TT TEXTBOOK TESTBANKS

Test Bank for Survey of Accounting 11th Warren

TEST BANK SAMPLE PREVIEW

PUBLISHER
Cengage

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2027

RESOURCE TYPE
Test Bank

ISBN
9798214052854

Test Bank for Survey of Accounting 11th Edition by Warren

ISBN: 9798214052854

Name:____ Class:_________________________ Date:_____________

Chapter_1_The_Role_of_Accounting_in_Business

1. The objective of most businesses is to maximize profits.
    a. True
    b. False

ANSWER: True

2. A limited liability company combines attributes of a partnership and a corporation.
    a. True
    b. False

ANSWER: True

3. A partnership is owned by two or more individuals.
    a. True
    b. False

ANSWER: True

4. Manufacturing businesses change basic inputs into products that are sold to individual customers.
    a. True
    b. False

ANSWER: True

5. Merchandising businesses produce products rather than provide services to customers.
    a. True
    b. False

ANSWER: False

6. A corporation is a business that is legally separate and distinct from its owners.
    a. True
    b. False

ANSWER: True

7. The popularity of the sole proprietorship is due to the ease and low cost of organizing.
    a. True
    b. False

ANSWER: True

8. A primary disadvantage of corporations is that the financial resources available to them are limited.
    a. True
    b. False

ANSWER: False

9. The ownership of a proprietorship is divided into shares of stock owned by its stockholders.
    a. True
    b. False

ANSWER: False

10. All merchandising businesses are organized as corporations.
    a. True
    b. False

ANSWER: False

11. Stockholders of a corporation are its internal stakeholders.
    a. True
    b. False

ANSWER: False

12. John Deere is a leading manufacturer of agricultural machinery in the world, producing products that serve unique market needs. Therefore, John Deere is an example of a company that uses a *premium-price* approach to attract customers.
    a. True
    b. False

ANSWER: True

13. A business stakeholder has an interest in the economic performance of a company.
    a. True
    b. False

ANSWER: True

14. Companies using a *low-cost* emphasis provide products and services that compete on features other than price.
    a. True
    b. False

ANSWER: False

15. The basic type of stock issued to owners is called common stock.
    a. True
    b. False

ANSWER: True

16. Assets are acquired through investing activities when resources are purchased.
    a. True
    b. False

ANSWER: True

17. Creditors have preference to assets over stockholders if a business fails.
    a. True
    b. False

ANSWER: False

18. A liability is a legal obligation to repay the amount borrowed according to the terms of the borrowing agreement.
    a. True
    b. False

ANSWER: True

19. Accounting is often called the "language of business" because business information is communicated to stakeholders.
    a. True
    b. False

ANSWER: True

20. The branch of accounting related to the management's financial decisions is known as financial accounting.
    a. True
    b. False

ANSWER: False

21. The stockholders' equity of a company should equal the sum of its total assets and total liabilities.
    a. True
    b. False

ANSWER: False

22. The balance sheet represents the accounting equation.
    a. True
    b. False

ANSWER: True

23. What is the primary objective of most businesses?
    a. To maximize profits
    b. To pay dividends to stockholders
    c. To provide a benefit to society
    d. To manufacture a quality product

ANSWER: a

24. Which of the following businesses buys products from other businesses wholesale to sell them to customers at a retail price?
    a. A merchandising business
    b. A manufacturing business
    c. A service business
    d. An investment business

ANSWER: a

25. Which of the following is *not* considered a common form of business organization?
    a. Sole proprietorship
    b. Limited liability company
    c. Cooperative trust
    d. Corporation

ANSWER: c

26. Which of the following types of organizational forms is popular for its ease of formation and low cost of organizing?
    a. Not-for-profit

b. Corporation
c. Partnership
d. Proprietorship

ANSWER: d

27. Which of the following is a characteristic of a limited liability company (LLC)?
a. It issues stock to raise capital.
b. It is taxed at the corporate level.
c. It provides limited liability while allowing pass-through taxation.
d. It has an unlimited life like a corporation.

ANSWER: c

28. Which business strategy involves offering products with unique features that justify higher prices?
a. Premium-price approach
b. Cost minimization strategy
c. Bulk pricing approach
d. Value-based budgeting

ANSWER: a

29. Which of the following is *not* a characteristic of a corporation?
a. It is a separate legal entity from its owners.
b. Ownership is divided into transferable shares of stock.
c. It pays taxes on its income at the corporate level.
d. It automatically terminates upon the death of a shareholder.

