What is a benefit of technology in modern business practice?

A) It makes up for a lack of understanding of accounting.

B) It increases the time, effort, and cost of recording transactions.

C) Although it has not changed the way accountants summarize data, it has changed the way they process and store data.

D) All of the above.

E) None of the above.

Feedback: Technology does not make up for a lack of understanding of accounting. Accountants must understand accounting so that transactions can be analyzed; if this analysis is incorrect, transactions will be incorrectly recorded and summarized. (Learning Objective C1)

Which of the following users of accounting information are internal users?

A) Lenders

B) Shareholders

C) Production Managers

D) Governments

E) Customers

Feedback: Internal users of accounting information are those directly involved in managing and operating an organization. External users of accounting information are not directly involved in running the organization. External users include shareholders (investors), lenders, government regulators, and customers. (Learning Objective C2)

Certified Public Accountants:

A) Must meet education and experience requirements and pass an examination.

B) Are required to exhibit ethical character.

C) Receive a certificate that denotes their professional standing.

D) A and C above.

E) All of the above

Feedback: Certified Public Accountants must meet education and experience requirements and pass an examination before they receive a certificate that denotes their professional standing. They are also required to exhibit ethical character. (Learning Objective C2)

Which of the following is true about ethics in accounting?

A) For information to be useful, it must be trusted.

B) Ethics are beliefs that distinguish right from wrong.

C) Ethics are accepted standards of good and bad behavior.

D) Identifying the proper ethical path is sometimes difficult.

E) All of the above.

Feedback: The goal of accounting is to provide useful information for decisions; for information to be useful, it must be trusted. Ethics are beliefs that distinguish right from wrong. Ethics are accepted standards of good and bad behavior. Identifying the proper ethical path is sometimes difficult. (Learning Objective C3)

Which form of ownership provides all owners with the least amount of risk to their personal assets?

A) Sole proprietorship

B) Limited partnership

C) Limited liability partnership

D) Corporation

E) None of the above

Feedback: Sole proprietorships do not have separate legal status from their owners; as such, the owners are responsible for the debts of the entity (referred to as unlimited liability). In a limited partnership, at least one partner must have unlimited liability. A limited liability partnership restricts partners' liabilities to their own acts and the acts of individuals under their control, which protects an innocent partner from the negligence of another partner, yet all partners remain responsible for partnership debts. The owners of a corporation, called shareholders or stockholders, are not personally liability for corporate acts and debts; as such, this form of ownership provides all owners with the least amount of risk to their personal assets. (Learning Objective C4)

Which the following does not correctly match the accounting principle with its major focus or assumption?

A) Going-concern assumption - A business has an indefinite life span.

B) Business entity assumption - A business is distinct from its owners.

C) Measurement principle – Accounting information is based on actual cost.

D) Revenue recognition principle – Revenue is recognized (that is, recorded) when cash is received from customers for goods or services provided.

E) Monetary unit assumption – Transactions and events can be expressed in monetary, or money, units.

Feedback: This match is correct. Choice D is incorrect: the revenue recognition principle states that revenue is recognized (or recorded) when earned; proceeds from selling products or services need not be in cash. (Learning Objective C4)

The measurement principle means that accounting information is based on actual cost because cost is considered to be:

A) Objective.

B) Subjective.

C) Biased.

D) B and C above.

E) All of the above.

Feedback: The measurement principle emphasizes reliability and verifiability; information based on cost is considered objective. Objective information is supported by independent, unbiased evidence; it demands more than a person's opinion, which would be subjective rather than objective. (Learning Objective C4)

Which of the following represent creditors' claim on the assets of a company?

A) Accounts Receivables

B) Owner's Equity

C) Retained Earnings

D) Liabilities

E) None of the above

Feedback: A company that provides a service or product on credit is said to have an accounts receivable from that customer. In this situation, there is no claim on the assets of the company; the claim is on the assets of the customer. Liabilities represent creditors' claims on assets. (Learning Objective A1)

If assets increased by $5,000 and equity increased by $1,000 during the accounting period, then how did liabilities change?

