

## c2

Student: \_\_\_\_\_

1. Which of the following statements about shareholders' equity is not correct?

- A. Shareholders' equity is the shareholders' residual interest in the company resulting from the difference in assets and liabilities.
- B. Shareholders' equity results only from contributions of the owners.
- C. Shareholders' equity accounts are increased with credits.
- D. The purchase of equipment for cash has no effect on shareholders' equity.

2. Shareholders' equity

- A. is equal to liabilities and retained earnings.
- B. includes retained earnings and common shares.
- C. is shown on the income statement o.
- D. is usually equal to cash on hand.

3. If Golden Company owed Eye Company \$500, where would Golden Company reflect this?

- A. Statement of financial position.
- B. Income statement.
- C. Statement of cash flows
- D. Statement of changes in equity.

4. It is assumed that the activities of PetroCanada Corporation can be distinguished from those of Imperial Oil Limited because of the

- A. Continuity assumption.
- B. Separate-entity assumption.
- C. Unit-of-measure assumption.
- D. Time period assumption.

5. Which of the following defines assets?

- A. Probable future economic benefits owned by an entity as a result of past transactions.
- B. Possible future economic benefits owed by an entity as a result of past transactions.
- C. Probable future economic benefits owned by an entity as a result of future transactions.
- D. Possible future economic benefits owed by an entity as a result of future transactions.

6. Which of the following defines liabilities?

- A. Possible debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
- B. Possible debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
- C. Probable debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
- D. Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.

7. Which of the following defines shareholders' equity?

- A. Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
- B. Assets plus liabilities.
- C. Probable future economic benefits owned by an entity as a result of past transactions.
- D. The financing provided by the owners and the operations of a business.

8. Abe Cox is the sole owner and manager of Cox Auto Repair Shop. In 20A, Cox purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Cox from recording the cost of the new automobile as an asset to the business?

- A. Separate-entity assumption.
- B. Revenue principle.
- C. Full disclosure.
- D. Cost principle.

9. Which of the following is the principle that requires us to record assets at the historical cash-equivalent cost?

- A. Cost-benefit.
- B. Cost principle.
- C. Full disclosure.
- D. Revenue recognition.

10. What is the primary difference between revenues and gains?

- A. Gains are increases in net assets from peripheral activities while revenues are increases from ongoing central activities.
- B. International financial reporting standards makes no distinction between them since they both increase income.
- C. Revenues cause increases in net assets as a result of peripheral activities and gains cause increases through ongoing central activities.
- D. Both revenues and gains cause a decrease in net assets from ongoing central and peripheral transactions respectively.

11. Where would we report changes in shareholders' equity caused by operating activities?

- A. In the retained earnings account.
- B. In a share capital account.
- C. In a liability account.
- D. In an asset account.

12. Which of the following events will cause retained earnings to decrease?

- A. Dividends declared by the Board of Directors.
- B. A profit reported for the period.
- C. A loss reported for the period.
- D. Both dividends declared by the Board and loss reported for the period decrease retained earnings.

13. Which of the following is least likely to have a liability called Deferred Revenue?

- A. an insurance company
- B. a retailer
- C. a magazine subscription company
- D. a university or college.

14. To what does the element "Trade Payables" refer?

- A. An amount owed to our business.
- B. An amount a business owes to a third party.
- C. The bottom line on the income statement.
- D. The total cash paid by a business during the year.

15. Which of the following is *not* classified properly as a current asset?

- A. Supplies.
- B. Short-term investments.
- C. A fund to be used to purchase a building within the next year.
- D. Equipment with an estimated useful life of five years.

16. Which of the following liability accounts is usually not satisfied by payment of cash?

- A. Trade payables.
- B. Unearned revenues.
- C. Taxes payable.
- D. All of the mentioned are satisfied by paying cash.

17. Which of the following is an example of an external exchange?

- A. The purchase of inventory on credit from a supplier.
- B. Cash received from a credit customer.
- C. Cash dividend paid to shareholders.
- D. A, B and C are external exchanges.

18. If total liabilities decreased by \$14,000 during a period of time and shareholders' equity increased by \$6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)

- A. \$20,000 increase.
- B. \$8,000 decrease.
- C. \$8,000 increase.
- D. \$14,000 increase.

19. Everest Acres Development Corporation recently sold a parcel of land for \$50,000 more than its cost. This transaction:

- A. Increased assets and liabilities.
- B. Increased shareholders' equity and assets.
- C. Reduced assets and shareholder's equity.
- D. Increased assets and left liabilities and shareholder's equity unchanged.

20. Which of the following direct effects on the fundamental accounting model is not possible as a result of transaction analysis?

- A. Increase a liability and increase an asset.
- B. Decrease shareholders' equity and increase an asset.
- C. Increase an asset and decrease an asset.
- D. Decrease shareholders' equity and decrease an asset.

21. Assume a company's January 1, 20A, financial position was: Assets, \$40,000 and Liabilities, \$15,000. During January 20A, the company completed the following transactions: (a) paid on a note payable, \$4,000 (no interest); (b) collected tradereceivables, \$4,000; (c) paid trade payables, \$2,000; and (d) purchased a truck, \$1,000 cash, and \$8,000 notes payable. What is the company's January 31, 20A, financial position?

	Assets	Liabilities	Shareholders' Equity
A)	\$42,000	\$9,000	\$33,000
B)	\$44,000	\$17,000	\$27,000
C)	\$43,000	\$18,000	\$25,000
D)	\$42,000	\$17,000	\$25,000

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

22. Which of the following will NOT cause a change in the shareholder's equity of a business?

- A. Payment of a business debt.
- B. Payment of dividends.
- C. Sale of land at a profit.
- D. Losses from unprofitable operations.

23. Winsome Inc. reports total assets and total liabilities of \$225,000 and \$100,000, respectively, at the conclusion of its first year of business. The company earned \$75,000 during the first year and distributed \$30,000 in dividends. What was the corporation's share capital?

- A. \$125,000
- B. \$95,000
- C. \$80,000
- D. \$50,000

24. Payment of a liability would do which of the following?

- A. Decrease shareholders' equity.
- B. Decrease assets.
- C. Not affect assets.
- D. Increase shareholders' equity.

25. The collection of a trade receivable from a customer would do which of the following?

- A. Increase liabilities.
- B. Decrease liabilities.
- C. Not affect liabilities.
- D. Decrease shareholders' equity.

26. The following amounts are reported in the ledger of Bowers Company:

Assets	\$25,000 (debit)
Liabilities	15,000 (credit)
Retained earnings	3,000 (credit)

What is the balance in the share capital account?

- A. \$7,000 credit.
- B. \$8,000 debit.
- C. \$12,000 credit.
- D. \$12,000 debit.

27. The best interpretation of the word credit is the

- A. offset side of an account.
- B. increase side of an account.
- C. right side of an account.
- D. decrease side of an account.

28. Which of the following will not result in recording a transaction?

- A. Signing a contract to have an outside cleaning service clean offices nightly.
- B. Paying our employees their wages.
- C. Selling shares to investors.
- D. Buying equipment and agreeing to pay a note payable and interest at the end of a year.

29. Which of the following transactions will cause both the left and right side of the equation to increase?

- A. We collect cash from a customer who owed us money
- B. We pay a supplier for inventory we previously bought on account
- C. We borrow money from the bank
- D. We purchase equipment for cash

30. When a company buys equipment for \$60,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?

- A. Cash decreases by \$60,000.
- B. Equipment increases by \$20,000.
- C. Liabilities increase by \$40,000.
- D. Total assets increase by \$60,000.

