

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33) The heading of a balance sheet will show the date as of a specific date, not a period of time.
Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

34) The heading of a balance sheet will show the same information for the date line as the heading for a statement of retained earnings.
Answer: FALSE
Explanation: The heading of a balance sheet will show the date as of a specific date, not a period of time. The heading of a statement of retained earnings will show a period of time.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

35) The balance sheet is prepared after the statement of retained earnings.
Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

36) Which of the following is included on the balance sheet?
A) Revenues
B) Expenses
C) Assets
D) Dividends
Answer: C
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

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37) Which financial statement includes a specific date in its heading?
A) Statement of retained earnings
B) Statement of cash flows
C) Income statement
D) Balance sheet
Answer: D
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

38) Which of the following financial statements reports that total assets are equal to total liabilities plus total stockholders' equity?
A) Statement of retained earnings
B) Statement of cash flows
C) Income statement
D) Balance sheet
Answer: D
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

39) Which of the following appears on both the statement of retained earnings and the balance sheet?
A) Ending retained earnings
B) Total assets
C) Total revenues
D) Net income
Answer: A
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

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40) Which of the following financial statements lists the entity's assets, liabilities, and stockholders' equity as of a specific date?
A) Balance sheet
B) Statement of retained earnings
C) Income statement
D) Statement of cash flows
Answer: A
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

41) Following is an extract of account balances of Aztec Moving Services as of December 31, after the first year of operation.

Accounts Receivable	$7,000
Accounts Payable	7,000
Salaries Expense	5,000
Repairs Expense	1,000
Truck	12,000
Equipment	9,000
Notes Payable	8,600
Cash	7,000
Supplies Expense	1,000
Service Revenue	32,000
Gasoline Expense	3,700
Salaries Payable	500

What is the amount of total assets at the end of the year?
A) $19,000
B) $35,000
C) $21,000
D) $28,000
Answer: B
Explanation:

Accounts Receivable	$7,000
Truck	12,000
Equipment	9,000
Cash	7,000
Total assets	$35,000

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

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42) The total assets and the total liabilities of Atlas Financial Services are shown below. The company issued no common stock and paid no dividends during the year.

	Total Assets	Total Liabilities
Beginning of year	$415,000	$280,000
End of year	450,000	305,000

What was the amount of net income for the year?
A) $35,000
B) $25,000
C) $10,000
D) $60,000
Answer: C
Explanation:
Calculations:

	Assets	Liabilities
End of year total	$450,000	$305,000
Less: beginning of year total	(415,000)	(280,000)
Increase or (decrease)	$35,000	$25,000

Net increase or (decrease) = $35,000 - $25,000= $10,000
Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

43) The balance of stockholders' equity at the beginning of the year and the end of the year was $65,000 and $60,000, respectively. The company issued no common stock during the year. Dividends were $25,000. What was the net income or loss for the year?
A) Net income of $85,000
B) Net loss of $85,000
C) Net loss of $20,000
D) Net income of $20,000
Answer: D
Explanation:

Stockholders' equity at the end of the year	$60,000
Add: Dividends	25,000
	$85,000
Less: Stockholders' equity at the beginning of the year	(65,000)
Net income	$20,000

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

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44) The net income of Thomas Corporation was $74,000 for this year. The beginning balance of stockholders' equity was $28,000 and the ending balance was $71,000. The company issued no common stock during the year. What was the amount of dividends distributed during the year?

A) $71,000
B) $31,000
C) $145,000
D) $28,000

Answer: B

Explanation:

Stockholders' equity, beginning balance	$28,000
Add:	
Stock issued during the year	0
Net income	74,000
Less: Stockholders' equity, ending balance	(71,000)
Dividends	$31,000

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

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45) Following is a list of account balances of Nabers Delivery Services as of December 31, after the first year of operations.

