

Exam

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

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

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)

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

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)

- 3) Which of the following would cause an inflow of cash? 3) _____
- A) Payment of accounts payable.
 - B) Sale of an asset for cash at less than its book value.
 - C) Purchase of inventory for debt.
 - D) Payment of a long-term mortgage.

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)

- 4) Which of the following is *not* considered an asset? 4) _____
- A) Accounts receivable
 - B) Equipment
 - C) Dividends
 - D) Inventory

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)

- 5) Which of the following defines assets? 5) _____
- A) Probable future economic benefits owned by an entity as a result of future transactions.
 - B) Probable future economic benefits owned by an entity as a result of past transactions.
 - C) Possible future economic benefits owed by an entity as a result of past transactions.
 - D) Possible future economic benefits owed by an entity as a result of future transactions.

Answer: B

- Explanation: A)
 B)
 C)
 D)

- 6) Which of the following would be an example of a financing transaction? 6) _____
- A) Purchasing equipment for cash.
 - B) Buying inventory from a supplier on credit.
 - C) Buying inventory from a supplier for cash.
 - D) Selling shares to investors for cash.

Answer: D

- Explanation: A)
 B)
 C)
 D)

- 7) 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 contributed capital? 7) _____
- A) \$95,000 B) \$125,000 C) \$80,000 D) \$50,000

Answer: C

- Explanation: A) Calculation: $\$225,000 - \$100,000 = \$125,000$
 $\$125,000 - (\$75,000 - \$30,000) = \$80,000$
- B) Calculation: $\$225,000 - \$100,000 = \$125,000$
 $\$125,000 - (\$75,000 - \$30,000) = \$80,000$
- C) Calculation: $\$225,000 - \$100,000 = \$125,000$
 $\$125,000 - (\$75,000 - \$30,000) = \$80,000$
- D) Calculation: $\$225,000 - \$100,000 = \$125,000$
 $\$125,000 - (\$75,000 - \$30,000) = \$80,000$

- 8) The purchase of an asset on credit 8) _____
 A) increases assets and liabilities.
 B) has no effect on total assets.
 C) increases assets and shareholders' equity.
 D) decreases assets and increases liabilities.

Answer: A

- Explanation: A)
 B)
 C)
 D)

- 9) Liabilities are generally classified on a statement of financial position as 9) _____
 A) current liabilities and non-current liabilities.
 B) small liabilities and large liabilities.
 C) tangible liabilities and intangible liabilities.
 D) present liabilities and future liabilities.

Answer: A

- Explanation: A)
 B)
 C)
 D)

- 10) The following amounts are reported in the ledger of Bowers Company: 10) _____

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

What is the balance in the contributed capital account?

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

Answer: D

- Explanation: A) Calculation: $\$25,000 - \$15,000 - \$3,000 = \$7,000$
 B) Calculation: $\$25,000 - \$15,000 - \$3,000 = \$7,000$
 C) Calculation: $\$25,000 - \$15,000 - \$3,000 = \$7,000$
 D) Calculation: $\$25,000 - \$15,000 - \$3,000 = \$7,000$

- 11) Which one of the following represents the expanded basic accounting equation? 11) _____
- A) $\text{Assets} = \text{Liabilities} + \text{Contributed capital} + \text{Retained Earnings} + \text{Revenues} - \text{Expenses} - \text{Dividends}$
 - B) $\text{Assets} = \text{Revenues} + \text{Expenses} - \text{Liabilities}$
 - C) $\text{Assets} - \text{Liabilities} - \text{Dividends} = \text{Contributed capital} + \text{Revenues} - \text{Expenses}$
 - D) $\text{Assets} + \text{Liabilities} = \text{Dividends} + \text{Expenses} + \text{Contributed capital} + \text{Revenues}$

Answer: A

Explanation: A)
B)
C)
D)

- 12) Financing activities involve 12) _____
- A) issuing shares.
 - B) acquiring long-lived assets.
 - C) lending money.
 - D) acquiring investments.

