Introductory Accounting - A Measurement Approach for Managers 1st edition Tinkelman Test Bank

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1 The idea in accounting that a business will continue in operations is the

(A) Periodicity assumption

(B) Realization principle

(C) Going concern assumption

(D) Matching principle

Answer: (C) Going concern assumption

Feedback: See text.

2 The financial accounting "element" that best describes the outflow of resources during a period to pay rent on an office for that period is

(A) Assets

(B) Liability

(C) Equity

(D) Expense

(E) Revenue

Answer: (D) Expense

3 The financial accounting element that best describes materials the company owns and intends to sell to customers as part of the normal business operations of the company is

(A) Assets

(B) Liability

(C) Equity

(D) Expense

(E) Revenue

Answer: (A) Assets

4 All of the following items are liabilities except

(A) Salaries payable

(B) Income tax expense

(C) Loans payable

(D) Unearned income

Answer: (B) Income tax expense

5 The financial accounting "element" that best describes a car owned by a company is

(A) Assets

(B) Liability

(C) Equity

(D) Expense

(E) Revenue

Answer: (A) Assets

6 **All of the following items are expenses except**

(A) Inventory

(B) Rent expense

(C) Income tax expense

(D) Cost of goods sold

Answer: (A) Inventory

7 **The financial accounting "element" that best describes a dividend paid by a company to its shareholders is**

(A) Assets

(B) Liability

(C) Distribution to owners

(D) Expense

(E) Revenue

Answer: (C) Distribution to owners

8 **Which of the following items would be an example of revenue?**

(A) Cash received from a bank loan

(B) Cash investments made by owners

(C) Cash received from customers at the time services were provided

(D) All of the above

Answer: (C) Cash received from customers at the time services were provided

9 **The financial accounting element that best describes a payment of rental expense for the company's offices for the operations during the year is**

(A) Assets

(B) Liability

(C) Distribution to owners

(D) Expense

(E) Revenue

Answer: (D) Expense

10 **All of the following items are assets except**

(A) Sales

(B) Accounts receivable

(C) Prepaid rent

(D) Supplies on hand

Answer: (A) Sales

11 A company's payment of cash for repayment of a loan would properly be considered which type of cash flow?

(A) Operating

(B) Investing

(C) Financing

(D) Not a cash flow

Answer: (C) Financing

12 The financial accounting "element" that best describes a loan payable to a bank is

(A) Assets

(B) Liability

(C) Equity

(D) Expense

(E) Revenue

Answer: (B) Liability

13 Which of the following types of transaction will result in an accounting entry that will decrease the recorded equity of a medical insurance company?

(A) Paying cash for land

(B) Borrowing money from a bank

(C) Selling new shares of common stock to stockholders for cash

(D) Salary expenses

Answer: (D) Salary expenses

14 Which of the following types of transaction will result in an accounting entry that will increase the recorded equity of a medical insurance company?

(A) Paying wages of employees for the month

(B) Borrowing money from a bank

(C) Paying dividends to the owners

(D) Charging medical premiums to people who have signed up to be insured

Answer: (D) Charging medical premiums to people who have signed up to be insured

15 **In accounting, the concept for whether different experts will agree on a measurement is**

(A) Verifiability

(B) Consistency

(C) Timeliness

(D) Materiality

Answer: (A) Verifiability

Feedback: See text and FASB concepts statements.

16 **For something to be ""relevant,"" according to the FASB, it must**

(A) Be immaterial

(B) Have either predictive or feedback value

(C) Be unbiased

(D) Be easily understood

Answer: (B) Have either predictive or feedback value

Feedback: See text.

17 **In accounting, the concept for whether information is produced quickly enough to be used in decision-making is**

(A) Consistency

(B) Representational faithfulness

(C) Timeliness

(D) Materiality

Answer: (C) Timeliness

Feedback: See text.

18 **The accounting term which refers to whether a particular error is of such importance as to affect the decisions of an average prudent investor is called**

(A) Adequate disclosure

(B) Materiality

(C) Internal control

(D) Conservatism

Answer: (B) Materiality

Feedback: See text.

19 **According to the FASB, it is desirable for companies who are uncertain of exactly what their assets are worth to report them**

(A) “Conservatively,” at values somewhat lower than they expect them to be worth

(B) ""Neutrally,” at the most likely estimate of what the assets are worth

(C) “Aggressively,” at values somewhat higher than they expect them to be worth

(D) At zero value

Answer: (B) ""Neutrally,” at the most likely estimate of what the assets are worth

Feedback: This is the FASB's stated goal in its conceptual framework project.

