Multiple Choice [4 points each]

1. A business’s balance sheet cannot be used to accurately predict what the business might be sold for because

A. It identifies all the revenues and expenses of the business.
B. Assets are generally listed on the balance sheet at their historical cost, not their current value.
C. It gives the results of operations for the current period.
D. Some of the assets and liabilities on the balance sheet may actually be those of another entity.

2. The operating activities section is often believed to be the most important part of a statement of cash flows because

A. It gives the most information about how operations have been financed.
B. It shows the dividends that have been paid to shareholders.
C. It indicates a company’s ability to generate cash from sales to meet current cash needs.
D. It shows the net increase or decrease in cash during the period.

3. When goods are sold on credit, the sale usually should be recognized at the date of

A. receipt of the sales order.
B. shipment.
C. delivery of the goods to the buyer.
D. passage of title intended by the parties.
E. None of the above.

4. In accounting for tangible operational assets, the continuity assumption is important because it

A. helps a company decide whether to use straight-line depreciation or an accelerated depreciation method.
B. justifies depreciating the asset over its expected useful life, without anticipating that the business will liquidate in the near future.
C. provides justification for including residual values in calculating depreciation.
D. is consistent with maintaining assets in the accounting records at market value rather than acquisition cost.

5. Fundamentally, liabilities are measured in conformity with the

A. revenue principle.
B. cost principle.
C. matching principle.
D. materiality constraint.
E. None of the above is correct.

6. Which of the following statements is correct?

A. Bonds are always issued (sold) at their par value.
B. Bonds issued at more than par value are said to be issued at a discount.
C. Once bonds are issued, the bonds will trade in the bond market above or below par depending on changes in interest rates.
D. Bondholders must hold their bonds to maturity to receive cash for their investment.
E. None of the above is correct.

7. When the equity method is used in accounting for long-term investments in equity securities, revenue from the investment should be recognized

A. when the investee company reports income.
B. when the investee company declares and pays a cash dividend.
C. when the investee company declares and pays (or issues) either a cash dividend or a stock dividend.
D. on the basis of stock market fluctuations.
E. None of the above is correct.

8. Which of the following is a sound reason for issuing a stock dividend?

A. To maintain dividend consistency.
B. To substantially increase the market price of the stock.
C. To capitalize retained earnings.
D. Both A and C are correct.
E. All of the above are correct.
9. Which of the following statements about the statement of cash flows is correct?

A. A company with a net loss on the income statement will always have a net cash outflow from operating activities.
B. A purchase of equipment is classified as a cash inflow from investing activities.
C. Cash dividends received on stock investments are classified as cash flows from operating activities.
D. Cash dividends paid are classified as cash flows from operating activities.
E. None of the above is correct.

10. Which of the following statements about the statement of cash flows is correct?

A. The sale of an investment in bonds for less than the carrying value of the investment would be reported as cash outflow from financing activities.
B. The sale and issuance of common stock for cash would be reported as a cash inflow from investing activities.
C. The retirement of bonds payable by the issuance of common stock would be reported as a cash inflow from investing activities.
D. Collecting cash interest revenue on a note receivable would be reported as a cash inflow from investing activities.
E. None of the above is correct.

Questions [20 points each]

1. If a bond payable is issued at a discount, is the resulting amortization added to, or deducted from, net income to determine cash flows from operations in the indirect method? Why?

2. The FASB defines assets as follows:

   Probable future economic benefits obtained or controlled by a particular entity as the result of past transactions or events.

Explain briefly why human and other non-capitalized assets should, or should not, be reported to external users. In your analysis, be sure to consider this issue from the following points of view:

a. The company and upper management
b. Stockholders and creditors
c. Employees

3.Oops Co. has $960,000 in total assets at the beginning of the period. The firm expects to declare and pay $90,000 in dividends during the year. The forecasted net income is $200,000, and it expects to show a 10% return on average total assets. Determine the expected amount of year-end assets assuming no changes in total liabilities.