

1

The qualitative characteristics outlined in the FASB's conceptual framework include:

points awarded

Scored

| Fundamental Characteristics | | Enhancing Characteristics |
|-----------------------------|-------------------------|---------------------------|
| Relevance | Faithful Representation | |
| Confirmatory value | Completeness | Comparability |
| Predictive value | Neutrality | Verifiability |
| Materiality | Freedom from error | Timeliness |
| | | Understandability |

Required:

Select the qualitative characteristic that best applies to each of the following independent situations. (Note: Each of the 10 characteristics is used once and only once.)

| 1. | In deciding whether to invest in Company A or Company B, investors evaluate the companies' income statements. | Comparability | ▼ |
|-----|--|--------------------|---|
| 2. | To provide the most reliable information about future sales, a company's management uses an appropriate process to estimate the decline in inventory value each year. | Freedom from error | ▼ |
| 3. | In deciding whether to loan money, a company uses balance sheet information to forecast the probability of bankruptcy. | Predictive value | ▼ |
| 4. | A company is required to issue public financial statements within 60 days of its year-end. | Timeliness | ▼ |
| 5. | Employees of Company C can use the company's financial statements to analyze the efficiency with which management has conducted operations over the past year. | Confirmatory value | ▼ |
| 6. | When first requiring firms to prepare a statement of cash flows, the FASB's intent was not to discourage or promote investment in the automobile industry. | Neutrality | ▼ |
| 7. | When a company reports revenue for the year, the amount includes sales not only in the United States but also those outside the United States. | Completeness | ▼ |
| 8. | The amount of total assets reported by a company can be substantiated by its auditors. | Verifiability | ▼ |
| 9. | A company prepares its balance sheet in a clear format using basic accounting terminology to allow users to easily comprehend the company's assets, liabilities, and stockholders' equity. | Understandability | ▼ |
| 10. | A company prepays \$600 to rent a post office box for the next six months and decides to record the entire payment to Rent Expense (instead of Prepaid Rent) in the current month. | Materiality | ▼ |

2

points awarded

Scored

Consider the recorded transactions below.

| | Debit | Credit |
|------------------------|-------|--------|
| 1. Accounts Receivable | 9,000 | |
| Service Revenue | | 9,000 |
| 2. Supplies | 1,500 | |
| Accounts Payable | | 1,500 |
| 3. Cash | 8,600 | |
| Accounts Receivable | | 8,600 |
| 4. Advertising Expense | 1,000 | |
| Cash | | 1,000 |
| 5. Accounts Payable | 2,100 | |
| Cash | | 2,100 |
| 6. Cash | 1,100 | |
| Deferred Revenue | | 1,100 |

2

Required:

Post each transaction to T-accounts and compute the ending balance of each account. The beginning balance of each account before the transactions is: Cash, \$1,800; Accounts Receivable, \$2,600; Supplies, \$240; Accounts Payable, \$1,900; Deferred Revenue, \$140. Service Revenue and Advertising Expense each have a beginning balance of zero.

points awarded

Scored

| Cash | | | | Accounts Receivable | | | |
|---------------------|-------|-------|-----|---------------------|-------|-------|-----|
| Beg. bal. | 1,800 | | | Beg. bal. | 2,600 | | |
| (3) | 8,600 | 1,000 | (4) | (1) | 9,000 | 8,600 | (3) |
| (6) | 1,100 | 2,100 | (5) | | | | |
| | | | | | | | |
| End. bal. | 8,400 | | | End. bal. | 3,000 | | |
| Supplies | | | | Accounts Payable | | | |
| Beg. bal. | 240 | | | Beg. bal. | | 1,900 | |
| (2) | 1,500 | | | (5) | 2,100 | 1,500 | (2) |
| | | | | | | | |
| End. bal. | 1,740 | | | End. bal. | | 1,300 | |
| Deferred Revenue | | | | Service Revenue | | | |
| Beg. bal. | | 140 | | Beg. bal. | | | |
| | | 1,100 | (6) | | | 9,000 | (1) |
| | | | | | | | |
| End. bal. | | 1,240 | | End. bal. | | 9,000 | |
| Advertising Expense | | | | | | | |
| Beg. bal. | | | | | | | |
| (4) | 1,000 | | | | | | |
| | | | | | | | |
| End. bal. | 1,000 | | | | | | |

3

Required:

