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# Testbank

to accompany

## Financial Accounting

11<sup>th</sup> edition

by  
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# WILEY

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## **Chapter 2: Financial statements for decision making**

### **Multiple-choice questions**

1. In order to avoid disputes it is preferable for partners to:

- \*a. have a written agreement.
- b. confirm their agreement with a handshake.
- c. share profits and losses equally.
- d. work as 'silent' partners.

General Feedback:

Learning Objective 2.1: identify the common types of business entities.

2. The three main types of business entities are:

- a. Trust, sole proprietorship and not-for-profit.
- \*b. Company, partnership and sole proprietorship.
- c. Sole proprietorship, company and trust.
- d. Not-for-profit, partnership and company.

General Feedback:

Learning Objective 2.1: identify the common types of business entities.

3. Which of the following statements is correct?

- a. The owner of a sole proprietorship is not legally liable for its debts.
- b. A partnership is a separate legal entity
- c. Special legal requirements must be met when forming a partnership.
- \*d. A shareholder's liability to contribute to the debts of an insolvent company is limited.

General Feedback:

Learning Objective 2.1: identify the common types of business entities.

4. The concept of 'management by exception' is part of which management function?

- \*a. controlling
- b. directing.
- c. planning.
- d. organising.

General Feedback:

Learning Objective 2.2: discuss the functions carried out by managers.

5. Maintaining a satisfactory relationship between an entity's resource inputs and its outputs of products or services is referred to as:

- a. effectiveness.
- b. controlling.
- c. directing.
- \*d. efficiency.

General Feedback:

Learning Objective 2.2: discuss the functions carried out by managers.

6. On 31 May 2022 Creature Comforts Ltd purchases gas heaters from their supplier and agrees to pay for them within 45 days. Assuming the amount is still owing at 30 June 2022, the statement of financial position of Creature Comforts Ltd will report the amount owing as:

- a. accounts receivable.
- \*b. accounts payable.
- c. cash at bank.
- d. debtors.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

7. An entity's financial performance is represented by which financial statement?

- a. Statement of financial position.
- b. statement of cash flows.
- \*c. statement of financial performance.
- d. statement of changes in equity.

**General Feedback:**

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

8. A financial statement headed 'for the year ended 30 June 2022' would be:

- \*a. either the statement of financial performance or the statement of changes in equity.
- b. the statement of financial performance.
- c. the statement of changes in equity.
- d. the statement of financial position.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

9. The statement of changes in equity serves as a connecting link between which other financial statements?

- \*a. statement of financial performance and statement of financial position.
- b. statement of financial performance and expenses statement.
- c. statement of financial position and statement of cash flows.
- d. statement of cash flows and statement of financial performance

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

10. A statement of financial position:

- a. reports the financial position of an entity.
- \*b. All of these options
- c. is reported as at a specific date.
- d. is in the format of Assets = Liabilities + Equity.

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

11. Oakey & Associates had the following assets and liabilities. The total for equity equals:

Cash at bank \$5 000  
Mortgage \$25 000  
Creditors \$9 000  
Inventory \$3 800  
Debtors \$12 200  
Office equipment \$8 600  
Loan from Dalby Ltd \$7 000  
Motor vehicles \$19 000

- a. \$ 1 200.
- b. \$ 39 600.
- \*c. \$7 600.
- d. \$25 600.

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

12. Which of the following statements concerning the statement of cash flows is *not* correct?

- a. It classifies cash flows into operating, investing and financing activities.

- b. It reports on the entity's cash flow performance over a period of time.
- \*c. It reports on the entity's cash flow position at a specific point in time.
- d. When compared with the statement of financial performance, the statement of cash flows shows how well the entity's profits are represented by cash inflows from operating activities.

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

13. The assets of Mitchell's business increased by \$60 000 and the liabilities increased by \$20 000 during the current year. If the profit for this period was \$48 000, what additional contribution or withdrawal was made by the owner? (Assume only a withdrawal or a contribution was made.)

- \*a. Drawings \$8 000
- b. Contribution \$8 000
- c. Contribution \$12 000
- d. Drawings \$12 000

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

14. The following balances were taken from the accounts of Ceduna Enterprises.

	30 June 2021	30 June 2022
Assets	\$550 000	\$720 000
Liabilities	320 000	380 000

Assuming there were no drawings or contributions of capital, profit for 2022 must have been:

- a. \$170 000.
- \*b. \$110 000
- c. \$ 60 000.
- d. \$340 000.

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: Net assets at end less net assets at start less capital contribution plus drawings.