31. The effect on total assets of the purchase of supplies for cash is which of the following?

- A. An increase in total assets.
- B. A decrease in total assets.
- C. Total assets remain unchanged.
- D. An increase in total assets and total liabilities.

32. If total liabilities increased by \$25,000 and shareholders' equity increased by \$5,000 during a period of time, then total assets must change by what amount and direction during that same period?

- A. \$20,000 decrease
- B. \$25,000 increase
- C. \$30,000 increase
- D. \$20,000 increase

33. Borrowing \$100,000 of cash from First National Bank would do which of the following?

- A. Increase cash by a credit.
- B. Increase notes payable by a debit.
- C. Increase notes payable by a credit.
- D. Decrease cash by a debit.

34. Jet Corporation was organized on March 1, 20B. Jet Corporation issued shares to each of the six owners who paid in a total of \$3,000 cash. On the basis of transaction analysis, the following entry should be recorded in the accounts (dr = debit and cr = credit)

- A. Cash (dr), \$3,000; Revenue (cr), \$3,000.
- B. Cash (cr), \$3,000; Shareholders' equity (dr), \$3,000.
- C. Cash (dr), \$3,000; Share Capital (cr), \$3,000.
- D. Cash (cr), \$3,000; Share Capital (dr), \$3,000.

35. Salida Company paid a note payable of \$10,000 (interest had previously been paid). This transaction should be recorded as follows on the payment date.

- A) Accounts payable      \$10,000  
    Cash                      \$10,000
- B) Cash                      10,000  
    Note Payable              10,000
- C) Note Payable            10,000  
    Cash                      10,000
- D) Note payable expense 10,000  
    Cash                      10,000

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

36. A T account consists of

- A. a title, a debit balance, and a credit balance.
- B. a title, a left side, and a debit balance.
- C. a title, a debit side, and a credit side.
- D. a title, a right side, and a debit balance.

37. An accountant has debited an asset account for \$500 and credited a revenue account for \$1,000. What can be done to complete the recording of the transaction?

- A. Nothing further must be done.
- B. Debit a shareholders' equity account for \$500.
- C. Debit another asset account for \$500.
- D. Credit a different asset account for \$500.

38. The trade payables account has a beginning balance of \$1,000 and we purchased \$3,000 of inventory on credit during the month. The ending balance was \$800. How much did we pay our creditors during the month?
- A. \$2,800
  - B. \$3,000
  - C. \$3,200
  - D. \$4,800
39. When recording transactions in T-account format, we must add an additional step to the transactional analysis process. Which of the following is the additional step?
- A. Determine what accounts and elements in the equation are affected by the transaction.
  - B. Determine if the affected accounts are increased or decreased by the transaction.
  - C. We must have equal debits and credits once the entry is recorded in the accounts.
  - D. The accounting equation must remain in balance after each transaction.
40. The equality of debits and credits is the basis for
- A. the double-entry accounting system.
  - B. the single-entry accounting system.
  - C. the T account.
  - D. all accounting systems.
41. When a company has a debt-to-equity ratio close to 1 to 1, which of the following is true?
- A. The company is primarily using debt financing for acquisition of its assets.
  - B. The creditors of the company would most likely be willing to give a loan to the company since debt is high.
  - C. The return to shareholders is higher than it would be if the ratio was higher.
  - D. The company's assets are financed almost equally by owners and creditors.
42. The debt-to-equity ratio is computed by taking which of the following?
- A. Total assets divided by total liabilities.
  - B. Average total assets divided by average total liabilities.
  - C. Total liabilities divided by total shareholders' equity.
  - D. Total assets divided by total shareholders' equity.
43. Liabilities are generally classified on a statement of financial position as
- A. small liabilities and large liabilities.
  - B. present liabilities and future liabilities.
  - C. tangible liabilities and intangible liabilities.
  - D. current liabilities and non-current liabilities.

44. The usefulness of the debt-to-equity ratio is that it allows interested parties to assess all of the following except?
- A. How the company finances its assets.
  - B. The relative risk assumed by the company caused by the use of debt financing.
  - C. Whether the company should expand its use of debt to finance assets.
  - D. How many shares the company has issued in the past year.
45. Which of the following would be an example of a financing transaction?
- A. Purchasing equipment for cash.
  - B. Buying inventory from a supplier on credit.
  - C. Selling shares to investors for cash.
  - D. Buying inventory from a supplier for cash.
46. Loans made to outside parties would be classified into which of the following categories for the purpose of disclosure in the statement of cash flows?
- A. Operating cash flow.
  - B. Investing cash flow.
  - C. Financing cash flow.
  - D. Item reconciling earnings and operating cash flow.
47. Which of the following would cause an inflow of cash?
- A. Payment of a long-term mortgage.
  - B. Sale of an asset for cash at less than its book value.
  - C. Payment of accounts payable.
  - D. Purchase of inventory for debt.
48. Dow Construction Company reports a net use of cash for investing activities of \$1.2 million and a net source of cash provided by financing of \$.8 million. What was the effect on the cash balance?
- A. To cause the balance to increase by \$.8 million.
  - B. To cause the balance to decrease by \$.4 million.
  - C. To cause the balance to increase by \$.4 million.
  - D. Undeterminable because the beginning cash balance was not given.
49. When a new business is just starting up, which of the following must be done first?
- A. Generate positive cash flow through successful operations.
  - B. Acquire the assets both long-lived and short-lived so they can operate.
  - C. Acquire financing from issuance of shares and borrowing from creditors.
  - D. These activities all occur simultaneously not sequentially.

50. If a company has assets of \$60,000 and shareholders' equity of \$30,000, then its liabilities must be \$90,000.

True False

51. To determine the economic effect of a transaction on the entity in terms of its accounting equation, each transaction is analyzed as to the accounts (at least two) that are affected.

True False

52. Assets are economic resources controlled by an entity as a result of past transactions or events and for which future economic benefits may be obtained.

True False

53. Liability accounts are reported on the statement of financial position..

True False

54. The primary objective of external financial reporting is to provide useful economic information about a business to help external parties, primarily investors and creditors, make sound financial decisions.

True False

55. On the income statement, assets should always equal liabilities plus shareholders' equity.

True False

56. Liabilities are categorized as current liabilities and non-current liabilities.

True False

57. A primary objective of accounting is to provide the fair market value of assets on the statement of financial position..

True False

58. The unit-of-measure assumption states that financial information is reported in the national monetary unit.

True False

59. The separate-entity assumption assumes a stable monetary unit (not affected by inflation or deflation).

True False

60. Three of the four basic assumptions that underlie accounting measurement and reporting relate to the statement of financial position.

True False

61. The amount shown on the statement of financial position as shareholders' equity represents the current market value of the owners' residual claim against the company.

True False

62. Prepayments (e.g., insurance premiums and rent paid in advance of use of a building) reflect available benefits (e.g., monthly insurance protection, office space) that the company will use within one year.

True False

63. Transactions have a dual economic effect on the fundamental accounting model.

True False

64. The payment of a liability in cash will decrease shareholders' equity.

True False

65. The basic system of recording transactions has withstood the test of time, and has been in use for more than 500 years.

True False

66. If you trade your computer plus cash for a new car, the cost of the new car is equal to the cash paid plus the market value of the computer.

True False

67. The purchase of a delivery truck for cash increases assets and shareholders' equity.

True False

68. Recording the borrowing of cash with a note payable increases shareholders' equity.

True False

69. When a business owner invests cash in the business, the investment causes a liability to increase.

True False

70. When a business pays a previously recorded bill, the liabilities of the business decrease.

True False

71. The objective of transaction analysis is to determine the economic effects of each transaction in terms of the accounting model.

