

Financial Accounting, 2nd Cdn. Ed. (Waybright)
Chapter 1 Business, Accounting, and You

1.1 Describe the major types of business organizations

1) Many law and accounting firms are set up as partnerships.

Answer: TRUE

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Concept

Blooms: Comprehension

2) Sears is an example of a sole proprietor.

Answer: FALSE

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

3) Walmart is an example of a corporate merchandising business.

Answer: TRUE

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Concept

Blooms: Comprehension

4) Which of the following types of organization would probably sell goods?

A) Merchandising operation

B) Service operation

C) Not-for-profit operation

D) Manufacturing operation

E) Business operation

Answer: A

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

5) Which of the following do NOT pay taxes through their individual owners?

- A) Single ownership
- B) Sole proprietorship
- C) Partnership
- D) Corporation
- E) Private ownership

Answer: D

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

6) By definition, which type of organization has shareholders?

- A) Partnerships
- B) Sole proprietorships
- C) Corporations
- D) Limited liability companies
- E) Private enterprise

Answer: C

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

7) Which of the following types of organizations would produce goods?

- A) Merchandising operation
- B) Service operation
- C) Not-for-profit operation
- D) Manufacturing operation
- E) Government operation

Answer: D

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

8) Target would primarily be considered a:

- A) manufacturing business.
- B) merchandising business.
- C) service business.
- D) not-for-profit business.
- E) private enterprise.

Answer: B

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

9) Which type of company is best described as a separate legal entity?

- A) Limited liability company
- B) Proprietorship
- C) Corporation
- D) Partnership
- E) Not-for-profit

Answer: C

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

10) Given the information below, place an (SP) if the statement describes a sole proprietorship, a (P) if the statement describes a partnership, and a (C) if the statement describes a corporation.

A	Is a separate legal entity.
B	Is flexible regarding the division of the business income.
C	Medical, accounting, and law firms are primarily this type of business.
D	Generally has one owner.
E	The owner has personal responsibility.

Answer:

- A. C
- B. P
- C. P
- D. SP
- E. SP

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

11) Which type of business organization is owned by its shareholders?

- A) Corporation
- B) Partnership
- C) Limited liability company
- D) Sole proprietorship
- E) Not-for-profit company

Answer: A

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

12) What is the most difficult type of business to form?

Answer: Corporation

Diff: 2

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

13) Common examples of business organizations include sole proprietorship, partnership, and corporation.

Instructions: For each business listed below, indicate the type of business organization.

Business	Type of Business Organization
Mr. Grossman, electrician	
Loblaws Supermarket	
Home Depot	
Smith, Smith, and Smith Lawyers	
Sears Department Stores	
R. Patel, Plumber for Hire	
Tan, Zhou, and Yin, Accountants	
The Bay Department Stores	

Answer:

Business	Type of Business Organization
Dr. Grossman, dentist	Sole proprietorship
Loblaws Supermarket	Corporation
Home Depot	Corporation
Smith, Smith, and Smith Lawyers	Partnership
Sears Department Stores	Corporation
R. Patel, Plumber for Hire	Sole proprietorship
Tan, Zhou, and Yin, Accountants	Partnership
The Bay Department Stores	Corporation

Diff: 2

LO: 1-1 Describe the major types of business organizations

Skill: Concept

Blooms: Comprehension

14) A partnership should have at least one general partner and may have one or more limited partners.

Answer: TRUE

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

15) A limited partner has the right to manage and has limited liability.

Answer: FALSE

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

16) A general partner does not have the right to manage and has unlimited liability.

Answer: FALSE

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Recall

Blooms: Knowledge

17) Gus Davidson has a small business in the packet delivery industry. Gus owns a truck that he uses for personal purposes and business purposes. He charges all the costs associated with the truck to the business. Which GAAP principle is being violated? Why?

Answer: The business entity concept is being violated because Gus is not keeping his personal affairs separate from his business affairs. The truck in question should either be used for business purposes or personal purposes, but not both. This principle is important because it ensures that assets, liabilities, and equities are reported in a faithfully representative way.

Diff: 1

LO: 1-1 Describe the major types of business organizations

Skill: Application

Blooms: Knowledge

1.2 Identify the needs of the different users of accounting information

1) Banks are considered internal users of financial statements.