Accounts Receivable	$5,000
Accounts Payable	7,000
Salaries Expense	6,000
Repairs Expense	600
Truck	10,000
Equipment	9,000
Notes Payable	8,300
Cash	9,300
Supplies Expense	1,400
Service Revenue	29,000
Gasoline Expense	3,500
Salaries Payable	500

What is the amount of total liabilities at the end of the year?
A) $15,800
B) $27,300
C) $23,800
D) $15,300
Answer: A
Explanation:

Accounts Payable	$7,000
Notes Payable	8,300
Salaries Payable	500
Total liabilities	$15,800

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

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46) Identify the following accounts as an asset, liability, or equity account.

Accounts Payable		Office Expense	
Accounts Receivable		Rent Expense	
Cash		Retained Earnings, Jan. 1, 2024	
Common Stock		Salaries Expense	
Dividends		Service Revenue	
Equipment		Utilities Expense	
Insurance Expense		Office Supplies	

Answer:

Accounts Payable	Liability	Office Expense	Equity
Accounts Receivable	Asset	Rent Expense	Equity
Cash	Asset	Retained Earnings, Jan. 1, 2024	Equity
Common Stock	Equity	Salaries Expense	Equity
Dividends	Equity	Service Revenue	Equity
Equipment	Asset	Utilities Expense	Equity
Insurance Expense	Equity	Office Supplies	Asset

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

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47) Wylie Company has just completed operations for the year ended December 31, 2024. This is the second year of operations for the company. The following data have been assembled for the business.

Accounts Payable	$ 12,200	Office Expense	$ 6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	Retained Earnings, Jan. 1, 2024	8,300
Common Stock	9,000	Salaries Expense	36,000
Dividends	13,500	Service Revenue	84,000
Equipment	15,000	Utilities Expense	6,200
Insurance Expense	4,000		

Prepare the balance sheet at December 31, 2024. Use a proper heading.

Answer:

Wylie Company
Balance Sheet
December 31, 2024

Assets		**Liabilities**	
Cash	$8,200	Accounts Payable	$12,200
Accounts Receivable	14,500	Total Liabilities	12,200
Equipment	15,000		
		Stockholders' Equity	
		Common Stock	9,000
		Retained Earnings	16,500
		Total Stockholders' Equity	25,500
Total Assets	$37,700	Total Liabilities and Stockholders' Equity	$37,700

Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

48) If a transaction does not involve cash, such as the purchase of supplies on account, it will not be reported on the statement of cash flows.

Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

49) A statement of cash flows always represents a period of time.

Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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50) On the statement of cash flows, investing activities include cash contributions by stockholders.
Answer: FALSE
Explanation: On the statement of cash flows, financing activities include cash contributions by stockholders.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

51) On the statement of cash flows, investing activities include purchases of land and equipment with the issuance of a note payable.
Answer: FALSE
Explanation: The statement of cash flows only reports transactions that involve cash.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

52) Financial statements are prepared after an entity's transactions are analyzed and recorded. Which of the following reports is one of the required financial statements?
A) Statement of cash flows
B) Statement of return on assets
C) Statement of dividends
D) Expense statement
Answer: A
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

53) Which of the following financial statements reports cash receipts and cash payments during a period of time?
A) Statement of cash flows
B) Balance sheet
C) Cash receipts budget
D) Statement of retained earnings
Answer: A
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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54) Which of the following financial statements reports an increase or decrease in net cash during a specific period of time?
A) Income statement
B) Statement of retained earnings
C) Statement of cash flows
D) Cash budget
Answer: C
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

55) Which of the following will be categorized as an operating activity on the statement of cash flows?
A) Cash received by selling old equipment
B) Cash paid for purchase of new machinery
C) Cash paid to employees
D) Cash received from issuance of shares of common stock
Answer: C
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