True False

72. The adoption of International Financial Reporting Standards by many countries has made it easier to read foreign companies' financial statements.

True False

73. A T-account shows total debits of \$25,000 and total credits of \$22,000; therefore, it has a \$3,000 credit balance.

True False

74. Debits always increase and credits always decrease the accounts.

True False

75. In a journal entry, the debits must equal the credits and at least two accounts are affected by the transaction.

True False

76. If the correct accounts have been identified and the appropriate direction of the effect on each account has been determined, then the equation should remain in balance most of the time.

True False

77. A T-account is an accounting method of expressing the effects of a single transaction in a debits-equal-credits format.

True False

78. Normally, asset accounts will have credit balances and liability accounts will have debit balances.

True False

79. "Debit" is the designation for the left side of an account, and "credit" is the designation for the right side of an account.

True False

80. Some legal contracts, such as the signing of a contract to hire a new employee, are not reflected in the financial statements.

True False

81. Share capital results when a company buys a new delivery truck.

True False

82. Usually when a short-term, interest-bearing note payable is paid on its maturity date, an asset is credited and a liability is debited.

True False

83. By themselves, journal entries do not provide the balances in accounts.

True False

84. The word debit means to increase an account by an entry on its left side.

True False

85. The debt-to-equity ratio indicates how much debt has been used to finance the company's acquisition of assets relative to equity financing that is supplied by creditors.

True False

86. The statement of cash flows provides information that not only shows the sources and uses of cash but also helps both investors and creditors predict future cash flows.

True False

87. When a loan is repaid to the bank it leads to an outflow of cash from a financing activity.

True False

88. For each of the following events, which ones result in an exchange transaction for the O'Brien Company?

_____	a. Purchased land for cash and a note payable
_____	b. Agreed to purchase one million inventory parts from a new supplier
_____	c. Paid the employees for the week
_____	d. One of our shareholders sells her shares to a new investor
_____	e. Received inventory from a supplier under the new contract
_____	f. Entered into a contract with a new cleaning service

89. Classify the following statement of financial position accounts for White Goose Linen Co.

_____	a. Investments in associates
_____	b. Retained Earnings
_____	c. Notes Payable due in 3 months
_____	d. Land
_____	e. Short-term investments
_____	f. Bonds Payable
_____	g. Supplies
_____	h. Share Capital
_____	i. Notes Payable due in 5 years
_____	j. Income Taxes Payable

90. The Donald Company, an etiquette consulting firm, recorded the following business transactions during March, 20A. Indicate whether each transaction would I) increase, D) decrease, or N) have no effect on the total assets of the company.

- \_\_\_\_\_ 1. Issued shares in exchange for cash contributed by owners.
- \_\_\_\_\_ 2. Purchased office supplies for cash.
- \_\_\_\_\_ 3. Purchased office supplies on credit.
- \_\_\_\_\_ 4. Paid cash on trade payables to a supplier.
- \_\_\_\_\_ 5. Collected cash on trade receivables.
- \_\_\_\_\_ 6. Borrowed money from the bank on a promissory note payable.
- \_\_\_\_\_ 7. Loaned money to a trusted employee.

91. Match the terminology with the description by entering the proper letter in the space to the left.

- A. Credits
- B. Share Capital
- C. Cost principle
- D. Transaction
- E. Debits
- F. Liability
- G. Statement of financial position
- H. Primary objective of external financial reporting
- I. Separate-entity assumption
- J. Retained earnings
- K. As at December 31, 20A
- L. For the period ended December 31, 20A
- M. None of the above is correct

- \_\_\_ 1. Increase assets and decreases shareholders' equity.
- \_\_\_ 2. An exchange between an entity and another party.
- \_\_\_ 3. Normal balances for liabilities.
- \_\_\_ 4. To provide useful economic information about a business to help external parties make sound financial decisions.
- \_\_\_ 5. Accounting assumption that requires assets to be recorded at their cash equivalent cost.
- \_\_\_ 6. Cumulative earnings that have not been distributed to the owners.
- \_\_\_ 7. A debt owed by the entity.
- \_\_\_ 8. Statement of financial position.
- \_\_\_ 9. Account for a business separate from its owners.
- \_\_\_ 10. Dating of the statement of financial position (20A).

92. Why is the continuity assumption so important for statement of financial position reporting?

93. Why is the separate-entity assumption so important for statement of financial position reporting?

94. Why is the cost principle so important for statement of financial position reporting?

95. For each of the following accounts, complete the chart below by indicating whether the account is an asset (A), liability (L), or shareholders' equity (SE) and whether the account usually has a debit (Dr) or credit (Cr) balance.

	Account	Balance Sheet Category	Debit or Credit
1.	Retained earnings		
2.	Office supplies		
3.	Contributed capital		
4.	Income taxes payable		
5.	Trade receivables		
6.	Short-term investments		
7.	Dividends payable		
8.	Prepayments		

96. (A) Complete the following schedule for Gold Eye Company.

Transaction	Assets	Liabilities	Shareholders' Equity
Beginning financial position	\$75,000	\$25,000	\$50,000
Borrowed \$20,000 cash using a note payable, face amount \$20,000.			
Collected trade receivables for cash, \$5,000.			
Paid trade payables, \$1,000 cash.			
Purchased office supplies on credit, \$1,000.			
Sold shares to new investors for \$5,000 of cash.			
Paid a \$10,000 note payable.			
Ending financial position.			

(B) How much did cash change during the period?

97. For each of the transactions listed below, indicate whether it is an investing (I) or financing (F) activity on the cash flow statement. Also, indicate if the transaction increases (+) or decreases (-) cash.

Transaction		Type of Activity	Effect on Cash
Ex.	Paid dividends to the owners.	F	-
A.	Purchased equipment to use in the business.		
B.	Issued shares for cash.		
C.	Borrowed money at the bank.		
D.	Sold a piece of land adjacent to the plant.		
E.	Paid the principal balance of a note payable.		

98. For each financial statement element listed, enter check marks to reflect the Debit = Credit concept.

Element		Debit		Credit	
		Increase	Decrease	Increase	Decrease
A.	Assets				
B.	Liabilities				
C.	Share Capital				
D.	Retained Earnings				

99. Scott, Kim and Koko organized the SKK Corporation on January 1, 20A. Each of these owners invested \$30,000 cash and received shares. Below are selected transactions that were completed during January.

(A) Give the entry on SKK's books for each transaction:

- (1) Sold shares to the owners.
- (2) Borrowed \$100,000 on one-year note payable.
- (3) Purchased land by signing a \$20,000 note payable.
- (4) Paid \$5,000 of trade payables.
- (5) Purchased two service vehicles, \$21,000 each; paid cash.
- (6) Accepted a promissory note of \$1,000 from a customer.

(B) Complete the following based only on the 6 transactions above:

Assets \$

Liabilities \$

Shareholders' equity \$

100. The accounts with identification letters for WildWorld, Inc. are listed below.

Letter Account Title

- A Cash
- B Trade Receivables
- C Office supplies
- D Equipment
- E Land
- F Trade Payables
- G Notes Payable
- H Share Capital
- I Retained Earnings

During 20X, the company completed the transactions given below. You are to indicate the appropriate journal entry for each transaction by giving the account letter and amount. Some entries may need three letters. The first transaction is given as an example.