Answer: FALSE

Diff: 1

LO: 1-2 Identify the needs of the different users of accounting information

Skill: Recall

Blooms: Knowledge

2) Investors are considered external users of financial statements.

Answer: TRUE

Diff: 1

LO: 1-2 Identify the needs of the different users of accounting information

Skill: Recall

Blooms: Knowledge

3) Shareholders are considered internal users of financial statements.

Answer: FALSE

Diff: 1

LO: 1-2 Identify the needs of the different users of accounting information

Skill: Recall

Blooms: Knowledge

4) Managers are considered internal users of financial statements.

Answer: TRUE

Diff: 1

LO: 1-2 Identify the needs of the different users of accounting information

Skill: Recall

Blooms: Knowledge

5) Which branch of accounting provides accounting information for internal users to help make business decisions?

A) Managerial accounting

B) Financial accounting

C) IFRS

D) ASPE

E) Taxation

Answer: A

Diff: 1

LO: 1-2 Identify the needs of the different users of accounting information

Skill: Recall

Blooms: Knowledge

6) Which one of these users is not considered an external user?

A) Board of directors

B) Banks

C) Investors

D) Shareholders

E) All of above are external users

Answer: A

Diff: 1

LO: 1-2 Identify the needs of the different users of accounting information

Skill: Recall

Blooms: Knowledge

7) Which one of these users is not considered an internal user?

- A) Shareholders
- B) Employees
- C) Managers
- D) Board of Directors
- E) All of above are internal users

Answer: A

Diff: 1

LO: 1-2 Identify the needs of the different users of accounting information

Skill: Recall

Blooms: Knowledge

8) This branch of accounting focuses on serving the needs of external users who need to make sound economic decisions.

- A) Managerial accounting
- B) Financial accounting
- C) IFRS
- D) ASPE
- E) Taxation

Answer: B

Diff: 1

LO: 1-2 Identify the needs of the different users of accounting information

Skill: Recall

Blooms: Knowledge

9) Who are the internal users of financial statements? What are their specific needs with respect to financial information?

Answer: One group of internal users are boards of directors who will be looking at financial statement information to assess the company's overall profitability, costs, and aggregate figures to assist them in making strategic decisions. A second group are sales managers who will be interested in knowing the breakdown of sales figures per product or region. A third group of internal users are production managers who will be interested in information about the costs of production.

Diff: 1

LO: 1-2 Identify the needs of the different users of accounting information

Skill: Application

Blooms: Knowledge

10) Who are the external users of financial statements? What are their specific needs with respect to financial information?

Answer: The first group of external users are investors who are looking for information about the profitability and risk of the business so that they can compare different investment opportunities. The second group are shareholders who are concerned mainly with profitability and profit distributions. The third group are banks who are looking for information to help in assessing the ability of the business to repay loans and interest. Regulatory bodies such as the CRA are concerned with the net income of the business upon which taxes are calculated.

Diff: 1

LO: 1-2 Identify the needs of the different users of accounting information

Skill: Application

Blooms: Knowledge

1.3 Identify career opportunities in accounting and related fields

1) By taking accounting classes, the student is learning the "language of business."

Answer: TRUE

Diff: 1

LO: 1-3 Identify career opportunities in accounting and related fields

Skill: Recall

Blooms: Knowledge

2) To manage a business effectively, an owner or manager would benefit greatly from having some knowledge of accounting.

Answer: TRUE

Diff: 1

LO: 1-3 Identify career opportunities in accounting and related fields

Skill: Recall

Blooms: Knowledge

3) Which of the following is NOT a reason to study accounting?

A) A student will become aware of ethics in business.

B) A student will learn the language of business.

C) A student will improve his or her math skills.

D) A student will learn to analyze financial information.

E) A student will prepare financial statements that are in accordance with GAAP.

Answer: C

Diff: 1

LO: 1-3 Identify career opportunities in accounting and related fields

Skill: Recall

Blooms: Knowledge

4) The CMA, CGA, and CA accounting bodies are looking to merge into one accounting body called CPA Canada.

Answer: TRUE

Diff: 1

LO: 1-3 Identify career opportunities in accounting and related fields

Skill: Recall

Blooms: Knowledge

5) In the accounting profession there are several areas of expertise. Name the four main areas of expertise.