Answer: A

Explanation: A)
B)
C)
D)

- 13) If Golden Company owed Eye Company \$500, where would Golden Company reflect this? 13) _____
- A) Statement of cash flows
 - B) Income statement.
 - C) Statement of financial position.
 - D) Statement of changes in equity.

Answer: C

Explanation: A)
B)
C)
D)

- 14) Which of the following will not result in recording a transaction? 14) _____
- A) Buying equipment and agreeing to pay a note payable and interest at the end of a year.
 - B) Paying our employees their wages.
 - C) Selling shares to investors.
 - D) Signing a contract to have an outside cleaning service clean offices nightly.

Answer: D

Explanation: A)
B)
C)
D)

- 15) The purchase of an asset on credit 15) _____
A) has no effect on total assets.
B) increases assets and liabilities.
C) increases assets and shareholders' equity.
D) decreases assets and increases liabilities.

Answer: B

Explanation: A)
B)
C)
D)

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

Answer: C

Explanation: A)
B)
C)
D)

- 17) 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? 17) _____
A) \$3,000 B) \$3,200 C) \$4,800 D) \$2,800

Answer: B

Explanation: A) Calculation: $\$1,000 + \$3,000 - \$800 = \$3,200$
B) Calculation: $\$1,000 + \$3,000 - \$800 = \$3,200$
C) Calculation: $\$1,000 + \$3,000 - \$800 = \$3,200$
D) Calculation: $\$1,000 + \$3,000 - \$800 = \$3,200$

- 18) The best interpretation of the word credit is the 18) _____
A) right side of an account. B) offset side of an account.
C) increase side of an account. D) decrease side of an account.

Answer: A

Explanation: A)
B)
C)
D)

- 19) Borrowing \$100,000 of cash from First National Bank, signing a note to be paid, would do which of the following? 19) _____
- A) Increase notes payable by a debit. B) Decrease cash by a debit.
C) Increase cash by a credit. D) Increase notes payable by a credit.

Answer: D

- Explanation: A)
 B)
 C)
 D)

- 20) 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) 20) _____
- A) Cash (cr), \$3,000; Contributed capital (dr), \$3,000.
B) Cash (dr), \$3,000; Contributed capital (cr), \$3,000.
C) Cash (cr), \$3,000; Shareholders' equity (dr), \$3,000.
D) Cash (dr), \$3,000; Revenue (cr), \$3,000.

Answer: B

- Explanation: A)
 B)
 C)
 D)

- 21) It is assumed that the activities of Petro Canada Corporation can be distinguished from those of Imperial Oil Limited because of the 21) _____
- A) Unit-of-measure assumption. B) Periodicity assumption.
C) Continuity assumption. D) Separate-entity assumption.

Answer: D

- Explanation: A)
 B)
 C)
 D)

- 22) When a new business is just starting up, which of the following must be done first? 22) _____
- A) Acquire the assets both long-lived and short-lived so they can operate.
B) Acquire financing from issuance of shares and borrowing from creditors.
C) These activities all occur simultaneously not sequentially.
D) Generate positive cash flow through successful operations.

Answer: B

- Explanation: A)
 B)
 C)
 D)

23) 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? 23) _____

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

Answer: C

- Explanation:
- A) Calculation; $+ \$30,000 = + \$25,000 + \$5,000$
 - B) Calculation; $+ \$30,000 = + \$25,000 + \$5,000$
 - C) Calculation; $+ \$30,000 = + \$25,000 + \$5,000$
 - D) Calculation; $+ \$30,000 = + \$25,000 + \$5,000$

24) Where would we report changes in shareholders' equity caused by operating activities? 24) _____

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

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)

25) The continuity assumption is inappropriate when 25) _____

- A) liquidation appears likely.
- B) fair values are higher than costs.
- C) the business is organized as a proprietorship.
- D) the business is just starting up.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)

26) Collection of a \$600 accounts receivable 26) _____

- A) increases an asset \$600; decreases a liability \$600.
- B) decreases a liability \$600; increases shareholders' equity \$600.
- C) has no effect on total assets.
- D) decreases an asset \$600; decreases a liability \$600.