20 Two terms used in financial accounting are gain and revenue. Which of the following statements is correct?

(A) Revenues relate to the main business of the company, while gains are from events that are not a main regular part of the business.

(B) The two terms mean the same thing.

(C) A company’s revenues are always much larger than the gains it has.

(D) A company that reports revenues will never report gains.

Answer: (A) Revenues relate to the main business of the company, while gains are from events that are not a main regular part of the business.

Feedback: The correct answer follows the FASB's definitions. It is possible for gains to be larger than revenues, and a company can also report both revenues and gains.

21 The money owed by a business to its bank related to an outstanding loan would be considered a

(A) Revenue

(B) Asset

(C) Liability

(D) Equity

Answer: (C) Liability

22 Which of the following is not one of the basic categories or “elements” that accountants use to classify information in financial statements?

(A) Assets

(B) Distributions to owners

(C) Revenues

(D) Taxes

Answer: (D) Taxes

Feedback: Taxes are not among the elements of financial statements listed by the FASB.

23 Which of the following is one of the basic categories or “elements” that accountants use to classify information in financial statements?

(A) Liabilities

(B) Receipts

(C) Dsibursements

(D) Rent

Answer: (A) Liabilities

Feedback: Only one of these terms is among the elements listed by the FASB.

24 Which of the following types of transaction will result in an accounting entry that will not change the recorded equity of a company?

(A) Paying cash for new inventory

(B) Paying for the current month's rent expense

(C) Paying dividends to the owners

(D) Paying the principal amount due on a bank loan

Answer: (A) Paying cash for new inventory

25 An inflow of cash received by a company when it sold new common stock to investors is best classified as which type of cash flow?

(A) Operating

(B) Investing

(C) Financing

(D) Not a cash flow

Answer: (C) Financing

26 The amount of cash a company spends to buy a new factory is best described as which type of cash flow?

(A) Operating

(B) Investing

(C) Financing

(D) Not a cash flow

Answer: (B) Investing

27 3. The FASB has defined various ""enhancing characteristics"" of financial accounting information. One of these enhancing characteristics is ""understandability."" Name and briefly describe two other enhancing characteristics.

Answer:

Feedback: "

28 4. The FASB recognizes there are certain constraints on the production of high-quality accounting information. Name and brielfy describe any two constraints discussed by the FASB.

Answer:

Feedback: "

29 **5. According to the IMA, the two basic desirable characteristics of accounting information are ""causality"" and ""analogy."" Define and explain these terms.**

Answer:

Feedback: "

30 **6. The IMA recognizes certain constraints on obtaining and using accounting information. Name and briefly discuss any two constraints.**

Answer:

Feedback: "

31 **7. The text discusses various general desirable characteristics of a measurement system, such as theoretical fruitfulness, power, simplicity, clarity, and low cost. Compare the primary and enhancing characteristics of accounting information, as defined by the FASB, to these generally desirable characteristics of measurement systems.**

Answer:

Feedback: "

32 **8. The text discusses various general desirable characteristics of a measurement system, such as theoretical fruitfulness, power, simplicity, clarity, and low cost. Compare the desirable characteristics of accounting information, as defined by the IMA, to these generally desirable characteristics of measurement systems.**

Answer:

Feedback: "

33 **9. Explain why vacation time earned by employees, but not yet taken at the end of the year, would meet the FASB's definition of a liability.**

Answer:

Feedback: "

34 **10. This question asks you to state and apply the FASB's rules for recognizing revenue.**

Answer:

Feedback: "

35 **A. Briefly state the FASB's criteria of deciding when revenue should be recognized.**

Answer:

Feedback: "

36 **B. Assume a company ships its products to a customer, who promises to pay in 30 days. Are the FASB's criteria for revenue recognition met? Explain your answer.**

Answer:

Feedback: "

37 **2. What are some of the attributes of a company that the FASB thinks are important to potential investors?**

Answer:

Feedback: "

38 **D. Clarity**

Answer:

Feedback: "

39 **C. simplicity**

Answer:

Feedback: "

40 **On a company's cash flow statement, the amount it receives when it borrows money would be considered**

(A) Operating

(B) Investing

(C) Financing

(D) Not a cash flow

Answer: (C) Financing

41 **On a company's cash flow statement, the amount it receives when it provides services to customers is considered which type of cash flow?**