Answer: Financial accounting

Managerial accounting

Taxation

Banking and financial services

Diff: 2

LO: 1-3 Identify career opportunities in accounting and related fields

Skill: Concept

Blooms: Comprehension

6) The accounting profession has several related fields. Identify and discuss the responsibilities of each field.

Answer: Financial accounting: This area includes financial reporting, analysis, policies, auditing, and forensic accounting. Financial accounting serves the needs of both external and internal customers. External customers are traditionally the focus.

Managerial accounting: This area includes cost accounting, budgeting, planning, control, and performance evaluation. Management accounting focuses on making business decisions primarily for internal use.

Taxation: This area includes tax planning, preparation, and investigation. Taxation serves both individuals and companies.

Banking and financial services: This area includes financial analysis, planning, investments, risk analysis, and credit management. This branch serves both individuals and companies. This field mainly focuses on investment and credit.

Diff: 2

LO: 1-3 Identify career opportunities in accounting and related fields

Skill: Concept

Blooms: Comprehension

1.4 Explain the key accounting principles and the conceptual framework

1) Accounting is important because the process "keeps score" of the financial aspects of a business.

Answer: TRUE

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

2) The definition of the economic entity concept includes the requirement that personal assets must be combined with business assets.

Answer: FALSE

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

3) Financial statements are historical reports of what has taken place financially in a business.

Answer: TRUE

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

4) International Financial Reporting Standards (IFRS) are used in every country in the world.

Answer: FALSE

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

5) Financial statements can help the managers of a business make decisions regarding the business.

Answer: TRUE

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

6) Market value and historical cost (value) are the same concept.

Answer: FALSE

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

7) Accountants need to exercise professional judgment.

Answer: TRUE

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

8) The main role of accounting is to compile reports to determine the profit made by a company over a period of time.

Answer: FALSE

Diff: 2

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

9) The goal of IFRS is to create a global set of accounting standards.

Answer: TRUE

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

10) IFRS and ASPE are interchangeable.

Answer: FALSE

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

11) To ensure that the guidelines for right behaviour are followed, a corporation should follow:

A) ethical principles.

B) accounting law.

C) the corporate culture.

D) the leaders in their category of business.

E) the Enron rules.

Answer: A

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

12) Accounting principles include:

- A) historical cost/fair value, revenue and expense recognition, and going concern.
- B) historical cost/fair value, revenue and expense recognition, and time period assumption.
- C) historical cost/fair value, revenue and expense recognition, and full disclosure.
- D) historical cost/fair value, economic entity, and full disclosure.
- E) historical cost/fair value, economic entity, and revenue and expense recognition.

Answer: C

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

13) The main goal of understanding the process of accounting is to help ensure that the business is:

- A) profitable.
- B) ethical.
- C) competitive.
- D) admired by the customer.
- E) environmentally friendly.

Answer: A

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

14) A Canadian publicly traded enterprise uses which reporting standard?

- A) Accounting Standards for Private Enterprises
- B) International Financial Reporting Standards
- C) Accounting Standards for Not-for-Profit Organizations
- D) Accounting Standards for Pension Plans
- E) Accounting Standards for Canadian Accounting

Answer: B

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

15) Accounting standards for private enterprises (ASPE) continues to use:

- A) present value.
- B) current cost.
- C) realizable value.
- D) historical cost approach.
- E) net present value.

Answer: D

Diff: 2

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

16) Mathew owns an art supplies store. In the initial accounting records, he included his personal computer and all of his personal art supplies. What principle of accounting is Mathew violating?

- A) Going concern
- B) Cost
- C) Reliability
- D) Economic entity
- E) Materiality

Answer: D

Diff: 2

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Application

Blooms: Application

17) During the life of a business entity, financial statements are prepared at specific points in time. This is according to what assumption?

Answer: Time period assumption

Diff: 2

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

18) Marcus is negotiating with friends who may buy some camping equipment in the near future. He records this information as possible sales. What principle is Marcus violating?

Answer: Revenue recognition

Diff: 2

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Application

Blooms: Knowledge

19) What is the purpose of financial accounting information?

Answer: To help investors, creditors, and others to make decisions

Diff: 2

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

20) When a person combines personal and business accounts, what concept or principle of accounting is being violated?

Answer: Economic entity

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

21) Which accounting concept or principle states that information should be free of biases and neutral?