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)

27) Which of the following transactions will cause both the left and right side of the equation to increase? 27) _____

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

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)

28) 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. 28) _____

- 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

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)

29) 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? 29) _____

- A) Full disclosure.
- B) Revenue principle.
- C) Separate-entity assumption.
- D) Historical cost principle.

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)

- 30) The main objective of financial reporting is to: 30) _____
- A) Provide information that will be used by a company's managers for product pricing decisions.
 - B) Compare a company's performance with its competitors.
 - C) Provide information that is useful to individuals making investment and credit decisions.
 - D) Meet the needs of all potential users.

Answer: C

Explanation: A)
B)
C)
D)

- 31) Shareholders' equity 31) _____
- A) is equal to liabilities and retained earnings.
 - B) includes retained earnings and contributed capital.
 - C) is usually equal to cash on hand.
 - D) is shown on the income statement.

Answer: B

Explanation: A)
B)
C)
D)

- 32) On a classified balance sheet, prepaid expenses are classified as 32) _____
- A) a long-term investment.
 - B) a current asset.
 - C) property, plant, and equipment.
 - D) a current liability.

Answer: B

Explanation: A)
B)
C)
D)

- 33) Which of the following defines liabilities? 33) _____
- A) Probable 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 future transactions which will be paid with assets or services.
 - C) Possible debts or obligations of an entity as a result of past 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.

Answer: D

Explanation: A)
B)
C)
D)

- 34) Which of the following defines shareholders' equity? 34) _____
- 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) The financing provided by the owners and the operations of a business.
 - D) Probable future economic benefits owned by an entity as a result of past transactions.

Answer: C

- Explanation: A)
B)
C)
D)

- 35) Which of the following liability accounts is usually not satisfied by payment of cash? 35) _____
- A) Taxes payable.
 - B) Trade payables.
 - C) Unearned revenues.
 - D) Short-term borrowings.

Answer: C

- Explanation: A)
B)
C)
D)

- 36) In the first month of operations, the total of the debit entries to the cash account amounted to \$1,900 and the total of the credit entries to the cash account amounted to \$1,500. The cash account has a 36) _____
- A) \$400 debit balance.
 - B) \$500 credit balance.
 - C) \$900 debit balance.
 - D) \$400 credit balance.

Answer: A

- Explanation: A)
B)
C)
D)

- 37) A T account is 37) _____
- A) a way of depicting the basic form of an account.
 - B) is the actual account form used in real accounting systems.
 - C) a special account used instead of a trial balance.
 - D) a special account used instead of a journal.

Answer: A

- Explanation: A)
B)
C)
D)

38) 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? 38) _____

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

Answer: A

Explanation: A) Calculation: \$.8 million - \$1.2 million = (\$0.4 million)
B) Calculation: \$.8 million - \$1.2 million = (\$0.4 million)
C) Calculation: \$.8 million - \$1.2 million = (\$0.4 million)
D) Calculation: \$.8 million - \$1.2 million = (\$0.4 million)

39) Which of the following is least likely to have a liability called Deferred Revenue? 39) _____

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

Answer: C

Explanation: A)
B)
C)
D)

40) The collection of a trade receivable from a customer would do which of the following? 40) _____

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

Answer: B

Explanation: A)
B)
C)
D)

41) The classification and normal balance of the dividend account is 41) _____

- A) a liability with a credit balance.
- B) revenue with a credit balance.
- C) shareholders' equity with a debit balance.
- D) an expense with a debit balance.

Answer: C

Explanation: A)
B)
C)
D)

- 42) A weakness of the current ratio is 42) _____
- A) that it can be expressed as a percentage, as a rate, or as a proportion.
 - B) that it is rarely used by sophisticated analysts.
 - C) the difficulty of the calculation.
 - D) that it doesn't take into account the composition of the current assets.

Answer: D

Explanation: A)
B)
C)
D)

- 43) Accounting systems should record 43) _____
- A) all economic events.
 - B) items of interest to the shareholders.
 - C) only events that involve cash.
 - D) events that result in a change in assets, liabilities, or shareholders' equity items.

Answer: B

Explanation: A)
B)
C)
D)

44) 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 trade receivables, \$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?