(A) Operating

(B) Investing

(C) Financing

(D) Not a cash flow

Answer: (A) Operating

42 **On a company's cash flow statement, the amount it receives when it pays taxes is considered which type of cash flow?**

(A) Operating

(B) Investing

(C) Financing

(D) Not a cash flow

Answer: (A) Operating

43 **A cost that stays the same, regardless of the level of output, is a**

(A) Variable cost

(B) Fixed cost

(C) Step cost

(D) Mixed cost

Answer: (B) Fixed cost

44 **A student group is taking a trip. The group expects between 100 and 200 students. The group could hire its own buses, or give students tickets to use existing bus companies. Each bus it hires holds 40 students. If it gives students tickets to existing bus companies, it can buy exactly the number of tickets needed. In this example, the cost of giving tickets to students to existing bus companies is an example of a**

(A) Variable cost

(B) Fixed cost

(C) Step cost

(D) Mixed cost

Answer: (A) Variable cost

45 **In the problem above, the cost of hiring the group's own buses is an example of a**

(A) Variable cost

(B) Fixed cost

(C) Step cost

(D) Mixed cost

Answer: (B) Fixed cost

46 **Assume that a magazine publishing company collects $120 from a customer for a 12-month subscription, but has not yet sent out any magazines when the accounting period ends. Under accrual accounting, at the time this money is collected, the books should reflect**

(A) A liability of $120 and a revenue of $120

(B) Cash of $120 and an expense of $120

(C) Nothing, since no magazines have yet been mailed

(D) A liability of $120 and cash of $120

Answer: (D) A liability of $120 and cash of $120

47 **1. Explain briefly what is meant by each of the following desirable characteristics of a measurement system.**

Answer:

Feedback: "

48 **A. theoretical fruitfulness**

Answer:

Feedback: "

49 **B. power**

Answer:

Feedback: "

50 **C. Assume a company produces air conditioners in January, which it expects to ship and sell to customers in June. Are the FASB's criteria for revenue recognition met? Explain your answer.**

Answer:

51 **For the FASB, one of the primary desirable characteristics of accounting information is "relevance."**

(A) True

(B) False

Answer: (A) True

52 **A ""prepaid expense"" occurs when a company must recognize an expense before it pays cash for the service it is receiving.**

(A) True

(B) False

Answer: (B) False

Feedback: This is defining an accured expense payable.

53 **Dividends to owners reduce a company's comprehensive income for the year.**

(A) True

(B) False

Answer: (B) False

Feedback: They are not included in computing comprehensive income.

54 **""Comprehensive income"" and ""net income"" mean the same thing.**

(A) True

(B) False

Answer: (B) False

Feedback: Certain items that affect comprehensive income do not affect net income.

55 **A contract which has not yet been performed by either party is called an executory contract.**

(A) True

(B) False

Answer: (A) True

Feedback: See text.

56 Accrued receivables arise when the company has earned something, but has not yet been paid.

(A) True

(B) False

Answer: (A) True

Feedback: See text.

57 In order for a liability to be recorded under generally accepted accounting principles, the liability must be legally enforceable.

(A) True

(B) False

Answer: (B) False

Feedback: See text. Liabilities need not be legally enforceable at the time they are recognized.

58 ""Accrued rent payable"" is an example of a liability.

(A) True

(B) False

Answer: (A) True

59 There is no conceptual difference in the FASB framework between revenues and gains.

(A) True

(B) False

Answer: (B) False

Feedback: Gains are not from the main activities of a company.

60 Expenses and losses are different because expenses are related to the main operating activities of the entity, but losses relate to peripheral or incidental activities.

(A) True

(B) False

Answer: (A) True

Feedback: See text.

61 In accrual accounting, expenses must always involve an outflow of cash.

(A) True

(B) False

Answer: (B) False

Feedback: Expenses can involve other types of reductions of net assets.

62 A ""deferred revenue"" is an example of a liability.

(A) True

(B) False

Answer: (A) True

63 The amount of cash a company has on hand at the end of the year is an example of an asset.

(A) True

(B) False

Answer: (A) True

64 A company has borrowed money from a bank. Under the FASB's system, the amount of money the company owes to the bank at the end of the year is an example of an expense.

(A) True

(B) False

Answer: (B) False

Feedback: It is a liability.

65 For the FASB, one of the primary desirable characteristics of accounting information is "understandability."

(A) True

(B) False

Answer: (B) False

Feedback: This is a secondary , enhancing characteristic.

66 For the FASB, one of the primary desirable characteristics of accounting information is "representational faithfulness."