Answer: Reliability

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

22) International Financial Reporting Standards (IFRS) became effective in Canada on what date?

Answer: January 1, 2011

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

23) Accountants are required to use _____ judgment in many situations.

Answer: professional

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

24) Identify and explain the four underlying assumptions of the conceptual framework.

Answer: Monetary unit assumption

It is assumed that the purchasing power of the dollar is stable. This means that dollars of different time periods are considered to have the same value.

Economic entity assumption

This assumption implies that the affairs of the organization are economically separate from the owners.

Going-concern principle

Financial statements are prepared based on the assumption that the business entity is a going concern and will continue in operation for the foreseeable future.

Time period assumption

To be able to assess a business's performance in a timely manner, it is assumed that the operation of a business is divided into a series of time periods.

Diff: 1

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

25) Under IFRS, financial statements are prepared on a modified cost basis with an emphasis on fair value, which is more useful and relevant for users' decision-making purposes. Businesses may choose one of four recording methods that best reflects their economic activities and reality.

List the four approaches.

Answer: Historical cost, current cost, realizable value, and present value approaches

Diff: 2

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

26) The conceptual framework includes two constraints. Identify the constraints.

Answer: Cost-benefit

Materiality

Diff: 2

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Recall

Blooms: Knowledge

27) The conceptual framework includes two constraints. Identify and explain the two constraints.

Answer: Cost-benefit: The benefit of including the information should outweigh the cost of including it.

Materiality: Information is considered material if excluding it would influence the judgment of the financial statement user.

Diff: 3

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

28) Identify the accounting assumption that has been violated for each of the following situations.

a. Jeremy is preparing the financial statements for the High Tech Cleaning Company for 2013. The owners have decided to retire and close the business in early 2014. The financial statements have been prepared using historical costs.

b. Mikhail has a small tattoo business. All his cash receipts are deposited into his personal bank account. He pays his bills from either his business bank account or his personal, depending on which bank account has more money.

c. Fred's Forestry business sells fir trees in both Canada and the United States. Depending on the transaction, Fred records some transactions as Canadian and others as U.S. His financial statements have a mixture of Canadian and U.S. dollars.

Answer:

a. Going concern

b. Economic entity

c. Monetary unit

Diff: 3

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

29) Toys Plus prepares interim financial statements for investors quarterly. At the end of the fourth quarter of 2014, a hurricane destroyed the entire inventory in the warehouse. Toys Plus uses a periodic inventory system and is unable to do a physical inventory count. The controller decides to delay the release of the interim financial statements for 3 months to ensure a proper value is assigned to cost of goods sold.

- a) Which underlying assumption is most affected by the controller's decision?
- b) Which qualitative characteristics are being traded off in this scenario? Explain your answer.

Answer:

- a) The time period principle is affected because the financial statements are not being prepared in a timely manner.
- b) Relevance is being traded off for reliability. In order to ensure that the cost of goods sold amount is free from error and bias, the statements will not be released in a timely manner.

Diff: 3

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

30) In order to calculate depreciation expense for the year, a residual value and estimated useful life has to be estimated.

- a) Which qualitative characteristics are being traded off in this scenario? Explain your answer.
- b) Which accounting principle does this practice of estimating depreciation support?

Answer:

- a) Reliability is traded off for relevance. If estimations are involved then there is a threat to reliability. However, this estimate is required because investors need depreciation numbers in order to make informed decisions.
- b) Revenue and expense recognition is the principle that allows for estimating depreciation expense. This is because depreciation expense has to be matched with the revenue it helped generate.

Diff: 3

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Concept

Blooms: Comprehension

1.5 Analyze transactions using the basic accounting equation

1) The fundamental accounting equation is Assets plus Liabilities equals Shareholders' Equity.

Answer: FALSE

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

2) Liabilities are those obligations that are owed to third parties.

Answer: TRUE

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

3) A transaction is a business event that does NOT have an impact on the finances of a company.

Answer: FALSE

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

4) Shareholders' equity includes Retained earnings and Share capital.

Answer: TRUE

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

5) Which of the following is considered an asset?

A) Accounts payable

B) Sales

C) Accounts receivable

D) Common shares

E) Notes payable

Answer: C

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

6) Revenues, expenses, and dividends are all a part of the calculation of:

- A) assets.
- B) retained earnings.
- C) liabilities.
- D) common shares.
- E) cash.