Transaction		Debit		Credit	
		Letter	Amount	Letter	Amount
Ex.	Owners invested \$30,000 cash for shares.	A	\$30,000	H	\$30,000
A	Borrowed \$50,000 and signed a note.				
B	Purchased equipment for \$30,000. Paid \$10,000 in cash, signed a \$20,000 note payable.				
C	Collected \$16,000 trade receivables				
D	Paid \$8,000 of trade payables.				
E	Acquired a \$40,000 piece of land by issuing capital shares.				
F	Purchased \$2,000 of office supplies (an asset) on credit.				
G	Paid for the office supplies in (F)				

101. For each of the accounts listed below, enter a check mark in the space provided to the right to indicate whether the typical or normal balance is a debit or credit.

Account		Typical Balance	
		Debit	Credit
A	Supplies		
B	Notes payable		
C	Retained earnings		
D	Equipment		
E	Prepaid insurance		
F	Trade receivables		
G	Building		
H	Share capital		
I	Trade payables		

102. In what two places do amounts for transactions appear in the accounting system or "the books"? Describe them.

103. On January 1, 20A, Hux Cliffable started a new professional corporation, Hux Cliffable, P. C., to practice medicine with an initial investment of \$50,000. On June 30, 20A the accounting records contained the following amounts:

Trade Payables	\$100
Trade Receivables	3,900
Cash	25,100
Share Capital	50,000
Office Equipment	24,000
Office Supplies	500
Retained Earnings	3,400

Prepare a statement of financial position at June 30, 20A.



## c2 Key

1. Which of the following statements about shareholders' equity is not correct?

- A. Shareholders' equity is the shareholders' residual interest in the company resulting from the difference in assets and liabilities.
- B.** Shareholders' equity results only from contributions of the owners.
- C. Shareholders' equity accounts are increased with credits.
- D. The purchase of equipment for cash has no effect on shareholders' equity.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #1*

2. Shareholders' equity

- A. is equal to liabilities and retained earnings.
- B.** includes retained earnings and common shares.
- C. is shown on the income statement o.
- D. is usually equal to cash on hand.

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Libby - Chapter 02 #2*

3. If Golden Company owed Eye Company \$500, where would Golden Company reflect this?

- A.** Statement of financial position.
- B. Income statement.
- C. Statement of cash flows
- D. Statement of changes in equity.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Libby - Chapter 02 #3*

4. It is assumed that the activities of PetroCanada Corporation can be distinguished from those of Imperial Oil Limited because of the

- A. Continuity assumption.
- B. Separate-entity assumption.**
- C. Unit-of-measure assumption.
- D. Time period assumption.

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 1*

*Libby - Chapter 02 #4*

5. Which of the following defines assets?

- A. Probable future economic benefits owned by an entity as a result of past transactions.**
- B. Possible future economic benefits owed by an entity as a result of past transactions.
- C. Probable future economic benefits owned by an entity as a result of future transactions.
- D. Possible future economic benefits owed by an entity as a result of future transactions.

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Libby - Chapter 02 #5*

6. Which of the following defines liabilities?

- A. Possible debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
- B. Possible debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
- C. Probable debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
- D. Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.**

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Libby - Chapter 02 #6*

7. Which of the following defines shareholders' equity?

- A. Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
- B. Assets plus liabilities.
- C. Probable future economic benefits owned by an entity as a result of past transactions.
- D.** The financing provided by the owners and the operations of a business.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Libby - Chapter 02 #7*

8. Abe Cox is the sole owner and manager of Cox Auto Repair Shop. In 20A, Cox purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Cox from recording the cost of the new automobile as an asset to the business?

- A.** Separate-entity assumption.
- B. Revenue principle.
- C. Full disclosure.
- D. Cost principle.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 1*  
*Libby - Chapter 02 #8*

9. Which of the following is the principle that requires us to record assets at the historical cash-equivalent cost?

- A. Cost-benefit.
- B.** Cost principle.
- C. Full disclosure.
- D. Revenue recognition.

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 1*  
*Libby - Chapter 02 #9*

10. What is the primary difference between revenues and gains?

- A.** Gains are increases in net assets from peripheral activities while revenues are increases from ongoing central activities.
- B. International financial reporting standards makes no distinction between them since they both increase income.
- C. Revenues cause increases in net assets as a result of peripheral activities and gains cause increases through ongoing central activities.
- D. Both revenues and gains cause a decrease in net assets from ongoing central and peripheral transactions respectively.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 1*  
*Libby - Chapter 02 #10*

11. Where would we report changes in shareholders' equity caused by operating activities?

- A.** In the retained earnings account.
- B. In a share capital account.
- C. In a liability account.
- D. In an asset account.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 3*  
*Libby - Chapter 02 #11*

12. Which of the following events will cause retained earnings to decrease?

- A. Dividends declared by the Board of Directors.
- B. A profit reported for the period.
- C. A loss reported for the period.
- D.** Both dividends declared by the Board and loss reported for the period decrease retained earnings.

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #12*

13. Which of the following is least likely to have a liability called Deferred Revenue?

- A. an insurance company
- B.** a retailer
- C. a magazine subscription company
- D. a university or college.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 3*  
*Libby - Chapter 02 #13*

14. To what does the element "TradePayables" refer?

- A. An amount owed to our business.
- B.** An amount a business owes to a third party.
- C. The bottom line on the income statement.
- D. The total cash paid by a business during the year.

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Libby - Chapter 02 #14*

15. Which of the following is *not* classified properly as a current asset?

- A. Supplies.
- B. Short-term investments.
- C. A fund to be used to purchase a building within the next year.
- D.** Equipment with an estimated useful life of five years.

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Libby - Chapter 02 #15*

16. Which of the following liability accounts is usually not satisfied by payment of cash?

- A. Trade payables.
- B.** Unearned revenues.
- C. Taxes payable.
- D. All of the mentioned are satisfied by paying cash.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Libby - Chapter 02 #16*

17. Which of the following is an example of an external exchange?

- A. The purchase of inventory on credit from a supplier.
- B. Cash received from a credit customer.
- C. Cash dividend paid to shareholders.
- D.** A, B and C are external exchanges.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 3*  
*Libby - Chapter 02 #17*

18. If total liabilities decreased by \$14,000 during a period of time and shareholders' equity increased by \$6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)
- A. \$20,000 increase.
  - B. \$8,000 decrease.**
  - C. \$8,000 increase.
  - D. \$14,000 increase.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #18*

19. Everest Acres Development Corporation recently sold a parcel of land for \$50,000 more than its cost. This transaction:
- A. Increased assets and liabilities.
  - B. Increased shareholders' equity and assets.**
  - C. Reduced assets and shareholder's equity.
  - D. Increased assets and left liabilities and shareholder's equity unchanged.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #19*

20. Which of the following direct effects on the fundamental accounting model is not possible as a result of transaction analysis?
- A. Increase a liability and increase an asset.
  - B. Decrease shareholders' equity and increase an asset.**
  - C. Increase an asset and decrease an asset.
  - D. Decrease shareholders' equity and decrease an asset.

*Difficulty: Hard*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #20*

21. Assume a company's January 1, 20A, financial position was: Assets, \$40,000 and Liabilities, \$15,000. During January 20A, the company completed the following transactions: (a) paid on a note payable, \$4,000 (no interest); (b) collected tradereceivables, \$4,000; (c) paid trade payables, \$2,000; and (d) purchased a truck, \$1,000 cash, and \$8,000 notes payable. What is the company's January 31, 20A, financial position?