15. Omega Company reports the following statement of financial position information for 2022.

	1 January 2022	31 December 2022
Assets	\$80 000	\$90 000
Liabilities	\$32 000	\$38 000

Assuming the capital contributed by the owner during the year was \$10 000 and owner withdrawals totalled \$15 000, profit for 2022 must have been:

- a. \$4 000.
- b. \$21 000.
- \*c. \$9 000.
- d. None of the above, Omega Company did not make a profit in 2022.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: Net assets at end less net assets at start less capital contribution plus drawings.

16. Which of the following statements is correct with regards to the statement of cash flows?

- a. Investing activities include the cash received from customers.
- b. Financing activities include net cash from the sale and purchase of the entity's assets.
- c. Investing activities include investments made by the owners of the entity.
- \*d. Financing activities include amounts borrowed from financial institutions.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

17. A business transaction creating an outflow of net assets resulting from the purchase of supplies is a(n):

- \*a. expense transaction.
- b. cash disbursement.
- c. equity transaction.
- d. income transaction.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

18. Which of the following statements is *not* correct?

- a. Assets are resources controlled by the entity.
- b. Expenses represent decreases in economic benefits.
- \*c. Income decreases equity
- d. Equity represents the owners' claims on the assets after deducting all liabilities.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

19. On 2 May 2022, Happy Corp sells goods to Misery and requests payment be made within 30 days. On the statement of financial position for Happy Corp at 2 May 2022 the amount owing from Misery would be reported as:

- a. an expense.
- b. an overdue customer account.
- \*c. accounts receivable.
- d. accounts payable.

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

20. Which of the following statements about the narrative form of a statement of financial position is *true*?

- a. It resembles a T-shaped ledger account.
- b. It shows the accounting equation as  $\text{Assets} = \text{Liabilities} + \text{Equity}$ .
- c. In Australia, the narrative form of the statement is less common than the account form.
- \*d. All elements of the statement of financial position are listed in one column.

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: The account form of the statement of financial position does not list all elements in one column.

21. Jensen Paints had the following transactions during October. Which transaction represents an expense?

- a. Paid \$500 in settlement of a loan obtained six months earlier.
- \*b. Purchased stationery for \$120 cash.
- c. Received \$200 cash for services provided to a client.
- d. Purchased office furniture for \$1800 on account.

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

22. If total sales is \$90 000, office expenses is \$30 000 and rent expense is \$15 000, profit or loss is which of the following?

- a. \$75 000 profit.
- b. \$75 000 loss.
- c. \$45 000 loss.
- \*d. \$45 000 profit.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: Profit equals \$45 000 = (\$90 000 - \$30 000 - \$15 000).

23. If an entity has liabilities of \$170 000 and equity of \$300 000 its assets are:

- a. \$130 000.
- \*b. \$470 000.
- c. \$370 000.
- d. \$230 000.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: Assets equals liabilities plus equity. ( $\$170\,000 + \$300\,000$ ) = \$470 000.

24. \_\_\_\_\_ is/are obligations of an entity arising from past events, the settlement of which is expected to result in an outflow of economic benefits.

- \*a. Liabilities
- b. Equity
- c. Income
- d. Assets

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

25. Which of these is not a liability?

- \*a. Rent paid
- b. Wages payable
- c. Accounts payable
- d. Bank overdraft

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: Rent paid is not a liability, it is an expense.

26. Which of these is *not* recognised as income?

- a. Sale of goods
- b. Interest received.
- c. Provision of services.
- \*d. Capital contributed by the owner .



General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: Additional capital contributed by the owner is equity.

27. An entity's \_\_\_\_\_ is represented by its control over economic resources, financial structure, capacity for adaptation and solvency.

- a. accounting equation
- b. financial performance
- c. equity
- \*d. financial position

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: Financial position is an entity's control over economic resources, financial structure, capacity for adaptation and solvency.

28. Governments and not-for-profit entities will prepare a(an) statement to report their financial performance for a specific period of time.

- a. financial
- b. balance
- c. equity
- \*d. operating

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

29. If the loss for the period is \$38 000 and total expenses are \$110 000, total income for the period is:

- a. \$148 000.
- b. \$138 000.
- \*c. \$ 72 000
- d. \$ 62 000.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback:  $(\$38\ 000) = \text{Income} - \$110\ 000$ . Therefore, income is \$72 000.

30. Which of these is *not* an alternative term for equity?

- a. Capital
- b. Owners' equity
- \*c. Overdraft
- d. Accumulated funds

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

31. From the point of view of a business entity, a person or business from which a debt is owing is known as a:

- a. creditor.
- b. bank.
- c. debtor.
- \*d. debtor.