Answer: B

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

7) Which of the following is a FALSE statement?

- A) Revenues provide inward flows of assets.
- B) Revenue is categorized as an asset.
- C) Revenue is categorized as part of retained earnings.
- D) Revenues are generated from the sale of goods and services.
- E) Revenue is an increase in retained earnings.

Answer: B

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

8) Which of the following is a written promise to pay?

- A) Accounts receivable
- B) Accounts payable
- C) Notes payable
- D) Dividends payable
- E) Notes receivable

Answer: C

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

9) Liabilities represent:

- A) items owned by the company.
- B) future economic benefits of the company.
- C) earnings kept in the business.
- D) monies owed to third parties.
- E) monies owed to shareholders.

Answer: D

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

10) Revenues would have which of the following effects on the accounting equation?

- A) Decrease shareholders' equity
- B) Increase common shares
- C) Increase liabilities
- D) Increase shareholders' equity
- E) Decrease assets

Answer: D

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

11) Cash and accounts receivable are both a part of:

- A) assets.
- B) retained earnings.
- C) liabilities.
- D) common shares.
- E) preferred shares.

Answer: A

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

12) Brandon borrowed money for his business from a local bank. What accounts will be affected?

- A) Cash and accounts payable
- B) Cash and notes payable
- C) Accounts payable and revenue
- D) Accounts receivable and revenue
- E) Cash and accounts receivable

Answer: B

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

13) If total assets remain the same and total shareholders' equity increases, liabilities will:

- A) increase by the same amount.
- B) decrease by the same amount.
- C) remain the same.
- D) increase by a different amount.
- E) decrease by a different amount.

Answer: B

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

14) Which of the following is a true statement?

- A) Purchasing office equipment for cash is a shift of assets.
- B) Buying something on account decreases total liabilities.
- C) Retained earnings do not include payments of dividends.
- D) Paying off an account increases the total of assets.
- E) Selling something on account increases total liabilities.

Answer: A

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

15) Jenny opens her business by investing \$12,000. How does this affect the accounting equation?

- A) Increase in assets; increase in shareholders' equity.
- B) Increase in liabilities; increase in shareholders' equity.
- C) Decrease in assets; increase in shareholders' equity.
- D) Increase in assets; decrease in shareholders' equity.
- E) The accounting equation does not change.

Answer: A

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

16) A company purchases merchandise (inventory) for cash. What is the net result on the accounting equation?

Answer: Total assets will not change. Cash and merchandise are both assets.

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

17) Monies the company will pay at a later date are classified as _____.

Answer: payables

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

18) Cash, supplies, and equipment are all part of _____.

Answer: assets

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

19) Monies owed to a company by customers are classified as _____.

Answer: receivables

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

20) Items such as revenue, expenses, and dividends are classified in the accounting equation as _____.

Answer: shareholders' equity

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

21) ABC Company sold \$34,000 worth of merchandise for cash. Explain the effect on the expanded accounting equation.

A) Total assets and total liabilities will increase.

B) Total assets and total revenue will increase.

C) Total liabilities will increase and total revenue will decrease.

D) Total assets will decrease and total liabilities will increase.

Answer: B

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

22) The accounting equation is $\text{Assets} = \text{_____} + \text{_____}$

Answer: $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$

Diff: 1

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

23) A business purchases a computer for cash. What effect does this have on the accounting equation?

Answer: No change in total assets. Both cash and computer equipment are assets.

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

24) A company has \$123,000 in assets and \$65,000 in liabilities. Determine the amount of shareholders' equity.

Answer: \$58,000

Calculation: $\$123,000 - \$65,000 = \$58,000$

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

25) A business pays off a note payable. What effect does this have on the accounting equation?

Answer: Assets decrease, liabilities decrease, and shareholders' equity remains the same.

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

26) Casey invested \$5,000 into his business. How will this impact the accounting equation?

Answer: Increase assets and increase shareholders' equity.

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

27) Celia buys a new machine for her shop on credit. What effect does this have on the accounting equation?

Answer: Increase liabilities and increase assets.

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

28) How would the payment of cash dividends affect the accounting equation?