	Assets	Liabilities	Shareholders' Equity
A)	\$42,000	\$9,000	\$33,000
B)	\$44,000	\$17,000	\$27,000
C)	\$43,000	\$18,000	\$25,000
D)	\$42,000	\$17,000	\$25,000

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D**

Calculation:  $\$40,000 - 4,000 + 4,000 - 4,000 - 2,000 - 1,000 + 9,000 = \$42,000$ ;  $\$15,000 - 4,000 - 2,000 + 8,000 = \$17,000$ ;  $\$42,000 - 17,000 = \$25,000$

*Difficulty: Hard*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #21*

22. Which of the following will NOT cause a change in the shareholder's equity of a business?

- A. Payment of a business debt.**
- B. Payment of dividends.
- C. Sale of land at a profit.
- D. Losses from unprofitable operations.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #22*

23. Winsome Inc. reports total assets and total liabilities of \$225,000 and \$100,000, respectively, at the conclusion of its first year of business. The company earned \$75,000 during the first year and distributed \$30,000 in dividends. What was the corporation's share capital?

- A. \$125,000
- B. \$95,000
- C. \$80,000**
- D. \$50,000

Calculation:  $\$125,000 - (\$75,000 - \$30,000) = \$80,000$

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #23*

24. Payment of a liability would do which of the following?

- A. Decrease shareholders' equity.
- B. Decrease assets.**
- C. Not affect assets.
- D. Increase shareholders' equity.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #24*

25. The collection of a trade receivable from a customer would do which of the following?

- A. Increase liabilities.
- B. Decrease liabilities.
- C. Not affect liabilities.**
- D. Decrease shareholders' equity.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #25*

26. The following amounts are reported in the ledger of Bowers Company:

Assets	\$25,000 (debit)
Liabilities	15,000 (credit)
Retained earnings	3,000 (credit)

What is the balance in the share capital account?

- A. \$7,000 credit.**
- B. \$8,000 debit.
- C. \$12,000 credit.
- D. \$12,000 debit.

Calculation:  $\$25,000 - 15,000 - 3,000 = \$7,000$

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #26*

27. The best interpretation of the word credit is the

- A. offset side of an account.
- B. increase side of an account.
- C. right side of an account.**
- D. decrease side of an account.

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #27*

28. Which of the following will not result in recording a transaction?

- A. Signing a contract to have an outside cleaning service clean offices nightly.**
- B. Paying our employees their wages.
- C. Selling shares to investors.
- D. Buying equipment and agreeing to pay a note payable and interest at the end of a year.

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #28*

29. Which of the following transactions will cause both the left and right side of the equation to increase?

- A. We collect cash from a customer who owed us money
- B. We pay a supplier for inventory we previously bought on account
- C. We borrow money from the bank**
- D. We purchase equipment for cash

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #29*

30. When a company buys equipment for \$60,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?

- A. Cash decreases by \$60,000.
- B. Equipment increases by \$20,000.
- C. Liabilities increase by \$40,000.**
- D. Total assets increase by \$60,000.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #30*

31. The effect on total assets of the purchase of supplies for cash is which of the following?

- A. An increase in total assets.
- B. A decrease in total assets.
- C. Total assets remain unchanged.**
- D. An increase in total assets and total liabilities.

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #31*

32. If total liabilities increased by \$25,000 and shareholders' equity increased by \$5,000 during a period of time, then total assets must change by what amount and direction during that same period?

- A. \$20,000 decrease
- B. \$25,000 increase
- C. \$30,000 increase**
- D. \$20,000 increase

Calculation; + \$30,000 = + 25,000 + \$5,000

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #32*

33. Borrowing \$100,000 of cash from First National Bank would do which of the following?

- A. Increase cash by a credit.
- B. Increase notes payable by a debit.
- C. Increase notes payable by a credit.**
- D. Decrease cash by a debit.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #33*

34. Jet Corporation was organized on March 1, 20B. Jet Corporation issued shares to each of the six owners who paid in a total of \$3,000 cash. On the basis of transaction analysis, the following entry should be recorded in the accounts (dr = debit and cr = credit)

- A. Cash (dr), \$3,000; Revenue (cr), \$3,000.
- B. Cash (cr), \$3,000; Shareholders' equity (dr), \$3,000.
- C.** Cash (dr), \$3,000; Share Capital (cr), \$3,000.
- D. Cash (cr), \$3,000; Share Capital (dr), \$3,000.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #34*

35. Salida Company paid a note payable of \$10,000 (interest had previously been paid). This transaction should be recorded as follows on the payment date.

- A) Accounts payable      \$10,000  
    Cash                      \$10,000
- B) Cash                      10,000  
    Note Payable              10,000
- C) Note Payable            10,000  
    Cash                      10,000
- D) Note payable expense 10,000  
    Cash                      10,000

- A. Choice A
- B. Choice B
- C.** Choice C
- D. Choice D

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #35*

36. A T account consists of
- A. a title, a debit balance, and a credit balance.
  - B. a title, a left side, and a debit balance.
  - C.** a title, a debit side, and a credit side.
  - D. a title, a right side, and a debit balance.

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #36*

37. An accountant has debited an asset account for \$500 and credited a revenue account for \$1,000. What can be done to complete the recording of the transaction?

- A. Nothing further must be done.
- B. Debit a shareholders' equity account for \$500.
- C. Debit another asset account for \$500.**
- D. Credit a different asset account for \$500.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #37*

38. The trade payables account has a beginning balance of \$1,000 and we purchased \$3,000 of inventory on credit during the month. The ending balance was \$800. How much did we pay our creditors during the month?

- A. \$2,800
- B. \$3,000
- C. \$3,200**
- D. \$4,800

Calculation:  $\$1,000 + 3,000 - 800 = \$3,200$

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #38*

39. When recording transactions in T-account format, we must add an additional step to the transactional analysis process. Which of the following is the additional step?

- A. Determine what accounts and elements in the equation are affected by the transaction.
- B. Determine if the affected accounts are increased or decreased by the transaction.
- C. We must have equal debits and credits once the entry is recorded in the accounts.**
- D. The accounting equation must remain in balance after each transaction.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #39*

40. The equality of debits and credits is the basis for
- A.** the double-entry accounting system.
  - B. the single-entry accounting system.
  - C. the T account.
  - D. all accounting systems.

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #40*

41. When a company has a debt-to-equity ratio close to 1 to 1, which of the following is true?
- A. The company is primarily using debt financing for acquisition of its assets.
  - B. The creditors of the company would most likely be willing to give a loan to the company since debt is high.
  - C. The return to shareholders is higher than it would be if the ratio was higher.
  - D.** The company's assets are financed almost equally by owners and creditors.

*Difficulty: Hard*  
*Gradable: automatic*  
*Learning Objective: 6*  
*Libby - Chapter 02 #41*

42. The debt-to-equity ratio is computed by taking which of the following?
- A. Total assets divided by total liabilities.
  - B. Average total assets divided by average total liabilities.
  - C.** Total liabilities divided by total shareholders' equity.
  - D. Total assets divided by total shareholders' equity.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 6*  
*Libby - Chapter 02 #42*

43. Liabilities are generally classified on a statement of financial position as
- A. small liabilities and large liabilities.
  - B. present liabilities and future liabilities.
  - C. tangible liabilities and intangible liabilities.
  - D.** current liabilities and non-current liabilities.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Libby - Chapter 02 #43*

44. The usefulness of the debt-to-equity ratio is that it allows interested parties to assess all of the following except?

- A. How the company finances its assets.
- B. The relative risk assumed by the company caused by the use of debt financing.
- C. Whether the company should expand its use of debt to finance assets.
- D.** How many shares the company has issued in the past year.