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

32. Which of the following statements is *not* true?

- a. A withdrawal of cash for private use by the owner is shown as a reduction of equity in the statement of financial position.
- \*b. Equity can be thought of as the owner's claim to the income of the entity after deducting all liabilities.
- c. Income can be measured not only by cash, but by receipt of other assets.
- d. The profit of an entity is calculated as income less expenses.

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

33. The statement of financial performance reports the financial:

- \*a. performance of an entity over a specified period of time
- b. performance of an entity at a specific period of time.
- c. position of an entity at a specific period of time.
- d. position of an entity over a specified period of time.

*General Feedback:*

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

34. Which of these does not fit the accounting definition of an asset?

- a. Accounts receivable
- b. Goodwill
- c. Land
- \*d. Employee skills and experience

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: Employee skills and experience do not fit the accounting definition of an asset as they are not controlled by the firm and have not arisen as a result of a past transaction

35. The statement that measures an entity's financial position is the:

- a. Statement of changes in equity.
- \*b. Statement of financial position..
- c. Statement of cash flows.
- d. Statement of financial performance.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

36. Jacob's opening capital at 1 July 2021 was \$75 000, his profit for the year was \$22 000 and his drawings were \$8 000. What is the final balance of his capital at the end of the year?

- a. \$105 000
- b. \$53 000
- \*c. \$89 000
- d. \$45 000

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: The final capital balance is \$89 000 = (\$75 000 + \$22 000 - \$8 000).

37. A statement of financial position would normally balance at:

- a. total assets and total equity.
- b. total liabilities and total equity.
- c. the bank balance.
- \*d. net assets and total equity.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: A statement of financial position would normally be shown balancing at either net assets (assets less liabilities) = total equity OR total assets = total liabilities plus total equity

38. In order to assess an entity's cash performance, it is common to classify its activities into operating, investing and financing. For a local soccer club, which of the following would be an operating activity?

- a. Purchasing a new coffee machine for the clubhouse.
- b. Purchasing new soccer goals for all fields and age groups.
- c. Repaying a loan for the clubhouse.
- \*d. Receipt of membership fees from players.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: Receiving membership fees from members is an operating activity.

39. A statement of financial performance can also be referred to as a(an):

- a. Operating statement
- b. Income Statement
- c. Profit and loss statement
- \*d. All of these options

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes.

40. In order to assess an entity's cash performance, it is common to classify its activities into operating, investing and financing. For a small medical practice which of the following would be a financing activity?

- \*a. Borrowing \$20 000 from a financial institution
- b. Billing a patient for a consultation..
- c. Adding an extension to allow for 2 additional consultation rooms.
- d. Paying for medical supplies.

General Feedback:

Learning objective 2.3: outline the basic financial statements used in business to report to users for decision-making purposes. Feedback: Borrowing \$20 000 from a financial institution is a financing activity as it is associated with providing funds to carry out the entities operating and investing activities.

41. When management plans the sale or liquidation of an entity, the going concern assumption is set aside and the financial statements are prepared on the:

- \*a. basis of estimated sales or liquidation values
- b. cash basis
- c. basis of estimated expenses
- d. accrual basis

*General Feedback:*

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

42. The basis upon which the personal assets of the owner are excluded from the business's statement of financial position is referred to as which assumption?

- a. Materiality
- b. Going concern
- c. Accrual basis
- \*d. Accounting entity

*General Feedback:*

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

43. The assumption which assumes that the entity is able to pay its debts when they fall due for the near future is the:

- a. accrual basis.
- b. reliability.
- c. accounting entity.
- \*d. going concern.

*General Feedback:*

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

44. Bright Electronics divides their economic activities into time-frames of three months and prepares their financial statements for interested parties at the end of each time-frame. The accounting assumption being applied by Bright Electronics is:

- a. Accounting entity
- \*b. Accounting period
- c. Reliability
- d. Going concern

*General Feedback:*

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

45. The two fundamental qualitative characteristics of accounting information are:

- a. relevance and reliability.
- \*b. relevance and faithful representation.
- c. reliability and consistency.
- d. faithful representation and comparability.

*General Feedback:*

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

46. Which assumption requires transactions to be recognised in the accounting reports when they occur and not when the cash is received or paid?

- \*a. accrual basis.
- b. accounting period.
- c. faithful representation.
- d. accounting entity

*General Feedback:*

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

47. The four enhancing qualitative characteristics of accounting information are:

- a. reliability, comparability, materiality, and timeliness.
- b. materiality, comparability, economic substance and verifiability.
- \*c. comparability, verifiability, timeliness and understandability.
- d. consistency, timeliness, relevance and understandability.