Answer: Decrease shareholders' equity and decrease assets.

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

29) How would the payment of expenses affect the accounting equation?

Answer: Decrease shareholders' equity and decrease assets.

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

30) Lauren purchased a computer on account for her business. How will this transaction affect the accounting equation?

Answer: Assets increase and liabilities increase.

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

31) Subway is famous for their sandwiches. At the end of 2013, Subway's total assets were \$345,000, and total liabilities were \$129,500. Calculate Subway's shareholders' equity.

Answer: \$215,500

Calculation: $\$345,000 - \$129,500 = \$215,500$

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

32) The income statement will impact the retained earning section of the statement of financial position.

a) Will a net loss increase or decrease retained earnings?

b) Will a net profit increase or decrease retained earnings?

Answer: a) Net loss will decrease retained earnings.

b) Net profit will increase retained earnings.

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

33) ABC purchased office supplies on account for \$50,000. How would this transaction affect ABC's accounting equation?

Answer: Increase assets by \$50,000 and increase liabilities by \$50,000.

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

34) Part 1.

A business sells \$1,000 of product on account. Identify the effect on the accounting equation.

Part 2

A business buys \$1,000 of product on account. Identify the effect on the accounting equation.

Answer: Part 1

Increase assets (accounts receivable) and increase shareholders' equity (revenue)

Part 2

Increase liabilities (accounts payable) and decrease shareholders' equity (expenses)

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

35) Given the following items, classify them as part of:

- a. Assets
- b. Liabilities
- c. Shareholders' equity

- 1. Salaries payable
- 2. Revenues
- 3. Accounts receivable
- 4. Common shares
- 5. Notes payable
- 6. Cash
- 7. Equipment
- 8. Merchandise

Answer:

1-b

2-c

3-a

4-c

5-b

6-a

7-a

8-a

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

36) Given the following accounts, calculate the income or loss for ABC Company.

Retained earnings	\$65,000
Assets	\$10,000
Revenue	\$29,500
Expenses	\$33,000
Dividends paid	\$3,500

Answer: ABC Company has a loss of \$3,500.

Calculation: Revenue \$29,500 - Expenses \$33,000 = Loss of \$3,500

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

37) Ling Li Jewellery has the following accounts. Identify the accounts found within the income statement.

Common Shares

Jewellery Supplies

Cash

Revenue

Salaries Expense

Accounts Payable

Marketing Expense

Accounts Receivable

Supplies Expense

Answer: Revenue

Salaries Expense

Marketing Expense

Supplies Expense

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

38) Ling Li Jewellery business has the following accounts. Identify the assets.

Common Shares

Jewellery Supplies

Cash

Revenue

Salaries Expense

Accounts Payable

Marketing Expense

Accounts Receivable

Supplies Expense

Answer: Jewellery Supplies

Cash

Accounts Receivable

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Recall

Blooms: Knowledge

39) XYZ Company has liabilities of \$23,500 and shareholders' equity of \$56,500. Determine the XYZ Company's assets.

Answer: Assets = \$80,000

Calculation:

Assets = Liabilities + Equity

= \$23,500 + \$56,500

= \$80,000

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

40) Record the following transactions in the accounting equation.

A. Amanda invests \$17,000 cash into her merchandising business.

B. She buys \$6,500 of office equipment and \$3,000 of office supplies from Office Depot and pays cash for the transaction.

C. Additional purchases were supplies for \$35,000 on account from various suppliers.

Answer:

	Assets	= Liabilities +	Shareholders' Equity
A	\$17,000 (cash)		\$17,000 (shares)
B	\$6,500 (office equipment) \$3,000 (office supplies) (\$9,500) (cash)		
C	\$35,000 (merchandise)	\$35,000 (accounts payable)	

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Analysis

41) Listed below are the transactions for Clowns and Magic Company Limited. For each transaction, determine the amount and the effect on the accounting equation.

1. Purchased a special magic machine for \$2,000, making a 20% down payment in cash, the remainder is on account.
2. Purchased \$350 in magic supplies for cash.
3. Billed customers \$1,500 for magic shows.
4. Purchased portable magic machine for children's event for \$500, fully financed by a bank loan.
5. Collected \$800 from customers for services previously billed.
6. Paid balance owing on special magic machine.
7. Incurred travel expenses of \$85 on account.
8. Completed party services for customers who pay \$440 cash.
9. Paid \$1,250 in wages to employees.

