

Reading 22: Financial Reporting Mechanics

Question #1 of 28

Question ID: 598951

An equipment manufacturer builds a machine and sells it to a firm that will use it for five years. For the manufacturer, this sale is classified as a(n):

- A) operating activity.
 - B) financing activity.
 - C) investing activity.
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Question #2 of 28

Question ID: 414017

Washburn Motors signs a contract to sell a \$100,000 luxury sedan to be delivered next month, and receives a \$20,000 cash down payment from the buyer. How will the transaction *most likely* affect Washburn's assets and liabilities?

<u>Assets</u>	<u>Liabilities</u>
A) Increase	Increase
B) Increase	Unchanged
C) Unchanged	Unchanged

Question #3 of 28

Question ID: 485770

A company collects cash from a customer to settle an account receivable. What effect does this transaction have on the company's total assets and total shareholders' equity?

<u>Assets</u>	<u>Equity</u>
A) No effect	No effect
B) Increase	Increase
C) No effect	Increase

Question #4 of 28

Question ID: 414019

Which of the following *least* accurately describes a correct use of double-entry accounting?

- A) A transaction may be recorded in more than two accounts.

- B) A decrease in a liability account may be balanced by a decrease in another liability account.
 - C) An increase in an asset account may be balanced by an increase in an owner's equity account.
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Question #5 of 28

Question ID: 414018

The purchase of equipment for \$25,000 cash is *most likely* to be recorded as:

- A) an increase in one asset account and a decrease in another asset account.
 - B) an increase in an asset account and an increase in a liability account.
 - C) an increase in two asset accounts.
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Question #6 of 28

Question ID: 414021

Accruals are *best* described as requiring an accounting entry:

- A) when an expense has been incurred.
 - B) only when a good or service has been provided.
 - C) when the earliest event in a transaction occurs.
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Question #7 of 28

Question ID: 414031

Reading the footnotes to a company's financial statements and the Management Discussion & Analysis is *least likely* to help an analyst determine:

- A) the various accruals, adjustments and assumptions that went into the financial statements.
 - B) the detailed information that underlies the company's accounting system.
 - C) how well the financial statements reflect the company's true performance.
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Question #8 of 28

Question ID: 414013

In the expanded form of the accounting equation, assets equal liabilities plus contributed capital plus:

- A) ending retained earnings minus beginning retained earnings.
 - B) ending retained earnings.
 - C) beginning retained earnings plus revenue minus expenses.
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Question #9 of 28

Question ID: 414026

The *best* description of the general ledger is that it:

- A) groups accounts into the categories that are presented in the financial statements.
 - B) is where journal entries are first recorded.
 - C) sorts the entries in the general journal by account.
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Question #10 of 28

Question ID: 414028

Which of the following is the *best* description of the flow of information in an accounting system?

- A) Journal entries, general ledger, trial balance, financial statements.
 - B) General ledger, trial balance, general journal, financial statements.
 - C) Trial balance, general ledger, general journal, financial statements.
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Question #11 of 28

Question ID: 414016

A furniture store acquires a set of chairs for \$750 cash and sells them for \$1000 cash. These transactions are *most likely* to affect which accounts?

- | | <u>Purchase</u> | <u>Sale</u> |
|----|---------------------|---|
| A) | Assets only | Assets, revenue, expenses, owners' equity |
| B) | Assets only | Assets and revenues only |
| C) | Assets and expenses | Assets, revenue, expenses, owners' equity |
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Question #12 of 28

Question ID: 414020

An accounting entry that updates the historical cost of an asset to current market levels is *best* described as:

- A) a contra account.
 - B) accumulated depreciation.
 - C) a valuation adjustment.
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Question #13 of 28

Question ID: 414029

Prema Singh is the bookkeeper for Octabius Industries. Singh has been asked by the CFO of Octabius to review all purchases that occurred between February 1 and February 8 to investigate an error on the receiving dock. Singh will *most likely* look at the:

- A) initial trial balance.
- B) general journal.
- C) general ledger.

Question #14 of 28

Question ID: 598952

A firm buys a machine that it will use in its factory for five years. This purchase is *most appropriately* classified as a(n):

- A) operating activity.
- B) financing activity.
- C) investing activity.

Question #15 of 28

Question ID: 414012

A company's chart of accounts is:

- A) the set of journal entries that makes up the components of owners' equity.
- B) used for entries that offset other accounts.
- C) a detailed list of the accounts that make up the five financial statement elements.

Question #16 of 28

Question ID: 485771

Making a profitable sale on credit is *most likely* to have which of the following effects?

- A) Increase assets and increase equity.
- B) Increase assets and decrease liabilities.
- C) Decrease assets and increase equity.

Question #17 of 28

Question ID: 414024

Wichita Corporation reported the following balances as of December 31, 2007:

Cash	\$?
Accounts payable	16,000
Accounts receivable	58,000
Additional paid-in capital	42,000

Common stock	19,600
Inventory	12,000
Plant and equipment	26,800
Notes payable	20,000
Retained earnings	32,000

Calculate Wichita's cash and total assets as of December 31, 2007 based only on these entries.