44) _____

	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

Answer: D

Explanation: A) 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
 B) 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
 C) 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
 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

45) Assets normally show

45) _____

A) credit balances.

B) debit and credit balances.

C) debit or credit balances.

D) debit balances.

Answer: D

Explanation: A)
 B)
 C)
 D)

- 46) The payment of a liability 46) _____
A) increases assets and decreases liabilities.
B) decreases assets and shareholders' equity.
C) decreases assets and increases liabilities.
D) decreases assets and liabilities.

Answer: D

Explanation: A)
B)
C)
D)

- 47) Investing activities include 47) _____
A) obtaining cash from creditors.
B) obtaining capital from owners.
C) repaying money previously borrowed.
D) collecting the principal on loans made.

Answer: D

Explanation: A)
B)
C)
D)

- 48) When recording transactions in T-account format, we must add an additional step to the transaction analysis process. Which of the following is the additional step? 48) _____
A) Determine if the affected accounts are increased or decreased by the transaction.
B) The accounting equation must remain in balance after each transaction.
C) We must have equal debits and credits once the entry is recorded in the accounts.
D) Determine what accounts and elements in the equation are affected by the transaction.

Answer: C

Explanation: A)
B)
C)
D)

- 49) Which one of the following is *not* a qualitative characteristic of useful accounting information? 49) _____
A) Relevance
B) Materiality
C) Comparability
D) Faithful representation

Answer: B

Explanation: A)
B)
C)
D)

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

50) For each item below, indicate whether the account will be debited or credited:

50) _____

1. Decrease in Accounts Payable
2. Increase in Dividends
3. Increase in Common Shares
4. Increase in Unearned Revenue
5. Decrease in Interest Payable
6. Increase in Prepaid Insurance
7. Decrease in Wages Expense
8. Decrease in Supplies
9. Increase in Revenues
10. Decrease in Accounts Receivable

Answer:

1. Decrease in Accounts Payable	<u>Dr.</u>
2. Increase in Dividends	<u>Dr.</u>
3. Increase in Common Shares	<u>Cr.</u>
4. Increase in Unearned Revenue	<u>Cr.</u>
5. Decrease in Interest Payable	<u>Dr.</u>
6. Increase in Prepaid Insurance	<u>Dr.</u>
7. Decrease in Wages Expense	<u>Cr.</u>
8. Decrease in Supplies	<u>Cr.</u>
9. Increase in Revenues	<u>Cr.</u>
10. Decrease in Accounts Receivable	<u>Cr.</u>

Explanation:

51) Classify the following statement of financial position accounts for White Goose Linen Co. 51) _____

- | | |
|-------|----------------------------------|
| _____ | 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 |

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

Explanation:

52) For each of the following events, which ones result in an exchange transaction for the O'Brien Company? 52) _____

_____	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

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

Explanation:

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

53) _____

- 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).

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

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

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

54) _____

Answer: True False
Explanation:

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

55) _____

Answer: True False
Explanation:

- 56) A T-account is an accounting method of expressing the effects of a single transaction in a debits-equal-credits format. 56) _____
 Answer: True False
 Explanation:
- 57) 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. 57) _____
 Answer: True False
 Explanation:
- 58) The basic system of recording transactions has withstood the test of time, and has been in use for more than 500 years. 58) _____
 Answer: True False
 Explanation:
- 59) Qualitative characteristics of accounting information are not part of the conceptual framework of accounting. 59) _____
 Answer: True False
 Explanation:
- 60) The objective of transaction analysis is to determine the economic effects of each transaction in terms of the accounting model. 60) _____
 Answer: True False
 Explanation:
- 61) Transactions have a dual economic effect on the fundamental accounting model. 61) _____
 Answer: True False
 Explanation:
- 62) A T-account shows total debits of \$25,000 and total credits of \$22,000; therefore, it has a \$3,000 credit balance. 62) _____
 Answer: True False
 Explanation:
- 63) Long-term investments appear in the property, plant, and equipment section of the balance sheet. 63) _____
 Answer: True False
 Explanation:
- 64) Three of the four basic assumptions that underlie accounting measurement and reporting relate to the statement of financial position. 64) _____
 Answer: True False
 Explanation:
- 65) Debit and credit can be interpreted to mean "bad" and "good," respectively. 65) _____
 Answer: True False
 Explanation:

