

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
- 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. Rodgers Company compiled the following financial information as of December 31, 20XX:

Sales revenue	\$1,120,000
Common stock	240,000
Buildings	320,000
Operating expenses	1,000,000
Cash	280,000
Dividends	80,000
Inventory	40,000
Accounts payable	160,000
Accounts receivable	120,000
Retained earnings, 1/1/20XX	600,000

Rodger's assets on December 31, 20XX are

- \$1,880,000.
- \$1,360,000.
- \$640,000.
- \$760,000.

13. As of January 1, 20XX, Elena's Store had a balance in its retained earnings account of \$100,000. During the year Elena's Store had revenues of \$80,000 and expenses of \$45,000. In addition, the business paid cash dividends of \$20,000. What is the balance in Retained Earnings at December 31, 20XX for Elena's Store?
- a. \$100,000
 - b. \$115,000
 - c. \$135,000
 - d. \$155,000
14. Which of the following financial statements is concerned with the company at a point in time?
- a. Balance sheet
 - b. Income statement
 - c. Retained earnings statement
 - d. 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. **D**
13. **B**
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.)