(A) True

(B) False

Answer: (A) True

67 For the FASB, one of the enhancing desirable characteristics of accounting information is "understandability."

(A) True

(B) False

Answer: (A) True

68 According to the FASB, the objective of general purpose financial reporting is to provide information that is useful to the government in regulating the economy.

(A) True

(B) False

Answer: (B) False

Feedback: The objective is to provide information to current and potential investors and creditors.

69 According to the FASB, for an accounting measurement to be a "faithful representation" of some economic transaction or event, the measurement should be as complete, neutral, and free from error as possible.

(A) True

(B) False

Answer: (A) True

70 The term net income is defined as being all the changes in owners' equity during a period of time that do not result from transactions with shareholders.

(A) True

(B) False

Answer: (B) False

Feedback: The definition fits ""comprehensive income,"" not ""net income.""

71 In accrual accounting, there are situations when a company has received cash from customers but the company can not yet recognize the revenue as earned.

(A) True

(B) False

Answer: (A) True

72 In accrual accounting, revenues can sometimes be recognized before a company receives cash.

(A) True

(B) False

Answer: (A) True

73 “Comprehensive income” includes all factors that change equity during the year, including all transactions with a company’s owners.

(A) True

(B) False

Answer: (B) False

Feedback: Transactions with owners are not included.

74 “Cash dividends paid” affect the computation of comprehensive income.

(A) True

(B) False

Answer: (B) False

Feedback: Transactions with owners are not included.

75 Investments by owners, and distributions to owners, are examples of ""reciprocal"" transactions.

(A) True

(B) False

Answer: (B) False

Feedback: They are nonreciprocal transactions.

76 Investments a company makes in new factories should be classified as operating cash flows on a cash flow statement.

(A) True

(B) False

Answer: (B) False

Feedback: They are investing cash flows.

77 Assume a company has borrowed money from a bank. As of the end of December 31, one month’s interest has built up on this loan, and has not been paid yet. Under accrual accounting, the company should make which of the following adjustments, if any, to its records?

(A) It should record a decrease in assets, an increase in expenses, and a decrease in equity.

(B) It should record an increase in assets, an increase in expenses, and a decrease in equity.

(C) It should record a decrease in liabilities, an increase in expenses, and a decrease in equity.

(D) It should record an increase in liabilities, an increase in expenses, and a decrease in equity.

(E) No adjustment is needed since the interest has not yet been paid to the bank.

Answer: (D) It should record an increase in liabilities, an increase in expenses, and a decrease in equity.

78 Assume that a company has earned income during the year, and has not yet paid any income taxes. At the end of the year, what entry, if any, should be recorded using accrual accounting to reflect the fact that the company will have to pay taxes on the income it has earned?

(A) No entry is needed, since no cash payment has yet been made.

(B) An entry reducing an asset, increasing an expense, and decreasing equity

(C) An entry increasing a liability, increasing an expense, and decreasing equity

(D) An entry decreasing a liability, increasing an expense, and reducing equity

Answer: (C) An entry increasing a liability, increasing an expense, and decreasing equity

79 Assume that a company has purchased some supplies during a month. When it bought the supplies, it recorded a reduction in cash, and an increase in an asset called supplies. At the end of the month, what entry, if any, should be recorded using accrual accounting to reflect the fact that half of the supplies have been used up?

(A) No entry is needed, since no cash payment is being made at the end of the month.

(B) An entry reducing the supplies asset, increasing an expense, and decreasing equity

(C) An entry reducing the supplies asset, increasing a liability, and not changing equity

(D) An entry reducing the supplies asset, decreasing an expense, and reducing equity

Answer: (B) An entry reducing the supplies asset, increasing an expense, and decreasing equity

80 Assume a company is in the business of renting office space to tenants. In December, the company rented an office to a tenant. It has not yet received the rent payment for December, but it is confident that it will receive the money in January. It has not yet made any entry related to the December rent. Under accrual accounting, the company should make which of the following adjustments, if any, to its records, as of the end of December?

(A) No adjustment is needed, since the rent has not been collected.

(B) It should record an increase in assets, an increase in expenses, and a decrease in equity.

(C) It should record an increase in assets, an increase in revenues, and an increase in equity.

(D) It should record a decrease in liabilities, an increase in revenues, and an increase in equity.

(E) It should record a decrease in liabilities, a decrease in expenses, and a decrease in equity.

Answer: (C) It should record an increase in assets, an increase in revenues, and an increase in equity.