<u>Cash</u>	<u>Total assets</u>
A) \$32,800	\$129,600
B) \$16,000	\$129,600
C) \$32,800	\$113,600

Question #18 of 28

Question ID: 414027

A listing of all the firm's journal entries by date is called the:

- A) general ledger.
- B) adjusted trial balance.
- C) general journal.

Question #19 of 28

Question ID: 414030

Regarding the use of financial statements in security analysis and selection, it would be *most* accurate to say that:

- A) analysts can verify the accuracy of financial statements by using a firm's detailed accounting system information.
- B) analysts can use footnotes and Management's Discussion and Analysis to better understand assumptions used in the financial statements.
- C) further analysis of a firm's financial statements is typically not necessary if the firm has conformed to applicable accounting principles.

Question #20 of 28

Question ID: 414022

Which of the following is the *least likely* to be considered an accrual for accounting purposes?

- A) Unearned revenue.
- B) Wages payable.
- C) Accumulated depreciation.

Question #21 of 28

Question ID: 414023

Beta Company reported the following financial statement information:

December 31, 2006:

Assets	\$58,000
Liabilities	28,000

December 31, 2007:

Assets	?
Liabilities	38,000

During 2007:

Stockholder investments	15,500
Net income	18,000
Dividends	7,750

Calculate Beta's total assets and stockholders' equity as of December 31, 2007.

	<u>Total assets</u>	<u>Stockholders'</u> <u>equity</u>
A)	\$93,750	\$55,750
B)	\$79,250	\$55,750
C)	\$93,750	\$30,000

Question #22 of 28

Question ID: 414025

Alpha Company reported the following financial statement information:

December 31, 2006:

Assets	\$70,000
Liabilities	45,000

December 31, 2007:

Assets	82,000
Liabilities	55,000

During 2007:

Stockholder investments	3,000
Net income	?

Dividends

6,000

Calculate Alpha's net income for the year ended December 31, 2007 and the *change* in stockholders' equity for the year ended December 31, 2007.

	<u>Net income</u>	<u>Change in stockholders' equity</u>
A)	\$5,000	\$2,000 increase
B)	(\$3,000)	\$2,000 increase
C)	\$5,000	\$2,000 decrease

Question #23 of 28

Question ID: 414014

What is the fundamental balance sheet equation?

- A) Liabilities = Assets + Stockholders' Equity ($L = A + E$).
- B) Assets = Liabilities + Stockholders' Equity ($A = L + E$).
- C) Assets = Stockholders' Equity - Liabilities ($A = E - L$).

Question #24 of 28

Question ID: 414015

The following amounts were drawn from the records of JME Company: total assets = \$1,200; total liabilities = \$750; contributed capital = \$600. Based on this information alone, retained earnings must be equal to:

- A) \$150.
- B) -\$150.
- C) \$450.

Question #25 of 28

Question ID: 414032

Sergey Martinenko is an investment analyst with Profis, Martinenko and Verona. He is explaining to his new assistant, John Stevenson, why it is crucial for an investment analyst to read the footnotes to a firm's financial statement and the Management Discussion and Analysis (MD&A) before making an investment decision. Which rationale is Martinenko *least likely* to provide to Stevenson regarding the importance of analyzing the footnotes and MD&A?

- A) Accruals, adjustments and assumptions are often explained in the footnotes and MD&A.
 - B) The footnotes disclose whether or not the company is adhering to GAAP.
 - C) Evaluating the footnotes helps the analyst assess whether management is manipulating earnings.
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Question #26 of 28

Question ID: 414033

Jack Rivers is an investment analyst for the equity fund of a family office. The head of the family, Charlotte Blackmon, is concerned that management may be manipulating the earnings of some of the companies that the fund invests in. Rivers explains to Blackmon, "Even though we don't have access to the detailed transactions that underlie the financial statements, we can be sure that management is not manipulating earnings because I read the footnotes to the financial statements of every company we invest in. The footnotes would disclose any deviation from appropriate accounting parameters." Rivers is:

- A) incorrect because even within appropriate accounting parameters, management can manipulate earnings through the assumptions that rely on their discretion.
 - B) correct.
 - C) incorrect because deviation from appropriate accounting parameters is addressed in the auditor's report, so a qualified opinion in the auditor's report ensures that management is not manipulating earnings.
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Question #27 of 28

Question ID: 414010

Allowance for bad debts and investment in affiliates are *most likely* to be shown as what types of accounts?

<u>Allowance for bad debts</u>	<u>Investment in affiliates</u>
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- | | |
|-----------------|-------------|
| A) Contra-asset | Asset |
| B) Contra-asset | Liabilities |
| C) Liabilities | Asset |
-

Question #28 of 28

Question ID: 414011

Accumulated depreciation and treasury stock are *most likely* to be shown as what types of accounts?

<u>Accumulated depreciation</u>	<u>Treasury stock</u>
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- | | |
|-----------------|---------------|
| A) Liability | Equity |
| B) Contra-asset | Contra-equity |
| C) Contra-asset | Equity |