- 66) "Debit" is the designation for the left side of an account, and "credit" is the designation for the right side of an account. 66) _____
 Answer: True False
 Explanation:
- 67) Calculating financial ratios can give clues to underlying conditions that may not be noticed by examining each financial statement item separately. 67) _____
 Answer: True False
 Explanation:
- 68) In its simplest form, a T account consists of three parts: (1) its title, (2) a left or debit side and (3) a right or credit side. 68) _____
 Answer: True False
 Explanation:
- 69) Usually when a short-term, interest-bearing note payable is paid on its maturity date, an asset is credited and a liability is debited. 69) _____
 Answer: True False
 Explanation:
- 70) 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. 70) _____
 Answer: True False
 Explanation:
- 71) Liability accounts are reported on the statement of financial position. 71) _____
 Answer: True False
 Explanation:
- 72) By themselves, journal entries do not provide the balances in accounts. 72) _____
 Answer: True False
 Explanation:
- 73) The activity from the balance sheet to be presented in the financing activities section of the cash flow statement is based on an analysis of shareholders' equity only. 73) _____
 Answer: True False
 Explanation:
- 74) Recording the borrowing of cash with a note payable increases shareholders' equity. 74) _____
 Answer: True False
 Explanation:
- 75) The unit-of-measure assumption states that financial information is reported in the national monetary unit. 75) _____
 Answer: True False
 Explanation:

- 76) If a company has assets of \$60,000 and shareholders' equity of \$30,000, then its liabilities must be \$90,000. 76) _____
Answer: True False
Explanation:
- 77) Faithful representation means information must be free from material error, neutral and complete. 77) _____
Answer: True False
Explanation:
- 78) 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. 78) _____
Answer: True False
Explanation:
- 79) Cash and supplies are both classified as current assets. 79) _____
Answer: True False
Explanation:
- 80) The sale of land for cash would be classified as a cash inflow from an investing activity. 80) _____
Answer: True False
Explanation:
- 81) On the income statement, assets should always equal liabilities plus shareholders' equity. 81) _____
Answer: True False
Explanation:
- 82) A debit increases an account and a credit decreases an account. 82) _____
Answer: True False
Explanation:
- 83) When a business pays a previously recorded bill, the liabilities of the business decrease. 83) _____
Answer: True False
Explanation:
- 84) Contributed capital results when a company buys a new delivery truck. 84) _____
Answer: True False
Explanation:
- 85) The payment of a liability in cash will decrease shareholders' equity. 85) _____
Answer: True False
Explanation:
- 86) 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. 86) _____
Answer: True False
Explanation:

- 87) The separate-entity assumption assumes a stable monetary unit (not affected by inflation or deflation). 87) _____
Answer: True False
Explanation:
- 88) The purchase of a delivery truck for cash increases assets and shareholders' equity. 88) _____
Answer: True False
Explanation:
- 89) Some legal contracts, such as the signing of a contract to hire a new employee, are not reflected in the financial statements. 89) _____
Answer: True False
Explanation:
- 90) The current ratio takes into account the composition of current assets. 90) _____
Answer: True False
Explanation:
- 91) An individual accounting record for a specific asset, liability or shareholders' equity item is called an account. 91) _____
Answer: True False
Explanation:

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

92) 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		

Answer:

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

93) 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.

Answer:

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>

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

Answer: 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.

95) 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 \$

Answer:

(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)		100,00
	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

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

Answer: 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.