81 Assume a company sold 12 months' worth of car insurance to a customer on November 1. When it made the sale, it recorded an increase in cash and also recorded "unearned revenues." Under accrual accounting, the company should make which of the following adjustments, if any, to its records at the end of December, with regard to this insurance policy?

(A) No adjustment is needed since the cash was properly recorded on November 1.

(B) It should record a decrease in prepaid assets, an increase in expense, and a decrease in equity.

(C) It should record an increase in revenues, an increase in equity, and a decrease in liabilities.

(D) It should record a decrease in revenues, an increase in liabilities, and a decrease in equity.

(E) It should record an increase in revenues, an increase in cash, and an increase in equity.

Answer: (C) It should record an increase in revenues, an increase in equity, and a decrease in liabilities.

82 Assume that a company owns machinery. When it bought the machinery, it recorded a reduction in cash, and an increase in an asset. At the end of the month, what entry, if any, should be recorded using accrual accounting to reflect the fact that the machinery is now older?

(A) No entry is needed, since no cash payment is being made at the end of the month.

(B) An entry recording an expense and reducing total assets and total equity

(C) An entry recording an expense, increasing a liability, and reducing total equity

(D) An entry recording an expense, increasing total assets, and reducing equity

Answer: (B) An entry recording an expense and reducing total assets and total equity

83 The objective of financial reporting, according to the FASB's Conceptual framework, can best be described as

(A) Providing decision-useful information to the investors and creditors

(B) Setting up rules that will cause business to act in a socially responsible manner

(C) Providing decision-useful information to governments

(D) Providing detailed information for managerial decisions

Answer: (A) Providing decision-useful information to the investors and creditors

Feedback: This is the FASB's stated objective.

84 ""GAAP"" stands for

(A) Government Authorized Accounting Procedures

(B) Generally Applied Auditing Procedures

(C) Generally Accepted Accounting Principles

(D) Generally Authorized Auditing Principles

Answer: (C) Generally Accepted Accounting Principles

Feedback: See text.

85 In accounting, the concept for whether information is presented the same way by different companies is

(A) Timeliness

(B) Representational faithfulness

(C) Understandability

(D) Comparability

Answer: (D) Comparability

Feedback: See text.

86 In accounting, the concept for whether information is large enough to matter is

(A) Representational faithfulness

(B) Timeliness

(C) Consistency

(D) Materiality

Answer: (D) Materiality

Feedback: See text.

87 David's Loan loaned $2,000,000 to a customer on July 1, 2016, with an interest rate of 6% per year. No interest is scheduled to be paid until the loan is due, on June 30, 2017. The customer has not paid any interest yet. What adjustment, if any, is needed by the bank on December 31, 2016?

(A) An increase in cash of $60,000 and an increase in equity and interest revenue of $60,000

(B) An increase in interest receivable of $60,000 and an increase in equity and interest revenue of $60,000

(C) An increase in interest receivable of $120,000 and an increase in equity and interest revenue of $120,000

(D) No adjustment is needed

Answer: (B) An increase in interest receivable of $60,000 and an increase in equity and interest revenue of $60,000

88 The Rachel Corp. provides consulting services. One of its customers paid it $6,000 on December 1, 2016 for services in both December 2016 and January 2017. Rachel Corp originally recorded the receipt of this money as an increase in cash and as an increase in deferred revenues. What adjustment is required on December 31, 2016?

(A) No adjustment is needed

(B) An increase in cash of $3,000 and an increase in equity of $3,000 (there would be $3,000 of revenue).

(C) A decrease in deferred revenues of $3,000 and an increase in equity of $3,000 (There would be $3,000 of revenues).

(D) An increase of deferred revenues of $3,000 and an increase in revenues and equity of $3,000.

Answer: (C) A decrease in deferred revenues of $3,000 and an increase in equity of $3,000 (There would be $3,000 of revenues).

89 The Ruth Corp. has a machine that it bought January 1, 2016, for $10,000. The machine is used in making the company's products. It expects the machine to last five years in total, and then to have zero value at the end of five years (December 31, 2020). What adjustment, if any, is needed in 2016 with regard to this machine?

(A) No adjustment is needed

(B) An increase in accumulated depreciation of $2,000, and a reduction in equity of $2,000 (there would be $2,000 of depreciation expense.)

(C) A reduction in total assets of $10,000, and a reduction in equity of $10,000 (there would be $10,000 of depreciation expense.)

(D) A reduction in cash of $2,000, and a reduction in equity of $2,000 (there would be $2,000 of depreciation expense.)