*Difficulty: Hard*  
*Gradable: automatic*  
*Learning Objective: 6*  
*Libby - Chapter 02 #44*

45. Which of the following would be an example of a financing transaction?

- A. Purchasing equipment for cash.
- B. Buying inventory from a supplier on credit.
- C.** Selling shares to investors for cash.
- D. Buying inventory from a supplier for cash.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 7*  
*Libby - Chapter 02 #45*

46. Loans made to outside parties would be classified into which of the following categories for the purpose of disclosure in the statement of cash flows?

- A. Operating cash flow.
- B.** Investing cash flow.
- C. Financing cash flow.
- D. Item reconciling earnings and operating cash flow.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 7*  
*Libby - Chapter 02 #46*

47. Which of the following would cause an inflow of cash?

- A. Payment of a long-term mortgage.
- B.** Sale of an asset for cash at less than its book value.
- C. Payment of accounts payable.
- D. Purchase of inventory for debt.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 7*  
*Libby - Chapter 02 #47*

48. Dow Construction Company reports a net use of cash for investing activities of \$1.2 million and a net source of cash provided by financing of \$.8 million. What was the effect on the cash balance?

- A. To cause the balance to increase by \$.8 million.
- B.** To cause the balance to decrease by \$.4 million.
- C. To cause the balance to increase by \$.4 million.
- D. Undeterminable because the beginning cash balance was not given.

Calculation: \$.8 million - 1.2 million = (\$0.4 million)

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 7*  
*Libby - Chapter 02 #48*

49. When a new business is just starting up, which of the following must be done first?

- A. Generate positive cash flow through successful operations.
- B. Acquire the assets both long-lived and short-lived so they can operate.
- C.** Acquire financing from issuance of shares and borrowing from creditors.
- D. These activities all occur simultaneously not sequentially.

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 3*  
*Libby - Chapter 02 #49*

50. If a company has assets of \$60,000 and shareholders' equity of \$30,000, then its liabilities must be \$90,000.

**FALSE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #50*

51. To determine the economic effect of a transaction on the entity in terms of its accounting equation, each transaction is analyzed as to the accounts (at least two) that are affected.

**TRUE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #51*

52. Assets are economic resources controlled by an entity as a result of past transactions or events and for which future economic benefits may be obtained.

**TRUE**

*Difficulty: Easy  
Gradable: automatic  
Learning Objective: 2  
Libby - Chapter 02 #52*

53. Liability accounts are reported on the statement of financial position..

**TRUE**

*Difficulty: Easy  
Gradable: automatic  
Learning Objective: 2  
Libby - Chapter 02 #53*

54. The primary objective of external financial reporting is to provide useful economic information about a business to help external parties, primarily investors and creditors, make sound financial decisions.

**TRUE**

*Difficulty: Easy  
Gradable: automatic  
Learning Objective: 1  
Libby - Chapter 02 #54*

55. On the income statement, assets should always equal liabilities plus shareholders' equity.

**FALSE**

*Difficulty: Easy  
Gradable: automatic  
Learning Objective: 4  
Libby - Chapter 02 #55*

56. Liabilities are categorized as current liabilities and non-current liabilities.

**TRUE**

*Difficulty: Easy  
Gradable: automatic  
Learning Objective: 6  
Libby - Chapter 02 #56*

57. A primary objective of accounting is to provide the fair market value of assets on the statement of financial position..

**FALSE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 1*  
*Libby - Chapter 02 #57*

58. The unit-of-measure assumption states that financial information is reported in the national monetary unit.

**TRUE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 1*  
*Libby - Chapter 02 #58*

59. The separate-entity assumption assumes a stable monetary unit (not affected by inflation or deflation).

**FALSE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 1*  
*Libby - Chapter 02 #59*

60. Three of the four basic assumptions that underlie accounting measurement and reporting relate to the statement of financial position.

**TRUE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 1*  
*Libby - Chapter 02 #60*

61. The amount shown on the statement of financial position as shareholders' equity represents the current market value of the owners' residual claim against the company.

**FALSE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Libby - Chapter 02 #61*

62. Prepayments (e.g., insurance premiums and rent paid in advance of use of a building) reflect available benefits (e.g., monthly insurance protection, office space) that the company will use within one year.

**TRUE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Libby - Chapter 02 #62*

63. Transactions have a dual economic effect on the fundamental accounting model.

**TRUE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #63*

64. The payment of a liability in cash will decrease shareholders' equity.

**FALSE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #64*

65. The basic system of recording transactions has withstood the test of time, and has been in use for more than 500 years.

**TRUE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 3*  
*Libby - Chapter 02 #65*

66. If you trade your computer plus cash for a new car, the cost of the new car is equal to the cash paid plus the market value of the computer.

**TRUE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 1*  
*Libby - Chapter 02 #66*

67. The purchase of a delivery truck for cash increases assets and shareholders' equity.

**FALSE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #67*

68. Recording the borrowing of cash with a note payable increases shareholders' equity.

**FALSE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #68*

69. When a business owner invests cash in the business, the investment causes a liability to increase.

**FALSE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #69*

70. When a business pays a previously recorded bill, the liabilities of the business decrease.

**TRUE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #70*

71. The objective of transaction analysis is to determine the economic effects of each transaction in terms of the accounting model.

**TRUE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Libby - Chapter 02 #71*

72. The adoption of International Financial Reporting Standards by many countries has made it easier to read foreign companies' financial statements.

**TRUE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 3*  
*Libby - Chapter 02 #72*

73. A T-account shows total debits of \$25,000 and total credits of \$22,000; therefore, it has a \$3,000 credit balance.

**FALSE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #73*

74. Debits always increase and credits always decrease the accounts.

**FALSE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #74*

75. In a journal entry, the debits must equal the credits and at least two accounts are affected by the transaction.

**TRUE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #75*

76. If the correct accounts have been identified and the appropriate direction of the effect on each account has been determined, then the equation should remain in balance most of the time.

**FALSE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #76*

77. A T-account is an accounting method of expressing the effects of a single transaction in a debits-equal-credits format.

**FALSE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #77*

78. Normally, asset accounts will have credit balances and liability accounts will have debit balances.

**FALSE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #78*

79. "Debit" is the designation for the left side of an account, and "credit" is the designation for the right side of an account.

**TRUE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #79*

80. Some legal contracts, such as the signing of a contract to hire a new employee, are not reflected in the financial statements.

**TRUE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #80*

81. Share capital results when a company buys a new delivery truck.

**FALSE**

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 5*  
*Libby - Chapter 02 #81*

82. Usually when a short-term, interest-bearing note payable is paid on its maturity date, an asset is credited and a liability is debited.

**TRUE**

*Difficulty: Medium  
Gradable: automatic  
Learning Objective: 5  
Libby - Chapter 02 #82*

83. By themselves, journal entries do not provide the balances in accounts.

**TRUE**

*Difficulty: Medium  
Gradable: automatic  
Learning Objective: 5  
Libby - Chapter 02 #83*

84. The word debit means to increase an account by an entry on its left side.

**FALSE**

*Difficulty: Medium  
Gradable: automatic  
Learning Objective: 5  
Libby - Chapter 02 #84*

85. The debt-to-equity ratio indicates how much debt has been used to finance the company's acquisition of assets relative to equity financing that is supplied by creditors.

**FALSE**

*Difficulty: Medium  
Gradable: automatic  
Learning Objective: 6  
Libby - Chapter 02 #85*

86. The statement of cash flows provides information that not only shows the sources and uses of cash but also helps both investors and creditors predict future cash flows.