ANSWER: d

30. Which of the following best describes a corporation?
a. A legal entity separate from its owners, with ownership divided into shares of stock
b. A business that is easiest to form and has minimal regulatory requirements
c. A pass-through entity where profits are taxed only on the owners' tax returns
d. A business that must dissolve upon the withdrawal of an owner

ANSWER: a

31. A *low-cost* approach strives to provide
a. no-frills, standardized products and services.
b. products and services that provide unique market needs.
c. products and services that provide prestige and image for customers.
d. products and services that compete on features other than price.

ANSWER: a

32. Which of the following businesses uses a *premium-price* approach?
a. IKEA selling affordable, self-assembled furniture
b. Walmart offering a wide range of low-cost products
c. Apple selling innovative electronics with a strong brand image

d. Spirit Airlines providing no-frills, budget travel options

ANSWER: c

33. Which of the following businesses best represents a low-cost strategy?
   a. Delta Airlines offering premium seating and services
   b. Tesla offering high-end electric vehicles
   c. Dollar Tree providing basic products at a fixed price
   d. Nordstrom selling luxury apparel and accessories

ANSWER: c

34. Which of the following is considered a business stakeholder?
   a. A bank
   b. An employee
   c. A federal government
   d. All of these

ANSWER: d

35. Which are an example of internal stakeholders?
   a. Managers
   b. Creditors
   c. Stockholders
   d. Suppliers

ANSWER: a

36. Which of the following is *not* an example of a capital market stakeholder?
   a. Banks
   b. Owners
   c. Suppliers
   d. Stockholders

ANSWER: c

37. Capital market stakeholders have an interest in a company because
   a. they collect taxes from the company.
   b. they depend upon the continued success of the company for keeping their jobs.
   c. they purchase the company's products or services or sell their products or services to the company.
   d. they provide major financing for the business.

ANSWER: d

38. In the case of a failing company, the right to the first claim of the company's assets belongs to
   a. the state governments.
   b. the creditors of the company.
   c. the owners of the company.
   d. the managers of the company.

ANSWER: b

39. The economic performance of a business is of importance to the government because
    a. of potential tax collections.
    b. the government sells its products to the business.
    c. of the amount owed by the government to the business.
    d. all of these.

ANSWER: a

40. The performance evaluation of the managers of a company is dependent on the company's
    a. common stock.
    b. volatility.
    c. economic performance.
    d. nonrecurring activities.

ANSWER: c

41. When a business borrows money, which of the following is incurred?
    a. An accumulated depletion
    b. A liability
    c. A loss
    d. An accrued expenditure

ANSWER: b

42. Revenues received from providing services are referred to as
    a. fees earned.
    b. net income.
    c. gross income.
    d. retained earnings.

ANSWER: a

43. A note payable requires payment of the amount borrowed plus
    a. interest.
    b. tax.
    c. overhead.
    d. dividend.

ANSWER: a

44. Shares of ownership are evidenced by issuing
    a. shares payable.
    b. commercial paper.
    c. shares of stock.
    d. notes payable.

ANSWER: c

45. The resources a business owns are called

a. assets.
b. liabilities.
c. earnings.
d. stockholders' equity.

ANSWER: a

46. A new company issues shares of stock to raise funds, then uses a portion of those funds to purchase a building for its operations. These actions represent which two types of business activities, respectively?
a. Operating and investing
b. Financing and investing
c. Investing and operating
d. Financing and operating

ANSWER: b

47. Which of the following is an intangible asset?
a. Copyright
b. Cash
c. Land
d. Equipment

ANSWER: a

48. Rights to payments from customers are
a. liabilities.
b. prepaid expenses.
c. accounts receivable.
d. accounts payable.

ANSWER: c

49. Which of the following is considered an asset until consumed?
a. Accounts payable
b. Prepaid expense
c. Accounts receivable
d. Stockholders' equity

ANSWER: b

50. What is increase in assets from selling products or providing services called?
a. Revenue
b. Interest income
c. Equity
d. Cost of goods sold

ANSWER: a

51. Cash collected from sales during the normal course of business would be an example of which type of business activity?

a. Operating
b. Investing
c. Financing
d. None of these

ANSWER: a

52. Costs incurred to earn revenue are referred to as
a. common stock.
b. expenses.
c. liabilities.
d. retained earnings.

ANSWER: b

53. Debts owed by a business are referred to as
a. accounts receivable.
b. equities.
c. stockholders' equity.
d. liabilities.