Answer: (B) An increase in accumulated depreciation of $2,000, and a reduction in equity of $2,000 (there would be $2,000 of depreciation expense.)

90 The organization that sets financial accounting standards for private companies in the U.S. is the Public Company Accounting Oversight Board.

(A) True

(B) False

Answer: (B) False

Feedback: It is the FASB.

91 The most important U.S. private accounting standard-setting organizations are the Financial Acounting Standards Board and the Governmental Accounting Standards Board.

(A) True

(B) False

Answer: (A) True

Feedback: See text.

92 Assume that a landlord collects $4,000 from a tenant in December for rent for an office in January. Under accrual accounting, the books at the end of December should reflect

(A) A liability of $4,000 and a revenue of $4,000

(B) Cash of $4,000 and a revenue of $4,000

(C) Nothing at all

(D) Cash of $4,000 and a liability of $4,000

Answer: (D) Cash of $4,000 and a liability of $4,000

93 The Abex Corp. spent $10,000 on a one-year insurance policy, on April 1 of Year 1. How much insurance expense should be recognized by Abex in its December 31, Year 1 income statement?

(A) None

(B) 2500

(C) 5000

(D) 7500

(E) 10000

Answer: (D) 7500

Feedback: On the accrual basis, 3/4 of the amount paid should be expensed.

94 In the previous question, what is the outflow of cash that will be shown in the operating section of Abex's Year 1 cash flow statement?

(A) None

(B) 2500

(C) 5000

(D) 7500

(E) 10000

Answer: (E) 10000

Feedback: All the cash paid would show in the cash flow statement.

95 Assume that an employee works and earns $100, but has not yet been paid when the accounting period ends. Under accrual accounting, the books should reflect

(A) Nothing, since the employee has not yet been paid

(B) A liability of $100 and a revenue of $100

(C) An asset of $100 and an expense of $100

(D) A liability of $100 and an expense of $100

Answer: (D) A liability of $100 and an expense of $100

96 The idea that expenses should be shown in financial statements in the same period in which they help the company earn revenues is referred to as

(A) Matching

(B) Going concern

(C) Historical cost

(D) Cash basis accounting

Answer: (A) Matching

97 Assume that a company obtains legal services from its lawyer, worth $1,000, but has not yet paid for those services when the accounting period ends. Under accrual accounting, the books should reflect

(A) An asset of $1,000 and a revenue of $,1000

(B) A revenue of $1,000 and an expense of $1,000

(C) Nothing, since the lawyer has not yet been paid

(D) A liability of $1,000 and an expense of $1,000

Answer: (D) A liability of $1,000 and an expense of $1,000

98 Jaycox Company received $1,000 cash from the issue of stock on January 1, 2016. During 2015 the Jaycox Company earned $3,500 of revenue on account. The company collected $2,400 cash from accounts receivable and paid $3,000 cash for operating expenses. Based on this information alone

(A) Total assets increased by $1,500

(B) Total assets decreased by $3,500

(C) Total assets increased by $2,400

(D) Total assets did not change

Answer: (A) Total assets increased by $1,500

99 The Freddie Corp. pays its workers every Friday. This year, December 31 was a Wednesday. As of the end of the year, the employees had worked Monday, Tuesday, and Wednesday, and they had earned $3,000 for those three days. What adjustment, if any, is needed in this situation as of December 31?

(A) A $3,000 increase to net assets and to owners' equity (salary expense is reduced by $3,000)

(B) A $3,000 decrease in cash, and a $3,000 decrease to owners' equity (salary expense is increased by $3,000)

(C) A $3,000 increase in salaries payable, and a $3,000 decrease in owners' equity (salary expense is increased by $3,000)

(D) No adjustment is needed

Answer: (C) A $3,000 increase in salaries payable, and a $3,000 decrease in owners' equity (salary expense is increased by $3,000)

100 The rule for recognizing revenues in generally accepted accounting principles is that

(A) Revenues should be recognized when earned, even if the amount that can be realized is not predictable at that time

(B) Revenues should be recognized when cash is received, even if they are not yet earned

(C) Revenues should be recognized when an earnings process is substantially complete, and the revenue is either realized or realizable

(D) Management may choose between recognizing revenues when earned or when cash is received

Answer: (C) Revenues should be recognized when an earnings process is substantially complete, and the revenue is either realized or realizable

Feedback: The correct answer is what the FASB's policy has been. In general, if amounts are not predictable, revenue should not yet be recognized. Also, cash receipt is not the key event.