97) Analyze the transactions of a business organized as a corporation described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (-) to indicate a decrease.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
1. Received cash for services provided.	_____		_____		_____
2. Purchased office equipment on credit.	_____		_____		_____
3. Paid employees' salaries.	_____		_____		_____
4. Received cash from customer in payment on account.	_____		_____		_____
5. Paid telephone bill for the month.	_____		_____		_____
6. Paid for office equipment purchased in transaction 2.	_____		_____		_____
7. Purchased office supplies on credit.	_____		_____		_____
8. Dividends were paid.	_____		_____		_____
9. Obtained a loan from the bank.	_____		_____		_____
10. Billed customers for services performed.	_____		_____		_____

Answer:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
1. Received cash for services provided.	+				+
2. Purchased office equipment on credit.	+		+		
3. Paid employees' salaries.	-				-
4. Received cash from customer in payment on account.	+,-				
5. Paid telephone bill for the month.	-				-
6. Paid for office equipment purchased in transaction 2.	-		-		
7. Purchased office supplies on credit.	+		+		
8. Dividends were paid.	-				-
9. Obtained a loan from the bank.	+		+		
10. Billed customers for services performed.	+				+

98) Why is the continuity assumption so important for statement of financial position reporting?

Answer: 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.

99) 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				

Answer:

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	

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)				

Answer:

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 G	10,000 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

101) (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?

Answer: (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)

102) 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.		

Answer:

	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	-

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

Answer: 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.

Answer Key
Testname: C2

- 1) D
- 2) B
- 3) B
- 4) C
- 5) B
- 6) D
- 7) C
- 8) A
- 9) A
- 10) D
- 11) A
- 12) A
- 13) C
- 14) D
- 15) B
- 16) C
- 17) B
- 18) A
- 19) D
- 20) B
- 21) D
- 22) B
- 23) C
- 24) D
- 25) A
- 26) C
- 27) B
- 28) C
- 29) C
- 30) C
- 31) B
- 32) B
- 33) D
- 34) C
- 35) C
- 36) A
- 37) A
- 38) A
- 39) C
- 40) B
- 41) C
- 42) D
- 43) B
- 44) D
- 45) D
- 46) D
- 47) D
- 48) C
- 49) B

50)

1. Decrease in Accounts Payable	<u>Dr.</u>
2. Increase in Dividends	<u>Dr.</u>
3. Increase in Common Shares	<u>Cr.</u>
4. Increase in Unearned Revenue	<u>Cr.</u>
5. Decrease in Interest Payable	<u>Dr.</u>
6. Increase in Prepaid Insurance	<u>Dr.</u>
7. Decrease in Wages Expense	<u>Cr.</u>
8. Decrease in Supplies	<u>Cr.</u>
9. Increase in Revenues	<u>Cr.</u>
10. Decrease in Accounts Receivable	<u>Cr.</u>

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

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

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

54) FALSE

55) FALSE

56) FALSE

57) TRUE

58) TRUE

59) FALSE

60) TRUE

61) TRUE

62) FALSE

63) FALSE

64) TRUE

65) FALSE

66) TRUE

67) TRUE

68) TRUE

69) TRUE

70) TRUE

71) TRUE

72) TRUE

73) FALSE

74) FALSE

75) TRUE

76) FALSE

77) TRUE

78) FALSE

79) TRUE

80) TRUE

81) FALSE

82) FALSE

83) TRUE

- 84) FALSE
- 85) FALSE
- 86) TRUE
- 87) FALSE
- 88) FALSE
- 89) TRUE
- 90) FALSE
- 91) TRUE
- 92)

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

93)

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	\$53,500
 Liabilities	
Trade payables	\$100
 Shareholders' Equity	
Share capital	\$50,000
Retained earnings	3,400
Total shareholders' equity	53,400
Total liabilities and shareholders' equity	\$53,500

94) 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.

95)

(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

96) 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.

97)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
1. Received cash for services provided.	+				+
2. Purchased office equipment on credit.	+		+		
3. Paid employees' salaries.	-				-
4. Received cash from customer in payment on account.	+,-				
5. Paid telephone bill for the month.	-				-
6. Paid for office equipment purchased in transaction 2.	-		-		
7. Purchased office supplies on credit.	+		+		
8. Dividends were paid.	-				-
9. Obtained a loan from the bank.	+		+		
10. Billed customers for services performed.	+				+

98) 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.

99)

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	

100)

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 G	10,000 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

Answer Key
Testname: C2

101) (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)

102)

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	-

103) 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.