A) Increased by $6,000

B) Increased by $4,000

C) Decreased by $4,000

D) Decreased by $6,000

E) Decreased by $1,000

Feedback: The accounting equation is Assets = Liabilities + Equity. A $5,000 net increase on the asset side of the equation must be matched by an equal $5,000 net increase on the liability and equity side of the equation. An increase of $5,000 in assets must equal the increase of $4,000 in liabilities (or $5,000 - $1,000) plus the increase of $1,000 in equity. (Learning Objective A1)

The owner of a computer services business was able to acquire a new computer, valued at $5,000, by establishing an account with the computer vendor, Com Pewters Unlimited. There was no down payment. How does this transaction impact the accounting equation?

A) Increase an asset, increase a liability

B) Decrease an asset, decrease a liability

C) Increase an asset, increase equity

D) Decrease an asset, decrease equity

E) Increase one asset and decrease another asset

Feedback: A promise to pay the vendor is being exchanged for a computer. The computer is an asset because it is a resource with future benefit that is now owned by the company. The promise to pay the vendor is a liability because the company owes a payment, which will be made in the future, to a creditor. This liability is commonly called accounts payable. Assets increase and liabilities increase as a result of this transaction. (Learning Objective P1)

Keith Manich deposited $5,000 in a bank account he established for a pet store that he is going to own and operate as KM's Pets, Incorporated. How does this transaction impact the accounting equation?

A) Increase an asset and increase a liability

B) Decrease an asset and decrease a liability

C) Increase an asset and increase equity

D) Decrease an asset and decrease equity

E) Increase one asset and decrease another asset

Feedback: A company is exchanging an ownership interest for cash as a result of this transaction. Cash, an asset, increases. Equity, the owner's claim on assets, also increases. The accounting equation will be in balance as: The increase in assets of $5,000 = the increase in Equity of $5,000. Liabilities, which are creditor's claims on assets, are not affected by this transaction. (Learning Objective P1)

A local fast-food outlet hired a first-year accounting student to work as its cashier (the person who collects cash from customers). The company pays the student after she works for a week. How does this transaction impact the accounting equation?

A) Increase an asset, increase a liability

B) Decrease an asset, decrease a liability

C) Increase an asset, increase owner's equity

D) Decrease an asset, decrease owner's equity

E) Increase one asset and decrease another asset

Feedback: The company is exchanging cash for the services provided by the student (in other words, the company has used services provided by the student). Cash, an asset, decreases as a result of this transaction. Employee wages are considered expenses since they are the cost of services used to earn revenues. Expenses decrease retained earnings, the component of equity that represents the income (revenues less expenses) that has not been distributed to stockholders. As such, equity also decreases as a result of this transaction. The accounting equation will be in balance as: Decrease in Assets = Decrease in Equity. Since the student was paid, liabilities are not affected by this transaction. (Learning Objective P1)

Cash dividends are declared and paid to the stockholders of the corporation. How does this transaction impact the accounting equation?

A) Increase an asset, increase a liability

B) Decrease an asset, decrease a liability

C) Increase an asset, increase equity

D) Decrease an asset, decrease equity

E) Increase one asset and decrease another asset

Feedback: A company is distributing cash, an asset, to stockholders, which reduces the claim of those owners on the company's assets. The declaration and payment of a cash dividend will result in a decrease in cash and a decrease in equity. Since dividends are a distribution to stockholders, the declaration of a dividend decreases retained earnings. The component of equity that represents the income (revenues less expenses) has not been distributed to stockholders. The accounting equation will be in balance as: Decrease in Assets = Decrease in Equity. Since the dividends are paid, liabilities are not affected by this transaction. (Learning Objective P1)

If the balance of cash is $210,000, the sales revenue totals $500,000, and the net income for the period is $200,000, what is the return on assets (ROA) if the average assets total $800,000?

A) 15%

B) 20%

C) 25%

D) 40%

E) None of the above

Feedback: The return on assets (also called return on investment) of 25% is determined by dividing the net income for the period of $200,000 by the average total assets of $800,000. Cash and sales revenues are not a part of this calculation. (Learning Objective A2)

Which of the following financial statements does not cover a period of time?

A) Income Statement

B) Balance sheet

C) Statement of retained earnings

D) Statement of cash flows

E) All of the above

Feedback: The income statement, statement of retained earnings, and statement of cash flows summarize transactions during a period of time, such as one month, one quarter, or one year. The balance sheet is like a snapshot; it reports the balances of assets, liabilities, and equity as of the last day of the period of time covered by the other three financial statements. (Learning Objective P2)