*General Feedback:*

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

48. Which of the following statements concerning the costs and benefits of financial reporting information is correct?

- a. The benefits result in more efficient markets and greater benefits for the economy as a whole.
- \*b. All of these options are correct.
- c. The major constraint on reporting the absolute best information is the cost of generating that information and assuring that it is faithfully represented.

d. The benefits include better investment, credit and similar economic decisions.

General Feedback:

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

49. The assurance that the accounting information presented to users is complete, without bias or undue error, and neutral is known as:

- \*a. faithful representation.
- b. relevance.
- c. consistency.
- d. verifiability

General Feedback:

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

50. Which accounting concept relates to the extent to which information can be omitted, misstated or grouped with other information without misleading the users of that information in their decision-making?

- a. Verifiability
- b. Economic substance
- c. Relevance
- \*d. Materiality

General Feedback:

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

51. \_\_\_\_\_ is enhanced when information is classified, characterised, and presented clearly and concisely.

- a. Reliability
- b. Consistency
- \*c. Understandability
- d. Verifiability

General Feedback:

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

52. Which qualitative characteristic improves the usefulness of financial reporting information by enabling the users to identify similarities in and differences between two sets of economic data?

- a. economic substance.
- b. timeliness.
- \*c. comparability.
- d. relevance.

General Feedback:

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

53. Information that is \_\_\_\_\_ has a predictive role and a confirmatory or feedback role.

- \*a. relevant
- b. material
- c. reliable
- d. subjective

General Feedback:

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

54. Which accounting assumption requires an accountant to be able to clearly identify the transactions to be recorded, classified and summarised into an entity's financial statements?

- \*a. accounting entity assumption.
- b. accrual basis assumption.
- c. going concern assumption.
- d. accounting equation assumption.

*General Feedback:*

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements. Feedback: The entity assumption gives rise to the equity element in the accounting equation as it assumes that the organisation is separate from its owner and therefore owes funds back to its owner.

55. On 1 September 2022 Streak-Free Window Cleaning pays \$1800 in cash for supplies purchased on 22 July 2022. Assuming the business prepares monthly financial reports using the accrual basis, what effect does this payment have on the accounting equation?

- a. Decrease in cash at bank \$1800; increase in equity \$1800.
- b. Decrease in cash at bank \$1800; increase in liability accounts payable \$1800.
- c. Decrease in cash at bank \$1800; decrease in equity \$1800.
- \*d. Decrease in cash at bank \$1800; decrease in liability accounts payable \$1800.

General Feedback:



Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements. Feedback: The effect on the accounting equation is a decrease in cash at bank of \$1800 and a decrease in liability accounts payable of \$1800 (there was an increase in accounts payable and a recognition of expense (decrease in equity) back in July 2022 when the supplies were purchased).

56. Which of the following is the most important consideration in ensuring that information is relevant for decision making?

- a. Materiality
- b. Accrual basis
- \*c. Timeliness
- d. A high degree of accuracy

General Feedback:

Learning objective 2.4: explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

Feedback: Timeliness is the most important of the considerations listed in ensuring that information is relevant for consideration. Users may be satisfied with less than perfect information if it is provided in a timely manner.

57. On 14 February Mark pays \$850 wages in cash to his receptionist for work performed during the first half of the month. The effect of this transaction on the accounting equation is:

- \*a. Decrease in cash at bank \$850; decrease in equity \$850.
- b. Decrease in cash at bank \$850; increase in liability accounts payable \$850.
- c. Decrease in cash at bank \$850; increase in equity \$850.
- d. Decrease in cash at bank \$850; decrease in liability accounts payable \$850.

General Feedback:

Learning objective 2.5: analyse the effects of business transactions on the accounting equation and on financial statements

58. Helen decides to open her own ice-cream store and deposits \$25 000 into her new business bank account on 1 October. The effect of this transaction on the accounting equation is:

- a. Assets decrease by \$25 000; Equity decreases by \$25 000.
- b. Assets increase by \$25 000; Equity decreases by \$25 000.
- \*c. Assets increase by \$25 000; Equity increases by \$25 000.
- d. Assets increase by \$25 000; Liabilities increase by \$25 000.

General Feedback:

Learning objective 2.5: analyse the effects of business transactions on the accounting equation and on financial statements

59. Henry is an accountant operating as a sole proprietor. On 10 April he performs work for a client to the value of \$400 on credit. The effect of this transaction on the accounting equation is:

- a. Cash at bank increases by \$400; Accounts payable decreases by \$400.
- \*b. Accounts receivable increases by \$400; Equity increases by \$400.
- c. Cash at bank increases by \$400; Equity decreases by \$400.
- d. Equity increases by \$400; Accounts payable increases by \$400.

