

Chapter 1 Questions

Multiple Choice

1. A **business** organized as a separate legal entity is a
 - a. corporation.
 - b. proprietor.
 - c. government unit.
 - d. partnership.

2. Which of the following is not one of the **three forms of business organization**?
 - a. Corporations
 - b. Partnerships
 - c. Proprietorships
 - d. Investors

3. Which of the following would not be considered an **internal user** of accounting data for the Xanadu Company?
 - a. President of the company
 - b. Production manager
 - c. Merchandise inventory clerk
 - d. President of the employees' labor union

4. The **liability** created by a business when it purchases coffee beans and coffee cups on credit from suppliers is termed a(n)
 - a. account payable.
 - b. account receivable.
 - c. revenue.
 - d. expense.

5. The **right to receive money** in the future is called a(n)
 - a. account payable.
 - b. account receivable.
 - c. liability.
 - d. revenue.

6. The cost of **assets consumed** or services used is also known as
 - a. a revenue.
 - b. an expense.
 - c. a liability.
 - d. an asset.

7. The best definition of **assets** is the
 - a. cash owned by the company.
 - b. collections of resources belonging to the company and the claims on these resources.
 - c. owners' investment in the business.
 - d. resources belonging to a company that have future benefit to the company.

8. **Dividends** are reported on the
- income statement.
 - retained earnings statement.
 - balance sheet.
 - income statement and balance sheet.
9. Which of the following is an **asset**?
- Accounts Receivable
 - Accounts Payable
 - Common Stock
 - Dividends
10. To show how successfully your business performed during a period of time, you would report its revenues and expenses in the which **financial statement**?
- balance sheet.
 - income statement.
 - statement of cash flows.
 - retained earnings statement.
11. Ashley's Accessory Shop started the year with total assets of \$210,000 and total liabilities of \$120,000. During the year the business recorded \$330,000 in revenues, \$165,000 in expenses, and dividends of \$60,000. The **net income** reported by Ashley's Accessory Shop for the year was
- \$120,000.
 - \$150,000.
 - \$195,000.
 - \$165,000.
12. As of 1/1/xx, Dexter & Company had total assets of \$100,000 and total liabilities of \$45,000. If total assets increased by \$15,000 during the year and total liabilities decreased by \$10,000, what is the amount of **stockholders equity** at the end of the year? (*hint – use accounting equation*)
- \$115,000
 - \$45,000
 - \$70,000
 - \$60,000
13. What organization issues **U.S. accounting standards**?
- Security Exchange Commission
 - International Accounting Standards Committee
 - International Auditing Standards Committee
 - Financial Accounting Standards Board
14. Which of the following **financial statements** is concerned with the company at a point in time?
- Balance sheet
 - Income statement
 - Retained earnings statement
 - Statement of cash flows

15. An **income statement**

- a. summarizes the changes in retained earnings for a specific period of time.
- b. reports the changes in assets, liabilities, and stockholders' equity over a period of time.
- c. reports the assets, liabilities, and stockholders' equity at a specific date.
- d. presents the revenues and expenses for a specific period of time.

Exercises

1. Indicate in the space provided by each item whether it would appear on the income statement (IS), balance sheet (BS), or retained earnings statement (RE):

- | | | | |
|----------|----------------------------|--------|---------------------|
| a. _____ | Service Revenue | g. ___ | Accounts Receivable |
| b. _____ | Utilities Expense | h. ___ | Common Stock |
| c. _____ | Cash | i. ___ | Equipment |
| d. _____ | Accounts Payable | j. ___ | Advertising Expense |
| e. _____ | Supplies | k. ___ | Dividends |
| f. _____ | Salaries and Wages Expense | l. ___ | Notes Payable |

2. Use the following information to calculate for the year ended December 31, 20XX

- (a) net income (net loss)
- (b) ending retained earnings
- (c) total assets.

Supplies	\$ 1,500	Service revenue	\$19,000
Other operating expenses	10,000	Cash	15,000
Accounts payable	11,000	Dividends	6,000
Accounts receivable	4,000	Notes payable	1,000
Common stock	10,000	Equipment	9,500
Retained earnings (beginning)	5,000		

Chapter 1 Solutions

Multiple Choice Solutions

1. **A**
2. **D**
3. **D**
4. **A**
5. **B**
6. **B**
7. **D**
8. **B**
9. **A**
10. **B**
11. **D**
12. **C**
13. **D**
14. **A**
15. **D**

Exercise Solutions

1.
 - a. **IS**
 - b. **IS**
 - c. **BS**
 - d. **BS**
 - e. **BS**
 - f. **IS**
 - g. **BS**
 - h. **BS**
 - i. **BS**
 - j. **IS**
 - k. **RE**
 - l. **BS**

2.

- (a) **\$9,000** (Ser. rev. – Other oper. exp.)
- (b) **\$8,000** (Beg. ret. earn. + Net inc. – dividends)
- (c) **\$30,000** (Sup. + Acc. rec. + Cash + Equip.)