56) Which of the following will be categorized as a financing activity on the statement of cash flows?
A) Cash received by selling old equipment
B) Cash paid for purchase of new machinery
C) Cash paid for rent
D) Cash received from issuance of shares of common stock
Answer: D
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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57) Which of the following will be categorized as an investing activity on the statement of cash flows?
A) Purchase of land with a mortgage
B) Cash paid for purchase of new machinery
C) Cash paid for purchase of office supplies
D) Cash received from issuance of shares of common stock
Answer: B
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

58) Which of the following is shown on the balance sheet as well as the statement of cash flows?
A) Stockholders' equity (ending balance)
B) Net income
C) Total assets (ending balance)
D) Cash (ending balance)
Answer: D
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

59) If the cash collected from customers is $18,000, cash payments to suppliers is $2,900, and cash payments to employees is $4,000, what is the amount of net cash flow provided by operating activities?
A) $11,100
B) $14,000
C) $15,100
D) $24,900
Answer: A
Explanation: $18,000 - $2,900 - $4,000 = $11,100
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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60) If cash paid for land was $17,000, cash received from the issuance of additional common stock was $8,400, and cash paid for dividends was $1,600, what is the amount of net cash flow provided or used by investing activities?
A) $27,000
B) $(27,000)
C) $17,000
D) $(17,000)
Answer: D
Explanation: Only the land purchase for cash of $17,000 affects the investing activities.
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

61) If cash paid for land was $18,000, cash received from the issuance of additional common stock was $8,000, and cash paid for dividends was $1,500, what is the amount of net cash flow provided or used by financing activities?
A) $6,500
B) $(6,500)
C) $27,500
D) $(27,500)
Answer: A
Explanation: Issuance of Common Stock + 8,000 – Dividend paid of $1,500 = $6,500.
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

62) If net cash flows provided from operating activities is $3,600, net cash flows used by investing activities is $(25,000), and net cash flows provided by financing activities is $27,000, what is the increase in cash?
A) $55,600
B) $3,600
C) $2,000
D) $5,600
Answer: D
Explanation: $3,600 - $25,000 + $27,000 = $5,600
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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63) If net cash flows provided from operating activities is $17,000, net cash flows used by investing activities is $(47,000), and net cash flows used by financing activities is $(21,000), what is the increase or decrease in cash?
A) $51,000
B) $68,000
C) $(51,000)
D) $(68,000)
Answer: C
Explanation: $17,000 - $47,000 - $21,000 = $(51,000)
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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64) Given the following information, prepare the statement of cash flows.

Collection of cash from customers	$15,000	Payment to suppliers	$4,000
Payment to employees	$1,000	Acquisition of land for cash	$9,000
Issued Common Stock for cash	$20,000	Payment of cash dividends	$3,000
Beginning Cash balance	$6,000		

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Answer:

Cash flows from operating activities:		
Receipts:		
Collections from customers		$15,000
Payments:		
To suppliers	($4,000)	
To employees	($1,000)	($5,000)
Net cash flows provided by operating activities		$10,000
Cash flows from investing activities:		
Acquisition of land	($9,000)	
Net cash used by investing activities		($9,000)
Cash flows from financing activities:		
Issued common stock	$20,000	
Payment of cash dividends	($3,000)	
Net cash provided by financing activities		$17,000
Increase in cash		$18,000
Cash balance, beginning		6,000
Cash balance, ending		$24,000

Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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65) List the three sections of the statement of cash flows and state what is included in each section.

Statement of cash flows sections	What is included in each section
1.	
2.	
3.	