ANSWER: d

54. Cash investments made by the stockholders of the business are reported on the statement of cash flows in the
a. financing activities section.
b. investing activities section.
c. operating activities section.
d. supplemental statement.

ANSWER: a

55. Financing activities
a. involve obtaining funds to operate a business.
b. involve obtaining assets such as buildings and equipment.
c. help to earn revenues and profits.
d. help to make wise investments in other companies.

ANSWER: a

56. Financial accounting aims to report a company's financial condition at a specific point in time and changes over a period. This allows external stakeholders, such as creditors and investors, to
a. make internal management decisions about operations.
b. develop new product strategies.
c. assess the economic performance and condition of the company.
d. determine employee salaries and bonuses.

ANSWER: c

57. The role of accounting in business is best defined as
a. an information system that provides reports to stakeholders about the economic activities and financial

condition of a business.

b. a method of forecasting the future profitability of a company.

c. the policies, procedures, and strategies used in a business.

d. the process of transaction analysis.

ANSWER: a

58. A list of assets, liabilities, and owners' equity as of a specific date is a(n)

a. income statement.

b. balance sheet.

c. statement of cash flows.

d. statement of stockholders' equity.

ANSWER: b

59. Given the following list of accounts, calculate Total Assets.

Accounts Receivable	$ 12,000
Common Stock	25,000
Cash	25,500
Equipment	16,900
Fees Earned	45,400
Miscellaneous Expense	18,800
Rent Expense	3,250
Retained Earnings	8,850
Salaries Expense	15,500
Wages Expense	15,000

a. $52,100

b. $54,400

c. $33,850

d. $79,400

ANSWER: b

60. Which of the following is an appropriate representation of the accounting equation?

a. Assets + Liabilities = Stockholders' equity

b. Assets = Liabilities + Stockholders' equity

c. Assets = Liabilities + Common stock

d. Assets = Liabilities + Retained earnings

ANSWER: b

61. Use the following information to determine Total Stockholders' Equity.

Total Assets	$ 95,000
Total Liabilities	22,000
Total Stockholders' Equity	*x*

Total Retained Earnings	8,000

a. $65,000
b. $40,000
c. $73,000
d. $117,000

ANSWER: c

62. A summary of the cash receipts and cash payments for a specific period of time is a(n)
a. income statement.
b. balance sheet.
c. statement of cash flows.
d. statement of stockholders' equity.

ANSWER: c

63. The portion of a corporation's net income reserved for future decisions in the business is called
a. interest earnings.
b. dividends.
c. tax expense.
d. retained earnings.

ANSWER: d

64. The debt created by a business when it borrows against credit from a vendor or supplier is called a(n)
a. account payable.
b. contingent liability.
c. intangible asset.
d. account receivable.

ANSWER: a

65. If there are no beginning retained earnings, net income of $31,200, and ending retained earnings of $9,000, how much are dividends?
a. $40,200
b. $9,000
c. $22,200
d. $4,500

ANSWER: c

66. During the most recent year, Bean Corporation experienced an increase in total assets of $70,500 and an increase in total liabilities of $42,500. Assuming that common stock increased by $6,500 and no dividends were paid, calculate Bean's net income or net loss for the end of the year.
a. Net income of $28,000
b. Net loss of $36,000
c. Net income of $21,500
d. Net loss of $49,000

ANSWER: c

67. The financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or a year, is called a(n)

a. prior period statement.

b. statement of stockholders' equity.

c. income statement.

d. balance sheet.

ANSWER: c

68. The financial statements are integrated. Which of the following correctly describes a link between two of the primary financial statements?

a. Net income from the Statement of Cash Flows is reported on the Income Statement.

b. Ending cash on the Balance Sheet is reported as the ending cash on the Statement of Cash Flows.

c. Retained earnings on the Balance Sheet is reported on the Income Statement.

d. Dividends from the Income Statement are reported on the Statement of Stockholders' Equity.

ANSWER: b

69. Which financial statement is specifically designed to categorize a company's cash inflows and outflows into operating, investing, and financing activities, providing insights into its liquidity and solvency?

a. The income statement

b. The statement of stockholders’ equity

c. The statement of cash flows

d. The balance sheet

ANSWER: c

70. Simmon's Inc., had the following account balances on June 30, 20Y9. What is Simmon's net income for the month of June?