**TRUE**

*Difficulty: Easy  
Gradable: automatic  
Learning Objective: 7  
Libby - Chapter 02 #86*

87. When a loan is repaid to the bank it leads to an outflow of cash from a financing activity.

**TRUE**

*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 7*  
*Libby - Chapter 02 #87*

88. For each of the following events, which ones result in an exchange transaction for the O'Brien Company?

_____	a. Purchased land for cash and a note payable
_____	b. Agreed to purchase one million inventory parts from a new supplier
_____	c. Paid the employees for the week
_____	d. One of our shareholders sells her shares to a new investor
_____	e. Received inventory from a supplier under the new contract
_____	f. Entered into a contract with a new cleaning service

(a) Y, (b) N, (c) Y, (d) N, (e) Y, (f) N

*Difficulty: Medium*  
*Gradable: manual*  
*Learning Objective: 3*  
*Libby - Chapter 02 #88*

89. Classify the following statement of financial position accounts for White Goose Linen Co.

_____	a. Investments in associates
_____	b. Retained Earnings
_____	c. Notes Payable due in 3 months
_____	d. Land
_____	e. Short-term investments
_____	f. Bonds Payable
_____	g. Supplies
_____	h. Share Capital
_____	i. Notes Payable due in 5 years
_____	j. Income Taxes Payable

(a) NCA, (b) SE, (c) CL, (d) NCA, (e) CA, (f) NCL, (g) CA, (h) SE, (i) NCL, (j) CL

*Difficulty: Medium*  
*Gradable: manual*  
*Learning Objective: 2*  
*Libby - Chapter 02 #89*

90. The Donald Company, an etiquette consulting firm, recorded the following business transactions during March, 20A. Indicate whether each transaction would I) increase, D) decrease, or N) have no effect on the total assets of the company.

- \_\_\_\_\_ 1. Issued shares in exchange for cash contributed by owners.
- \_\_\_\_\_ 2. Purchased office supplies for cash.
- \_\_\_\_\_ 3. Purchased office supplies on credit.
- \_\_\_\_\_ 4. Paid cash on trade payables to a supplier.
- \_\_\_\_\_ 5. Collected cash on trade receivables.
- \_\_\_\_\_ 6. Borrowed money from the bank on a promissory note payable.
- \_\_\_\_\_ 7. Loaned money to a trusted employee.

1. I; 2. N; 3. I; 4. D; 5. N; 6. I; 7. N

*Difficulty: Medium*  
*Gradable: manual*  
*Learning Objective: 4*  
*Libby - Chapter 02 #90*

91. Match the terminology with the description by entering the proper letter in the space to the left.

- A. Credits
- B. Share Capital
- C. Cost principle
- D. Transaction
- E. Debits
- F. Liability
- G. Statement of financial position
- H. Primary objective of external financial reporting
- I. Separate-entity assumption
- J. Retained earnings
- K. As at December 31, 20A
- L. For the period ended December 31, 20A
- M. None of the above is correct

- \_\_\_\_\_ 1. Increase assets and decreases shareholders' equity.
- \_\_\_\_\_ 2. An exchange between an entity and another party.
- \_\_\_\_\_ 3. Normal balances for liabilities.
- \_\_\_\_\_ 4. To provide useful economic information about a business to help external parties make sound financial decisions.
- \_\_\_\_\_ 5. Accounting assumption that requires assets to be recorded at their cash equivalent cost.
- \_\_\_\_\_ 6. Cumulative earnings that have not been distributed to the owners.
- \_\_\_\_\_ 7. A debt owed by the entity.
- \_\_\_\_\_ 8. Statement of financial position.
- \_\_\_\_\_ 9. Account for a business separate from its owners.
- \_\_\_\_\_ 10. Dating of the statement of financial position (20A).

1. E; 2. D; 3. A; 4. H; 5. C; 6. J; 7. F; 8. G; 9. I; 10. K

*Difficulty: Medium*  
*Gradable: manual*  
*Learning Objective: 1*  
*Libby - Chapter 02 #91*

92. Why is the continuity assumption so important for statement of financial position reporting?

The continuity assumption is also known as the going-concern assumption. It is important for statement of financial position reporting because of valuation issues. If a business is expected to operate into the foreseeable future, amounts presented on the statement of financial position for assets and liabilities are based on the cost principle. If the continuity assumption is not followed, assets and liabilities might be reported at liquidation values as if they are going out of business.

*Difficulty: Medium*  
*Gradable: manual*  
*Learning Objective: 1*  
*Libby - Chapter 02 #92*

93. Why is the separate-entity assumption so important for statement of financial position reporting?

The separate-entity assumption is important for statement of financial position reporting because a business should present only its own assets and liabilities on the statement. A business is a separate accounting entity from its owners. Therefore, the owners' assets and liabilities would appear on their own (personal) financial statement.

*Difficulty: Medium*  
*Gradable: manual*  
*Learning Objective: 1*  
*Libby - Chapter 02 #93*

94. Why is the cost principle so important for statement of financial position reporting?

The cost principle is important for statement of financial position reporting because of valuation issues. The cash-equivalent cost is verifiable. If it were not for the cost principle, assets and liabilities could be reported at more subjective values. This could lead to manipulation of statement of financial position amounts.

*Difficulty: Medium*  
*Gradable: manual*  
*Learning Objective: 1*  
*Libby - Chapter 02 #94*

95. For each of the following accounts, complete the chart below by indicating whether the account is an asset (A), liability (L), or shareholders' equity (SE) and whether the account usually has a debit (Dr) or credit (Cr) balance.

	Account	Balance Sheet Category	Debit or Credit
1.	Retained earnings		
2.	Office supplies		
3.	Contributed capital		
4.	Income taxes payable		
5.	Trade receivables		
6.	Short-term investments		
7.	Dividends payable		
8.	Prepayments		

1. SE, Cr
2. A, Dr
3. SE, Cr
4. L, Cr
5. A, Dr
6. A, Dr
7. L, Cr
8. A, Dr

*Difficulty: Medium*  
*Gradable: manual*  
*Learning Objective: 4*  
*Libby - Chapter 02 #95*

96. (A) Complete the following schedule for Gold Eye Company.

Transaction	Assets	Liabilities	Shareholders' Equity
Beginning financial position	\$75,000	\$25,000	\$50,000
Borrowed \$20,000 cash using a note payable, face amount \$20,000.			
Collected trade receivables for cash, \$5,000.			
Paid trade payables, \$1,000 cash.			
Purchased office supplies on credit, \$1,000.			
Sold shares to new investors for \$5,000 of cash.			
Paid a \$10,000 note payable.			
Ending financial position.			

(B) How much did cash change during the period?

(A)

Transaction	Assets	Liabilities	Shareholders' Equity
Beginning financial position	\$75,000	\$25,000	\$50,000
Borrowed \$20,000 cash using a note payable, face amount \$20,000.	+20,000	+20,000	
Collected trade receivables for cash, \$5,000.	+5,000 -5,000		
Paid trade payables, \$1,000 cash.	-1,000	-1,000	
Purchased office supplies on credit, \$1,000.	+1,000	+1,000	
Sold shares to new investors for \$5,000 of cash.	+5,000		+5,000
Paid a \$10,000 note payable.	-10,000	-10,000	
Ending financial position.	\$90,000	\$35,000	\$55,000

(B) Cash increase, \$19,000  
 (+ 20,000 + 5,000 - 1,000 + 5,000 - 10,000)

97. For each of the transactions listed below, indicate whether it is an investing (I) or financing (F) activity on the cash flow statement. Also, indicate if the transaction increases (+) or decreases (-) cash.