Answer:

Statement of cash flows sections	What is included in each section
1. Cash flows from operating activities	Cash receipts for services and cash payments for expenses
2. Cash flows from investing activities	Purchase and sale of land and equipment for cash
3. Cash flows from financing activities	Cash contributions by stockholders and cash dividends paid to the stockholders

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

Learning Objective F:1-6

1) The income statement shows whether or not a business can generate enough cash to pay its liabilities.
Answer: FALSE
Explanation: The income statement provides information about profitability for a particular period for the company.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

2) The income statement provides information about profitability for a particular period for the company.
Answer: TRUE
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

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3) The balance sheet shows whether or not a business is profitable.
Answer: FALSE
Explanation: The balance sheet provides information about assets, liabilities,and stockholders' equity.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

4) The balance sheet allows decision makers to determine their opinion about the financial position of the company.
Answer: TRUE
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

5) The statement of retained earnings informs users about how much of the earnings were kept and reinvested in the company.
Answer: TRUE
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

6) Economic resources and debts of the company are shown on the balance sheet.
Answer: TRUE
Diff: 2
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

7) The statement of cash flows informs users about how much of the earnings were kept and reinvested in the company.
Answer: FALSE
Explanation: The statement of retained earnings informs users about how much of the earnings were kept and reinvested in the company.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

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8) The statement of retained earnings informs users about how much of the earnings were kept and reinvested in the company.
Answer: TRUE
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

9) The balance sheet helps analyze the business performance in terms of profitability.
Answer: FALSE
Explanation: The balance sheet allows decision makers to determine their opinion about the financial position of the company.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

10) Which of the following financial statements is used to report the economic resources, debt, and overall financial position of a company?
A) income statement
B) balance sheet
C) statement of cash flows
D) statement of retained earnings
Answer: B
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

11) Which of the following financial statements is used to report cash receipts for services provided?
A) income statement
B) balance sheet
C) statement of retained earnings
D) statement of cash flows
Answer: D
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

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12) Which of the following financial statements would be most useful if an analyst wants to know the likelihood of repayment of business debts?
A) income statement
B) balance sheet
C) statement of retained earnings
D) statement of cash flows
Answer: B
Diff: 2
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

13) Which of the following financial statements would be most useful if an analyst wants to know the profitability of a company?
A) income statement
B) balance sheet
C) statement of retained earnings
D) statement of cash flows
Answer: A
Diff: 2
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

14) The return on assets is calculated by dividing net income by average total assets.
Answer: TRUE
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

15) The return on assets measures how profitably the company uses its equity.
Answer: FALSE
Explanation: The return on assets is calculated by dividing net income by average total assets.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

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16) Average total assets is calculated by taking the ending asset balance and dividing it by two.
Answer: FALSE
Explanation: Average total assets is calculated by adding the beginning and ending asset balances and dividing by two.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

17) To determine if an investment is good or bad, compare the return on assets percentage to competing companies in the same industry.
Answer: TRUE
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

18) The return on assets is calculated by _____.
A) subtracting net income from average total assets
B) adding net income and average total assets
C) dividing net income by average total assets
D) multiplying net income and average total assets
Answer: C
Diff: 2
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

19) Which of the following formulas is used to calculate average total assets for the return on assets ratio?
A) Average total assets = (Beginning total assets + Ending total assets) × 2
B) Average total assets = (Beginning total assets - Ending total assets) × 2
C) Average total assets = (Beginning total assets - Ending total assets) / 2
D) Average total assets = (Beginning total assets + Ending total assets) / 2
Answer: D
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

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20) Assume Metro Corporation had a net income of $2,200 for the year ending December 31. Its beginning and ending total assets were $35,500 and $19,000, respectively. Calculate Metro's return on assets (ROA). (Round your percentage answer to two decimal places.)
A) 6.20%
B) 11.58%
C) 8.07%
D) 4.04%
Answer: C
Explanation: Return on assets (ROA) = $2,200 / [($35,500 + $19,000) / 2] = 8.07%
Diff: 2
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Return on Assets (ROA)

21) Selected information for Advanced Spa Services and Dalton Spa Services follows:

Advanced Spa Services		**Dalton Spa Services**	
Total Assets	$110,000	Total Assets	$160,000
Total Stockholders' Equity	$73,000	Total Stockholders' Equity	$113,000
Total Revenues	$84,000	Total Revenues	$74,000
Net Income	$16,000	Net Income	$26,000