General Feedback:

Learning objective 2.5: analyse the effects of business transactions on the accounting equation and on financial statements

60. Lindy Jones withdrew \$500 from her business bank account for personal use. The effect of this transaction on the accounting equation is:

- a. Assets decrease by \$500; Assets increase by \$500.
- b. Assets decrease by \$500; Equity increases by \$500.
- \*c. Assets decrease by \$500; Equity decreases by \$500.
- d. Assets decrease by \$500; Liabilities decrease by \$500.

General Feedback:

Learning objective 2.5: analyse the effects of business transactions on the accounting equation and on financial statements

61. Which of the following is *not* a possible effect on the accounting equation from a single transaction of \$1000?

- a. Liabilities increase by \$1000; Liabilities decrease by \$1000
- \*b. Liabilities decrease by \$1000; Equity decreases by \$1000.
- c. Assets increase by \$1000; Equity increases by \$1000.
- d. Assets decrease by \$1000; Liabilities decrease by \$1000.

General Feedback:

Learning objective 2.5: analyse the effects of business transactions on the accounting equation and on financial statements

62. Kate's Mechanics purchased a delivery van for \$8000 cash. The effect of this transaction on the accounting equation is:

- \*a. Asset Cash at bank decreases by of \$8000; Asset Vehicles increases by \$8000.
- b. Asset Cash at bank decreases by \$8000; Equity decreases (via Motor Vehicles Expenses) by \$8000.
- c. Asset Cash at bank decreases by \$8000; Equity increases (via Motor Vehicles Expenses) by \$8000.
- d. Asset Cash at bank increases by \$8000; Asset Vehicles decreases by \$8000.

General Feedback:

Learning objective 2.5: analyse the effects of business transactions on the accounting equation and on financial statements

63. On 28 February Harold's Speedy Dry Cleaning received \$100 for dry cleaning services provided on the same day. The effect on the accounting equation is:

- a. Assets increase by \$100; Liabilities decrease by \$100.
- b. Assets increase by \$100; Assets decrease by \$100.
- \*c. Assets increase by \$100; Equity increases by \$100.
- d. Assets decrease by \$100; Equity decreases by \$100.

General Feedback:

Learning objective 2.5: analyse the effects of business transactions on the accounting equation and on financial statements

64. Karl's Kebabs borrowed \$5000 from the bank for kitchen renovations. The effect of this transaction on the accounting equation is:

- a. Decrease assets \$5000; decrease equity \$5000.
- \*b. Increase assets \$5000; increase liabilities \$5000.
- c. Decrease liabilities \$5000; decrease assets \$5000.
- d. Increase assets \$5000; decrease assets \$5000.

General Feedback:

Learning objective 2.5: analyse the effects of business transactions on the accounting equation and on financial statements

65. In January Mark purchases new furniture worth \$1750 for his consulting office. The furniture is purchased on credit. The effect of this transaction on the accounting equation is?

- a. Increase in the asset furniture \$1750; decrease in the asset accounts receivable \$1750.
- b. Increase in the asset furniture \$1750; increase in the asset accounts receivable \$1750.
- \*c. Increase in the asset furniture \$1750; increase in the liability accounts payable \$1750.
- d. Increase in the asset furniture \$1750; increase in equity \$1750.

*General Feedback:*

Learning objective 2.5: analyse the effects of business transactions on the accounting equation and on financial statements

66. Jane is a painting contractor operating as a sole proprietor. On 15 May she completes a job for a client who pays her \$1500 in cash. The effect of this transaction on the accounting equation is?

- \*a. Cash at bank increases by \$1500; Equity increases by \$1500.
- b. Cash at bank increases by \$1500; Accounts payable increases by \$1500.

- c. Cash at bank increases by \$1500; Accounts payable decreases by \$1500.
- d. Cash at bank increases by \$1500; Accounts receivable decreases by \$1500.

**General Feedback:**

Learning objective 2.5: analyse the effects of business transactions on the accounting equation and on financial statements

67. Genny is a small business owner. On 20 January she completes some work for a client on credit and sends the client an invoice for \$250. On 10 February the client pays the account and Genny deposits the \$250 into the business bank account. Assuming Genny prepares her financial statements each month, the receipt of cash on 10 February effects the accounting equation for Genny's business in the following way:

- a. Cash at bank increases by \$250; Equity decreases by \$250.
- b. Cash at bank increases by \$250; Equity increases by \$250.
- c. Cash at bank increases by \$250; Accounts receivable increases by \$250.
- \*d. Cash at bank increases by \$250; Accounts receivable decreases by \$250.

**General Feedback:**

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