Transaction		Type of Activity	Effect on Cash
Ex.	Paid dividends to the owners.	F	-
A.	Purchased equipment to use in the business.		
B.	Issued shares for cash.		
C.	Borrowed money at the bank.		
D.	Sold a piece of land adjacent to the plant.		
E.	Paid the principal balance of a note payable.		

Transaction		Type of Activity	Effect on Cash
A.	Purchased equipment to use in the business.	I	-
B.	Issued shares for cash.	F	+
C.	Borrowed money at the bank.	F	+
D.	Sold a piece of land adjacent to the plant.	I	+
E.	Paid the principal balance of a note payable.	F	-

Difficulty: Medium  
 Gradable: manual  
 Learning Objective: 7  
 Libby - Chapter 02 #97

98. For each financial statement element listed, enter check marks to reflect the Debit = Credit concept.

Element		Debit		Credit	
		Increase	Decrease	Increase	Decrease
A.	Assets				
B.	Liabilities				
C.	Share Capital				
D.	Retained Earnings				

Element		Debit		Credit	
		Increase	Decrease	Increase	Decrease
A.	Assets	X			X
B.	Liabilities		X	X	
C.	Share Capital		X	X	
D.	Retained Earnings		X	X	

Difficulty: Medium  
 Gradable: manual  
 Learning Objective: 4  
 Libby - Chapter 02 #98

99. Scott, Kim and Koko organized the SKK Corporation on January 1, 20A. Each of these owners invested \$30,000 cash and received shares. Below are selected transactions that were completed during January.

(A) Give the entry on SKK's books for each transaction:

- (1) Sold shares to the owners.
- (2) Borrowed \$100,000 on one-year note payable.
- (3) Purchased land by signing a \$20,000 note payable.
- (4) Paid \$5,000 of trade payables.
- (5) Purchased two service vehicles, \$21,000 each; paid cash.
- (6) Accepted a promissory note of \$1,000 from a customer.

(B) Complete the following based only on the 6 transactions above:

Assets \$

Liabilities \$

Shareholders' equity \$

(A)

1.	Cash (30,000 x 3) (A)	90,000	
	Share capital (SE)		90,000
	Investment by owners		
2.	Cash (A)	100,000	
	Note payable (L)		100,000
	Borrowed \$100,000 on a one-year note.		
3.	Land (A)	20,000	
	Note payable (L)		20,000
	Purchased land by signing a \$20,000 note payable.		
4.	Trade payables(L)	5,000	
	Cash (A)		5,000
	Paid \$5,000 of trade payables.		
5.	Equipment (A)	42,000	
	Cash (A)		42,000
	Purchased two service vehicles, \$21,000 each (paid cash)		
6.	Notes receivable (A)	1,000	
	Cash (A)		1,000
	Accepted a \$1,000 promissory note from a customer.		

(B)	Assets	\$205,000
	Liabilities	115,000
	Shareholders' equity	90,000

*Difficulty: Medium*  
*Gradable: manual*  
*Learning Objective: 5*  
*Libby - Chapter 02 #99*

100. The accounts with identification letters for WildWorld, Inc. are listed below.

Letter Account Title

A Cash

B Trade Receivables

C Office supplies

D Equipment

E Land

F Trade Payables

G Notes Payable

H Share Capital

I Retained Earnings

During 20X, the company completed the transactions given below. You are to indicate the appropriate journal entry for each transaction by giving the account letter and amount. Some entries may need three letters. The first transaction is given as an example.

Transaction		Debit		Credit	
		Letter	Amount	Letter	Amount
Ex.	Owners invested \$30,000 cash for shares.	A	\$30,000	H	\$30,000
A	Borrowed \$50,000 and signed a note.				
B	Purchased equipment for \$30,000. Paid \$10,000 in cash, signed a \$20,000 note payable.				
C	Collected \$16,000 trade receivables				
D	Paid \$8,000 of trade payables.				
E	Acquired a \$40,000 piece of land by issuing capital shares.				
F	Purchased \$2,000 of office supplies (an asset) on credit.				
G	Paid for the office supplies in (F)				

Transaction		Debit		Credit	
		Letter	Amount	Letter	Amount
A	Borrowed \$50,000 and signed a note.	A	\$50,000	G	\$50,000
B	Purchased equipment for \$30,000. Paid \$10,000 in cash, signed a \$20,000 note payable.	D	30,000	A	10,000
				G	20,000
C	Collected \$16,000 trade receivables	A	16,000	B	16,000
D	Paid \$8,000 of trade payables.	F	8,000	A	8,000
E	Acquired a \$40,000 piece of land by issuing capital shares.	E	40,000	H	40,000
F	Purchased \$2,000 of office supplies (an asset) on credit.	C	2,000	F	2,000
G	Paid for the office supplies in (F)	F	2,000	A	2,000

Difficulty: Medium  
 Gradable: manual  
 Learning Objective: 5  
 Libby - Chapter 02 #100

101. For each of the accounts listed below, enter a check mark in the space provided to the right to indicate whether the typical or normal balance is a debit or credit.

Account		Typical Balance	
		Debit	Credit
A	Supplies		
B	Notes payable		
C	Retained earnings		
D	Equipment		
E	Prepaid insurance		
F	Trade receivables		
G	Building		
H	Share capital		
I	Trade payables		

Account		Typical Balance	
		Debit	Credit
A	Supplies	X	
B	Notes payable		X
C	Retained earnings		X
D	Equipment	X	
E	Prepaid insurance	X	
F	Trade receivables	X	
G	Building	X	
H	Share capital		X
I	Trade payables		X

Difficulty: Medium  
 Gradable: manual  
 Learning Objective: 4  
 Libby - Chapter 02 #101

102. In what two places do amounts for transactions appear in the accounting system or "the books"? Describe them.

Transactions are first recorded in the journal. This is known as the book of original entry. Transactions are entered chronologically in a debit-credit format. After transactions are journalized, the amounts are posted to the ledger (the book of final entry). The ledger contains accounts for each financial statement element so that balances can be determined.

Difficulty: Easy  
 Gradable: manual  
 Learning Objective: 4  
 Libby - Chapter 02 #102

103. On January 1, 20A, Hux Cliffable started a new professional corporation, Hux Cliffable, P. C., to practice medicine with an initial investment of \$50,000. On June 30, 20A the accounting records contained the following amounts:

Trade Payables	\$100
Trade Receivables	3,900
Cash	25,100
Share Capital	50,000
Office Equipment	24,000
Office Supplies	500
Retained Earnings	3,400

Prepare a statement of financial position at June 30, 20A.

Hux Cliffable, P.C.  
Statement of Financial Position  
As of June 30, 20A

Assets	
Cash	\$25,100
Trade receivables	3,900
Office supplies	500
Office equipment	24,000
Total assets	<u>\$53,500</u>
Liabilities	
Trade payables	\$100
Shareholders' Equity	
Share capital	\$50,000
Retained earnings	3,400
Total shareholders' equity	<u>53,400</u>
Total liabilities and shareholders' equity	<u>\$53,500</u>

*Difficulty: Medium*  
*Gradable: manual*  
*Learning Objective: 6*  
*Libby - Chapter 02 #103*

## c2 Summary

<u>Category</u>	<u># of Questions</u>
Difficulty: Easy	40
Difficulty: Hard	5
Difficulty: Medium	58
Gradable: automatic	87
Gradable: manual	16
Learning Objective: 1	14
Learning Objective: 2	14
Learning Objective: 3	7
Learning Objective: 4	31
Learning Objective: 5	24
Learning Objective: 6	6
Learning Objective: 7	7
Libby - Chapter 02	103