For each transaction, determine the amount of revenue or expense, if any, that is recorded under accrual-basis accounting and under cash-basis accounting.

points awarded

Scored

| Transaction | | Accrual-Basis | | Cash-Basis | |
|-------------|--|---------------|---------|------------|----------|
| | | Revenue | Expense | Revenue | Expense |
| 1. | Receive cash from customers at the time of service, \$2,700. | \$ 2,700 | | \$ 2,700 | |
| 2. | Issue common stock for cash, \$5,000. | | | | |
| 3. | Receive cash from customers who were previously billed, \$1,200. | | | \$ 1,200 | |
| 4. | Incur utilities cost in the current month but do not pay, \$500. | | \$ 500 | | |
| 5. | Pay workers' salaries for the current month, \$600. | | \$ 600 | | \$ 600 |
| 6. | Pay for rent one year in advance, \$2,400. | | | | \$ 2,400 |
| 7. | Repay a long-term note to the bank, \$2,000. | | | | |
| 8. | Pay workers' salaries for the previous month, \$750. | | | | \$ 750 |
| 9. | Pay dividends to stockholders, \$400. | | | | |
| 10. | Purchase office supplies for cash, \$440. | | | | \$ 440 |

Explanation

No further explanation details are available for this problem.

Required information

[The following information applies to the questions displayed below.]

A company plans to own and operate a storage rental facility. For the first month of operations, the company has the following transactions.

1. January 1 Issue 10,000 shares of common stock in exchange for \$31,000 in cash.
2. January 5 Purchase land for \$18,500. A note payable is signed for the full amount.
3. January 9 Purchase storage container equipment for \$7,900 cash.
4. January 12 Hire three employees for \$1,900 per month.
5. January 18 Receive cash of \$11,900 in rental fees for the current month.
6. January 23 Purchase office supplies for \$1,900 on account.
7. January 31 Pay employees \$5,700 for the first month's salaries.

Required:

1. Record each transaction. (If no entry is required for a particular transaction/event, select "No Journal Entry Required" in the first account field.)

| No | Transaction | General Journal | Debit | Credit |
|----|-------------|---------------------------|--------|--------|
| 1 | January 01 | Cash | 31,000 | |
| | | Common Stock | | 31,000 |
| 2 | January 05 | Land | 18,500 | |
| | | Notes Payable | | 18,500 |
| 3 | January 09 | Equipment | 7,900 | |
| | | Cash | | 7,900 |
| 4 | January 12 | No Journal Entry Required | | |
| 5 | January 18 | Cash | 11,900 | |
| | | Service Revenue | | 11,900 |
| 6 | January 23 | Supplies | 1,900 | |
| | | Accounts Payable | | 1,900 |
| 7 | January 31 | Salaries Expense | 5,700 | |
| | | Cash | | 5,700 |

5

Part 2 of 3

points awarded

Scored



Required information

[The following information applies to the questions displayed below.]

A company plans to own and operate a storage rental facility. For the first month of operations, the company has the following transactions.

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6. January 23 Purchase office supplies for \$1,900 on account.
7. January 31 Pay employees \$5,700 for the first month's salaries.

5

2. Post each transaction to T-accounts and calculate the ending balance for each account. For each posting, indicate the corresponding transaction number and the appropriate transaction amount. Since this is the first month of operations, all T-accounts have a beginning balance of zero.

Part 2 of 3

6.8/10
points awarded

Scored

| Cash | | | | Supplies | | | |
|------------------|--------|--------|-----|------------------|-------|--------|-----|
| Beg. bal. | | | | Beg. bal. | | | |
| (1) | 31,000 | 7,900 | (3) | (6) | 1,900 | | |
| (5) | 11,900 | 5,700 | (7) | | | | |
| | | | | End. bal. | 1,900 | | |
| End. bal. | 29,300 | | | | | | |
| Land | | | | Equipment | | | |
| Beg. bal. | | | | Beg. bal. | | | |
| (2) | 18,500 | | | (3) | 7,900 | | |
| | | | | | | | |
| End. bal. | 18,500 | | | End. bal. | 7,900 | | |
| Common Stock | | | | Accounts Payable | | | |
| Beg. bal. | | | | Beg. bal. | | | |
| | | 31,000 | (1) | | | 1,900 | (6) |
| | | | | | | | |
| End. bal. | | 31,000 | | End. bal. | | 1,900 | |
| Notes Payable | | | | Service Revenue | | | |
| Beg. bal. | | | | Beg. bal. | | | |
| | | 18,500 | (2) | | | 11,900 | (5) |
| | | | | | | | |
| End. bal. | | 18,500 | | End. bal. | | 11,900 | |
| Salaries Expense | | | | | | | |
| Beg. bal. | | | | | | | |
| (7) | 5,700 | | | | | | |
| | | | | | | | |
| End. bal. | 5,700 | | | | | | |