Accounts Payable	$ 8,900
Common Stock	16,000
Cash	20,500
Equipment	19,000
Fees Earned	65,000
Miscellaneous Expense	18,500
Rent Expense	5,000
Retained Earnings	8,000
Wages Expense	17,500

a. $24,000

b. $41,000

c. $39,500

d. 65,000

ANSWER: a

71. Stork, Inc., had revenues of $395,000, expenses of $155,000, and dividends of $54,000 during the current year. Based

on the given information, which of the following statements is true?

a. Net income for the current year totaled $240,000.

b. Net income for the current year totaled $186,000.

c. Total retained earnings increased by $240,000 during the current year.

d. Total retained earnings decreased by $186,000 during the current year.

ANSWER: a

72. The portion of a corporation's net income that is paid out to the stockholders, instead of being retained in the business, is referred to as

a. gross income.

b. earnings before interest and taxes.

c. interest expense.

d. dividends.

ANSWER: d

73. Which of the following accounting concepts requires that the financial statements, including related notes, contain all relevant data a stakeholder would need to understand the financial condition and performance of the company?

a. The adequate disclosure concept

b. The cost concept

c. The objectivity concept

d. The matching concept

ANSWER: a

74. Rocky Creek Company had the following account balances in 20Y8 and 20Y9, respectively. Assuming dividends of $20,000 were paid in 20Y9, how much was net income?

	20Y9	**20Y8**
Capital Stock	$ 41,000	$ 40,000
Retained Earnings	*x*	200,000
Total Stockholders' Equity	$ 310,000	$ 240,000

a. $62,000

b. $252,000

c. $269,000

d. $89,000

ANSWER: d

75. The "rules" of accounting are referred to as

a. income tax regulations.

b. SEC regulations.

c. internet rules.

d. Generally Accepted Accounting Principles.

ANSWER: d

76. Which of the following is true about the cost concept?

a. It limits the economic data recorded in an accounting system to data related to the activities of that company.
b. It initially records assets in the accounting records at their purchase price.
c. It assumes that a company will continue in business indefinitely.
d. It reports the revenues earned by a company for a period with the expenses incurred in generating the revenues.

ANSWER: b

77. According to which of the following concepts should the expenses incurred when generating revenue be reported in the same period as the related revenue?
a. The cost concept
b. The periodicity concept
c. The matching concept
d. The adequate disclosure concept

ANSWER: c

78. Expressing financial data as if a business will continue operating for an indefinite period of time refers to which concept?
a. Business entity concept
b. Going concern concept
c. Objectivity concept
d. Adequate disclosure concept

ANSWER: b

79. Within the context of metric-based analysis, the return on assets is primarily utilized by stakeholders to assess a company's
a. liquidity.
b. solvency.
c. profitability.
d. short-term debt-paying ability.

ANSWER: c

80. The return on assets is calculated by
a. dividing interest expense by average total assets and average current assets.
b. dividing net income by average total assets.
c. dividing average total assets and interest expense by net income taxes.
d. dividing net income by average current assets.

ANSWER: b

81. If Apple Inc. has a return on assets of 28.1% and HP Inc. has 17.7% (as presented in the textbook), this suggests that
a. Apple has lower average total assets than HP.
b. HP has a higher net income than Apple.
c. Apple is earning approximately 28.1 cents for every dollar of assets invested, outperforming HP in profitability by this metric.
d. both companies have the same financial leverage.

ANSWER: c

82. Profitability ratios such as _____ can be used to analyze and assess a company's financial performance.
   a. fixed assets turnover
   b. current ratios
   c. dividend payout ratios
   d. return on assets

ANSWER: d

83. Name the three different types of businesses that operate for profit and their respective characteristics.

ANSWER: (1) **Manufacturing**: These businesses change basic inputs into products to sell to individual customers.
(2) **Merchandising**: These businesses sell products to individual customers but do not make the products. The products are purchased from other businesses and resold to customers.
(3) **Service**: These businesses do not make or sell products. They provide services for fees.

84. Name and describe the four forms of businesses and their advantages and disadvantages (if any).

ANSWER: (1) **Proprietorship**: These businesses are owned by one individual.
Advantages: There is ease and low cost of organizing proprietorships.
Disadvantages: The financial resources available to this type of business are limited to the owners' resources and to borrowing.
(2) **Corporation**: These businesses are organized under state or federal statutes as a separate legal entity. Ownership is divided into shares of stock.
Advantages: Corporations have the ability to obtain large amounts of resources by issuing stock.
Disadvantages: Dividend distributions from corporations are taxed twice.
(3) **Partnership**: These businesses are owned by two or more individuals.
Advantages: Partnerships provide for pooling of talent.
Disadvantages: A partnership may outgrow its ability to finance operations.
(4) **Limited Liability Company**: These businesses combine the attributes of a partnership and a corporation.
Advantages: Operates similar to a partnership; members' liability for the debts of the corporation are limited.
Disadvantages: Similar to a partnership; may outgrow its ability to finance operations.