The total assets and total stockholders' equity balances are as of December 31, 2024. Total revenues and net income are for the year ended December 31, 2024. No dividends were paid. Average net assets are $130,000 for Advanced and $180,000 for Dalton. Which business owes more to creditors and how much does that business owe?
A) Advanced owes more, Liabilities are $47,000
B) Advanced owes more, Liabilities are $37,000
C) Dalton owes more, Liabilities are $47,000
D) Dalton owes more, Liabilities are $37,000
Answer: C
Explanation: Dalton Liabilities are $47,000 ($160,000 assets - $113,000 equity) which is more than Advanced liabilities of $37,000 ($110,000 assets – $73,000 equity).
Diff: 3
LO: F:1-6
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Return on Assets (ROA)

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22) Selected information for Advanced Spa Services and Dalton Spa Services follows:

Advanced Spa Services		**Dalton Spa Services**	
Total Assets	$140,000	Total Assets	$158,000
Total Stockholders' Equity	$77,000	Total Stockholders' Equity	$119,000
Total Revenues	$89,000	Total Revenues	$79,000
Net Income	$10,000	Net Income	$23,000

The total assets and total stockholders' equity balances are at December 31, 2024. Total revenues and net income are for the year ended December 31, 2024. No dividends were paid. Average net assets are $160,000 for Advanced and $178,000 for Dalton. Which business had more stockholder's equity at the end of the year and by how much?

A) Advanced by $42,000
B) Dalton by $42,000
C) Advanced by $18,000
D) Dalton by $18,000

Answer: B

Explanation: $119,000 - $77,000 = $42,000 more equity for Dalton.

Diff: 3
LO: F:1-6
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Return on Assets (ROA)

23) Selected information for Advanced Spa Services and Dalton Spa Services follows:

Advanced Spa Services		**Dalton Spa Services**	
Total Assets	$170,000	Total Assets	$155,000
Total Stockholders' Equity	$73,000	Total Stockholders' Equity	$119,000
Total Revenues	$89,000	Total Revenues	$80,000
Net Income	$13,000	Net Income	$25,000

The total assets and total stockholders' equity balances are at December 31, 2024. Total revenues and net income are for the year ended December 31, 2024. No dividends were paid. Average net assets are $190,000 for Advanced and $175,000 for Dalton. Which business had more expenses and what was that business's total expenses?

A) Advanced with $76,000 in total expenses
B) Dalton with $76,000 in total expenses
C) Advanced with $55,000 in total expenses
D) Dalton with $55,000 in total expenses

Answer: A

Explanation: Total Revenue – Net Income = Total expenses. $89,000 - $13,000 = $76,000 for Advanced. $80,000 - $25,000 = $55,000 for Dalton.

Diff: 3
LO: F:1-6
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Return on Assets (ROA)

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24) Selected information for Advanced Spa Services and Dalton Spa Services follows:

Advanced Spa Services		**Dalton Spa Services**	
Total Assets	$170,000	Total Assets	$155,000
Total Stockholders' Equity	$71,000	Total Stockholders' Equity	$113,000
Total Revenues	$87,000	Total Revenues	$76,000
Net Income	$12,000	Net Income	$23,000

The total assets and total stockholders' equity balances are at December 31, 2024. Total revenues and net income are for the year ended December 31, 2024. No dividends were paid. Average net assets are $190,000 for Advanced and $175,000 for Dalton. What is the ROA for each business?