6

Part 3 of 3

6.7/10
points awarded

Scored

**Required information***[The following information applies to the questions displayed below.]*

A company plans to own and operate a storage rental facility. For the first month of operations, the company has the following transactions.

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6. January 23 Purchase office supplies for \$1,900 on account.
7. January 31 Pay employees \$5,700 for the first month's salaries.

3. Prepare a trial balance.

| A COMPANY | | |
|------------------|-----------|-----------|
| Trial Balance | | |
| Accounts | Debit | Credit |
| Cash | \$ 29,300 | |
| Supplies | 1,900 | |
| Land | 18,500 | |
| Equipment | 7,900 | |
| Accounts Payable | | 1,900 |
| Notes Payable | | 18,500 |
| Common Stock | | 31,000 |
| Service Revenue | | 11,900 |
| Salaries Expense | 5,700 | |
| Totals | \$ 63,300 | \$ 63,300 |

7

14.55/15

points awarded

Scored

On December 31, Year 1, a company reports the following revenues and expenses.

| | | | |
|--------------------|----------|------------------|--------|
| Service revenue | \$87,000 | Rent expense | 11,800 |
| Postage expense | 2,100 | Salaries expense | 36,000 |
| Legal fees expense | 3,000 | Supplies expense | 20,500 |

In addition, the balance of common stock at the beginning of the year was \$800,000, and the balance of retained earnings was \$56,000. During the year, the company issued additional shares of common stock for \$37,000 and paid dividends of \$34,000.

Required:

1. Prepare an income statement.
2. Prepare a statement of stockholders' equity.

Complete this question by entering your answers in the tabs below.

| | |
|------------------|-----------------------------|
| Income Statement | Stmt of Stockholders Equity |
|------------------|-----------------------------|

Prepare an Income Statement.

| Income Statement | | | |
|--|----|--------|--------|
| For the Year Ended December 31, Year 1 | | | |
| Service Revenue | | \$ | 87,000 |
| | | | |
| Expenses: | | | |
| Salaries Expense | \$ | 36,000 | |
| Supplies Expense | | 20,500 | |
| Rent Expense | | 11,800 | |
| Legal Fees Expense | | 3,000 | |
| Postage Expense | | 2,100 | |
| | | | |
| | | | |
| Total Expenses | | | 73,400 |
| Net Income | | \$ | 13,600 |

7

14.55/15
points awarded

Scored

On December 31, Year 1, a company reports the following revenues and expenses.

| | | | |
|--------------------|----------|------------------|--------|
| Service revenue | \$87,000 | Rent expense | 11,800 |
| Postage expense | 2,100 | Salaries expense | 36,000 |
| Legal fees expense | 3,000 | Supplies expense | 20,500 |

In addition, the balance of common stock at the beginning of the year was \$800,000, and the balance of retained earnings was \$56,000. During the year, the company issued additional shares of common stock for \$37,000 and paid dividends of \$34,000.

Required:

1. Prepare an income statement.
2. Prepare a statement of stockholders' equity.

Complete this question by entering your answers in the tabs below.

Income
StatementStmt of
Stockholders
Equity

Prepare a Statement of Stockholders' Equity.

| Statement of Stockholders' Equity | | | |
|--|--------------|-------------------|----------------------------|
| For the Year Ended December 31, Year 1 | | | |
| | Common Stock | Retained Earnings | Total Stockholders' Equity |
| Beginning Balance | \$ 800,000 | \$ 56,000 | \$ 856,000 |
| Issuance of Common Stock | 37,000 | | 37,000 |
| Add: Net income | | 13,600 | 13,600 |
| Less: Dividends | | (34,000) | (34,000) |
| Ending Balance | \$ 837,000 | \$ 35,600 | \$ 872,600 |

< Income Statement

Stmt of Stockholders Equity >