85. For each of the following companies, identify whether it is a service, merchandising, or manufacturing business.

A. Barnes & Noble
B. Time Warner Cable
C. Kohl's
D. Ford Motor Co.
E. Applebee's
F. Sylvania
G. Best Buy
H. GAP
I. H & R Block

ANSWER:
A. Merchandising
B. Service

C. Merchandising
D. Manufacturing
E. Service
F. Manufacturing
G. Merchandising
H. Merchandising
I. Service

86. How do businesses make money? What strategies can they use to gain a competitive advantage?

ANSWER: Businesses have the objective of making money by generating more revenues than costs. Businesses can seek competitive advantage by using a *premium-price* approach or by using a *low-cost* approach. A *premium-price* approach tries to meet a unique market need based on quality, reliability, image, or design, allowing it to charge a higher price. A *low-cost* approach focuses on efficiency in product design and production to offer a lower price due to lower costs.

87. Describe business stakeholders. State the classification of business stakeholders.

ANSWER: Business stakeholders are persons or entities that have an interest in the economic performance of a company.
(1) Capital market stakeholder
(2) Product or service market stakeholder
(3) Government stakeholder
(4) Internal stakeholder

88. Indicate whether each of the following activities would be reported on the statement of cash flows as an operating activity, an investing activity, a financing activity, or does not appear on the statement of cash flows.
(a) Cash paid for building
(b) Cash paid to suppliers
(c) Cash paid for dividends
(d) Cash received from customers
(e) Cash received from the sale of common stock
(f) Cash received from the sale of a building
(g) Borrowed cash from a bank

ANSWER:
(a) Investing activity
(b) Operating activity
(c) Financing activity
(d) Operating activity
(e) Financing activity
(f) Investing activity
(g) Financing activity

89. Define accounting and its role in business.

ANSWER: Accounting provides information for managers that can be used in operations of a business. Accounting provides information to external stakeholders to use in assessing the economic performance and condition of the business.

90. What is the basic accounting equation, and which financial statement is prepared from this equation?

ANSWER: Assets = Liabilities + Stockholders' Equity; the balance sheet is prepared from this equation.

91. The following is the financial statement data for Sunshine Temporary Services on December 31, 20Y9. Prepare Sunshine's income statement.

Accounts Payable	$ 850
Accounts Receivable	780
Cash	425
Common Stock	600
Dividends	200
Insurance Expense	80
Office Equipment	1,500
Retained Earnings, January 1, 20Y9	370
Salaries Expense	500
Notes Payable	40
Service Revenue	1,850
Inventory	35
Supplies Expense	75

Sunshine Temporary Services Income Statement For the Year Ended December 31, 20Y9		

ANSWER:

Sunshine Temporary Services Income Statement For the Year Ended December 31, 20Y9		
Revenues:		
Service Revenue		$1,850
Expenses:		
Salaries Expense	$500	
Insurance Expense	80	
Supplies Expense	75	
Total Expenses		(655)
Net income		$1,195

92. Three different companies—A, B, and C—have the same balance sheet at the beginning and the end of a year. These

are summarized as follows:

	Total Assets	Total Liabilities
Beginning of the year	$500,000	$250,000
End of the year	$1,200,000	$350,000

Given the data above and the additional information for each of the following companies, determine the net income (loss) for each company.

Company A	No additional investment was made by stockholders, and no dividends were paid.
Company B	Stockholders invested an additional $200,000, and no dividends were paid.
Company C	Stockholders invested $450,000, and dividends of $50,000 were paid.

ANSWER: Company A Net income $600,000
Company B Net income $400,000
Company C Net income $200,000

93. Fill in the missing amounts on the following balance sheet.

Providence Company Balance Sheet December 31, 20Y9		
Assets		
Cash		$ 3,200
Accounts Receivable		2,500
Supplies		**(a)**
Inventory		5,600
Equipment		7,500
Land		9,550
Total Assets		$32,550
Liabilities		
Accounts Payable	$ 1,500	
Notes Payable	**(b)**	
Total Liabilities		$ **(c)**
Stockholders' Equity		
Common Stock	$18,000	
Retained Earnings	4,000	
Total Stockholders' Equity		22,000
Total Liabilities and Stockholders' Equity		**$ (d)**

