

## Question 1 of 71

How does the balance sheet help users?

- A. It depicts the true value of an entity.
- B. It measures the nonfinancial performance of an entity.
- C. It shows the financial performance of an entity over a specific accounting period.
- D. It assesses an entity's liquidity, solvency, financial flexibility, and operating capability. ✓**

### Explanation:

**(Choice A)** This answer is incorrect. Balance sheet information alone will not allow users to determine the true value of an entity.

**(Choice B)** This answer is incorrect. The balance sheet depicts the financial position of an entity, not its nonfinancial performance.

**(Choice C)** This answer is incorrect. The balance sheet depicts the financial position of an entity, not its financial performance over a specific accounting period. The income statement shows an entity's performance over a specific accounting period.

**(Choice D)** The balance sheet assesses an entity's liquidity, solvency, financial flexibility, and operating capability. These factors can be observed by calculating an entity's financial ratios.

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## Question 2 of 71

The calculation of comprehensive income includes which of the following?

- A. Operating income ✓
- B. Neither operating income nor distribution to owners
- C. Distribution to owners
- D. Operating income and distribution to owners

### Explanation:

**(Choice A)** Comprehensive income includes all changes in equity during a period except changes from investments by owners and distributions to owners. Net income is the starting point for calculating it. Since operating income is a component of net income, it is also a component of comprehensive income. Therefore, this is the correct answer.

**(Choice B)** Comprehensive income includes all changes in equity during a period except changes from investments by owners and distributions to owners. Distributions to owners are specifically excluded from the calculation of comprehensive income. However, since net income is the starting point for calculating comprehensive income and operating income is a component of net income, it is also a component of comprehensive income. Therefore, this is an incorrect answer.

**(Choice C)** Comprehensive income includes all changes in equity during a period except changes from investments by owners and distributions to owners. Distributions to owners are specifically excluded from the calculation of comprehensive income. Therefore, this is an incorrect answer.

**(Choice D)** Comprehensive income includes all changes in equity during a period except changes from investments by owners and distributions to owners. Net income is the starting point for calculating it. Since operating income is a component of net income, it is also a component of comprehensive income. However, distributions to owners are specifically excluded from the calculation of comprehensive income. Therefore, this is an incorrect answer.

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### Question 3 of 71

Last year Urban Kicks earned \$5.2 million from the sale of shoes and \$1.4 million from the sale of one of their manufacturing plants. How would these cash flows be categorized on the statement of cash flows?

- A. Both would be recorded as an operating activity on the statement of cash flows.
- B. Both would be recorded as an investing activity on the statement of cash flows.
- C. Money from the sale of shoes would be recorded as an operating activity in the statement of cash flows, while money from the sale of property would be recorded as an investing activity in the statement of cash flows. ✓**
- D. Money from the sale of property would be recorded as an operating activity on the statement of cash flows, while money from the sale of shoes would be recorded as an investing activity on the statement of cash flows.

#### Explanation:

**(Choice A)** Cash flows that impact net income are classified as operating activities on the statement of cash flows. Since money from the sale of shoes impacts net income, it is recorded as an operating activity. However, selling a manufacturing plant is recorded as an investing activity since a manufacturing plant is a long-term asset. Therefore, this is an incorrect answer.

**(Choice B)** Cash flows from the purchase or sale of long-term assets are classified as investing activities on the statement of cash flows. Since a manufacturing plant is a long-term asset, a sale of one is recorded as an investing activity. However, cash received from customers is recorded as an operating activity since it impacts the calculation of net income. Therefore, this is an incorrect answer.

**(Choice C)** Cash flows that impact net income are classified as operating activities on the statement of cash flows. Since money from the sale of shoes impacts net income, it is recorded as an operating activity. Cash flows from the purchase or sale of long-term assets are classified as investing activities on the statement of cash flows. Since a manufacturing plant is a long-term asset, a sale of one is recorded as an investing activity. Therefore, this is the correct answer.

**(Choice D)** Cash flows from the purchase or sale of long-term assets are classified as investing activities on the statement of cash flows. Selling a manufacturing plant is recorded as an investing activity, not an operating activity, since a manufacturing plant is a long-term asset. Cash flows that impact net income are classified as operating activities on the statement of cash flows. Cash received from customers is recorded as an operating activity, not an investing activity, since it impacts the calculation of net income. Therefore, this is an incorrect answer.

## Question 4 of 71

Which section of the statement of cash flows includes the proceeds from selling equipment?

**A. Investing** ✓

B. Financing

C. Operating

D. Noncash activities

### Explanation:

**(Choice A)** Investing cash flows are cash flows that involve the purchase and sale of long-term assets. Since equipment qualifies as a long-term asset, cash received from selling equipment is an investing activity. Therefore, this is the correct answer.

**(Choice B)** Financing cash flows are cash flows that involve transactions with shareholders and borrowing and repaying debt. Selling equipment is not related to these types of transactions. Therefore, this is an incorrect answer.

**(Choice C)** Operating cash flows are cash flows that involve the calculation of net income. While selling equipment may result in a gain or loss that would be included in net income, gains and losses do not result in cash flows. Therefore, this is an incorrect answer.

**(Choice D)** Since selling equipment involves receiving cash, it is not a noncash activity. Therefore, this is an incorrect answer.

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## Question 5 of 71

When considering research and development costs, how are equipment costs different if they are used for one project only versus current and future projects?

- A. If equipment is purchased for one project only, the costs are capitalized and amortized; if equipment is purchased for more than one project, the costs are capitalized but not amortized.
- B. If equipment is purchased for one project only, the costs are capitalized but not amortized; if equipment is purchased for more than one project, the costs are expensed as incurred.
- C. If equipment is purchased for one project only, the costs are expensed as incurred; if equipment is purchased for more than one project, the costs are capitalized but not amortized.
- D. If equipment is purchased for one project only, the costs are expensed as incurred; if equipment is purchased for more than one project, the costs are capitalized and amortized. ✓**

### Explanation:

**(Choice A)** In general, R&D expenditures are expensed in the period incurred. How equipment is expensed depends on the expected usage of the equipment. If equipment is purchased to be used for one project only, the costs are expensed as incurred. Capitalizing the cost and amortizing it is not correct because the benefits will not extend beyond the current project. If equipment is purchased to be used for more than one project, the costs are capitalized and amortized. Not amortizing the capitalized cost would mean that the benefits from using the equipment are never recognized. Therefore, this is an incorrect answer.

**(Choice B)** In general, R&D expenditures are expensed in the period incurred. How equipment is expensed depends on the expected usage of the equipment. If equipment is purchased to be used for one project only, the costs are expensed as incurred. Capitalizing the cost but not amortizing it is not correct because that would mean the benefits from using the equipment are never recognized. If equipment is purchased to be used for more than one project, the costs are capitalized and amortized. Expensing the costs as incurred would mean that projects receiving benefits from the equipment would not have expense from the equipment. Therefore, this is an incorrect answer.

**(Choice C)** In general, R&D expenditures are expensed in the period incurred. How equipment is expensed depends on the expected usage of the equipment. If equipment is purchased to be used for one project only, the costs are expensed as incurred. This is because the benefits will not extend beyond the project and expenditures on the project are expensed as incurred. If equipment is purchased to be used for more than one project, the costs are capitalized and amortized. Not amortizing the capitalized cost would mean that the benefits from using the equipment are never recognized. Therefore, this is an incorrect answer.