A) 7.1% and 14.8%
B) 7.1% and 13.1%
C) 6.3% and 14.8%
D) 6.3% and 13.1%

Answer: D

Explanation: Advanced: $12,000 / $190,000 = 6.3%. Dalton: $23,000 / $175,000 = 13.1%

Diff: 2
LO: F:1-6
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Return on Assets (ROA)

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25) McAlister Repair Service had net income for the year of $125,000. In addition, the balance sheet reports the following balances:

	Jan. 1, 2024	Dec. 31, 2024
Accounts Receivable	$ 5,600	$ 14,200
Accounts Payable	12,000	9,500
Building	125,000	125,000
Cash	37,500	35,000
Office Furniture	25,000	50,000
Office Supplies	3,200	1,500
Notes Payable	60,000	75,000
Total Stockholders' Equity	124,300	141,200

Calculate the return on assets (ROA) for McAlister Repair Service for the year ending December 31, 2024.
Answer:

Total Assets	**1/1/2024**	**12/31/2024**
Accounts Receivable	$ 5,600	$ 14,200
Building	125,000	125,000
Cash	37,500	35,000
Office Furniture	25,000	50,000
Office Supplies	3,200	1,500
Total Assets	$ 196,300	$ 225,700

Return on Assets = Net Income / Average total assets

Average total assets = (Beginning total assets + Ending total assets) / 2

Return on Assets = $125,000 / [($196,300 + $225,700) / 2]
= $125,000 / $211,000
= 59.24%

Diff: 3
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Return on Assets (ROA)

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26) Adams Service Company had a net income of $14,500 for the year ending December 31, 2024. The total assets on January 1, 2024 were $28,000. The total assets on December 31, 2024 were $16,000. Calculate Adam's return on assets (ROA). Show your computations and label your work. Round your answer to two decimal places.
Answer: Return on Assets = Net Income / Average total assets
Average total assets = (Beginning total assets + Ending total assets) / 2

Return on Assets = $14,500 / [($28,000 + $16,000) / 2]
= $14,500 / $22,000
= 65.91%
Diff: 2
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Return on Assets (ROA)

27) What is the calculation for return on assets (ROA)? What does ROA measure?
Answer: Return on Assets = Net income / Average total assets. Average total assets equal beginning total assets plus ending total assets divided by two.
ROA measures how profitably a company uses its assets.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Return on Assets (ROA)

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28) Selected information for Uptown Spa Services and Downtown Spa Services follows:

Uptown Spa Services		**Downtown Spa Services**	
Total Assets	$125,000	Total Assets	$162,000
Total Stockholders' Equity	$90,000	Total Stockholders' Equity	$137,000
Total Revenues	$82,000	Total Revenues	$70,000
Net Income	$12,000	Net Income	$18,000

The total assets and total stockholders' equity balances are at December 31, 2024. Total revenues and net income are for the year ended December 31, 2024. No dividends were paid. Average net assets are $128,000 for Uptown and $178,000 for Downtown.

Provide answers for the following questions. Show your work and explain your answer.

1. Which business owes more to creditors?
2. Which business has more stockholders' equity at the end of the year?
3. Which business had more expenses?
4. What is the ROA for each business? (Show this as a percentage and round to one decimal place).
5. Based on ROA, which company is more profitable?

Answer:

1. Uptown has liabilities of $35,000 (Assets $125,000 - Total Stockholders' Equity $90,000 = Liabilities $35,000)

Downtown has liabilities of $25,000 (Assets $162,000 -Total Stockholders' Equity $137,000 = Liabilities $25,000)

Uptown owes more to creditors.

2. The end of year stockholders' equity for Uptown is $90,000 and for Downtown is $137,000, thus Downtown has more stockholders' equity at the end of the year.

3. The expenses for Uptown are $70,000 (Total Revenues $82,000 -Net Income $12,000 = Total Expenses $70,000).

The expenses for Downtown are $52,000 (Total Revenues $70,000 - Net Income $18,000 = Total Expenses $52,000).

Uptown has more expenses.

4. ROA: Uptown (Net Income $12,000/Average Total Assets $128,000 = ROA 9.4%)

Downtown (Net Income $18,000/Average Total Assets $178,000 = ROA 10.1%)

5. Based on ROA, Downtown is more profitable because its ROA is higher.

Diff: 3
LO: F:1-3, F:1-6
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Return on Assets (ROA)

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