ANSWER: (a) $4,200
(b) $9,050
(c) $10,550
(d) $32,550

94. Classify the following as an asset, liability, revenue, or expense.

(1) Unearned revenue
(2) Office equipment
(3) Wages payable
(4) Salary expense
(5) Dividends payable
(6) Art fees earned
(7) Prepaid rent
(8) Accounts receivable
(9) Income tax expense
(10) Office supplies

ANSWER: (1) Liability
(2) Asset
(3) Liability
(4) Expense
(5) Liability
(6) Revenue
(7) Asset
(8) Asset
(9) Expense
(10) Asset

95. Match the following items with the appropriate financial statement.
a. Income statement
b. Balance sheet
c. Statement of stockholders' equity
d. Statement of cash flows

(1) Cash
(2) Salary expense
(3) Unearned revenue
(4) Depreciation expense
(5) Common stock
(6) Cash flows from operating activities
(7) Accounts receivable
(8) Beginning balance of retained earnings
(9) Notes payable
(10) Accounts payable
(11) Changes in current assets and current liabilities
(12) Total expenses

ANSWER: (1) Balance sheet
(2) Income statement
(3) Balance sheet
(4) Income statement
(5) Balance sheet
(6) Statement of cash flows
(7) Balance sheet
(8) Statement of stockholders' equity
(9) Balance sheet
(10) Balance sheet
(11) Statement of cash flows

(12) Income statement

96. On May 31, 20X9, Dina's Cleaning Services had account balances as follows:

Accounts payable	$ 9,900
Accounts receivable	26,950
Cash	11,390
Fees earned	70,500
Insurance expense	1,550
Land	72,060
Miscellaneous expense	1,500
Prepaid insurance	2,000
Rent expense	9,000
Salary expense	35,200
Dividends	15,100
Supplies	950
Supplies expense	900
Utilities expense	4,800
Common stock	81,000
Retained earnings (beginning balance on May 1, 20Y9)	20,000

Present, in good form, (a) an income statement for May, (b) a statement of shareholders' equity for May, and (c) a balance sheet as of May 31.

ANSWER: (a)

Dina's Cleaning Service
Income Statement
For the Month Ended May 31, 20Y9

Fees earned	$70,500
Operating expenses:	
Salary expense	$35,200
Rent expense	9,000
Utilities expense	4,800
Insurance expense	1,550
Supplies expense	900
Miscellaneous expense	1,500
Total operating expenses	52,950
Net income	$17,550

(b)

Dina's Cleaning Service
Statement of Stockholders' Equity
For the Month Ended May 31, 20Y9

	Common Stock	Retained Earnings	Total
Balances, May 1	$81,000	$20,000	$101,000
Net income	-	17,550	17,550
Dividends	-	(15,100)	(15,100)
Balances, May 31	$81,000	$22,450	$103,450

(c)

Dina's Cleaning Service
Balance Sheet
May 31, 20Y9

Assets		Liabilities	
Cash	$ 11,390	Accounts payable	$ 9,900
Accounts receivable	26,950		
Prepaid insurance	2,000	Stockholders' Equity	
Supplies	950	Common stock	$ 81,000
Land	72,060	Retained earnings	22,450
		Total stockholders' equity	$103,450
Total assets	$113,350	Total liabilities and stockholders' equity	$113,350

97. Match each statement with the appropriate accounting concept. (Some items may not be used. Others may be used more than once.)

a. Accounting period concept
b. Adequate disclosure concept
c. Business entity concept
d. Cost concept
e. Going concern concept
f. Matching concept
g. Objectivity concept
h. Unit of measure concept

(1) Owners' transactions are separate from business transactions.
(2) Financial statements are prepared at the end of each year.
(3) Land purchased for $50,000, 10 years ago, is reported on the Balance Sheet at $50,000.
(4) December rent expense paid in January is reported with the December revenues.
(5) All transactions are recorded and reported in dollars.
(6) This provides a summary of significant accounting policies.
(7) This assumes that IBM will continue as a corporation forever.
(8) The length of time left on debt obligations is shown.

ANSWER: (1) c
(2) a
(3) d
(4) f
(5) h
(6) b
(7) e
(8) b

98. Using the data for Apple Inc. from the textbook's discussion on return on assets, compute Apple's return on assets.

Net income	$94,680 million
Total assets at beginning of year	$323,888 million

Total assets at end of year	$351,002 million

a. 28.1%
b. 29.2%
c. 27.5%
d. 26.8%

ANSWER: a