Answer:

1. Increases assets and liabilities by \$1,600 each.
2. No effect — increase and decrease in assets offset.
3. Assets and equity are each increased by \$1,500.
4. Assets and liabilities each increase by \$500.
5. No effect — increase and decrease in assets offset.
6. Assets and liabilities are each decreased by \$1,600.
7. Liabilities are increased by \$85 and shareholders' equity decreased by the same amount. Equity reflects expenses.
8. Assets and equity are each increased by \$440.
9. Assets and equity are each decreased by \$1,250.

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

42) Calculate the missing amount in each category of the accounting equation.

	Assets	Liabilities	Shareholders Equity
a	280,000	?	98,000
b	?	150,000	100,000
c	200,000	?	100,000
d	700,000	600,000	?

Answer: Assets = Liabilities + Shareholders Equity.

- a. Assets (280,000) - Shareholders' Equity (98,000) = 182,000 for Liabilities (280,000 = 182,000 + 98,000)
- b. 250,000 = 150,000 + 100,000
- c. 200,000 = 100,000 + 100,000
- d. Assets (700,000) - Liabilities (600,000) = Shareholders' Equity (100,000); (700,000 = 600,000 + 100,000)

	Assets	Liabilities	Shareholders Equity
a	280,000	182,000	98,000
b	250,000	150,000	100,000
c	200,000	100,000	100,000
d	700,000	600,000	100,000

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Application

43) The following amounts are the ending balances from Lavender Water Distillery accounting records for December 31, 2014.

Loans Payable	10,000	
Cash	55,000	
Accounts Receivable	50,000	
Accounts Payable	65,000	
Common Shares	50,000	
Retained Earnings	5,000	
Supplies	1,000	
Equipment	24,000	

a) For the items listed above, fill in the appropriate classification to indicate whether the item is an asset, liability, or shareholders' equity item.

b) Calculate the total assets, total liabilities, and total shareholders' equity.

Answer:

Part a

Loans Payable	10,000	Liability
Cash	55,000	Asset
Accounts Receivable	50,000	Asset
Accounts Payable	65,000	Liability
Common Shares	50,000	Retained Earnings
Retained Earnings	5,000	Retained Earnings
Supplies	1,000	Asset
Equipment	24,000	Asset

Part b

Assets	
Cash	\$55,000
Accounts Receivable	50,000
Supplies	1,000
Equipment	24,000
Total Assets	\$130,000

Liabilities	
Accounts Payable	65,000
Loans Payable	10,000
Total Liabilities	75,000

Shareholders Equity	
Common Shares	50,000
Retained Earnings	5,000
Total Shareholders Equity	55,000

Diff: 3

LO: 1-4 Explain the key accounting principles and the conceptual framework

Skill: Application

Blooms: Application

44) Simon's Graphic Design Company had the following transactions in the month of April. After analyzing, state the impact on cash.

Example: April 5 Completed services for customers who paid cash.

Example: Answer: Cash would increase.

April 8 Completed services for a major customer and invoiced the customer \$1,000.

April 20 Received a bill from the utilities company for April utilities for \$70.
The amount is due next month.

April 31 Received \$600 cash from the customer billed on April 8.

Answer:

April 8 No impact on cash. Increase in assets via account receivable.

April 20 No impact on cash. Increase in liabilities via account payable.

April 31 Increase in cash. No impact on assets. Already increased on April 8th with accounts receivable.

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Analysis

45) For each of the following items, indicate in the column whether the item is an asset (A), liability (L), or Shareholders' Equity (SE).

Accounts payable	
Accounts receivable	
Building and equipment	
Cash	
Insurance expense	
Interest expense	
Interest payable	
Mortgage payable	
Other assets	
Rental revenue	
Repair expenses	
Telephone expense	
Wages expense	

Answer:

Accounts payable	L
Accounts receivable	A
Building and equipment	A
Cash	A
Insurance expense	SE
Interest expense	SE
Interest payable	L
Mortgage payable	L
Other assets	A
Rental revenue	SE
Repair expenses	SE
Telephone expense	SE
Wages expense	SE

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

46) Label each of the following items with its location in the accounting equation.

Asset

Liability

Shareholders' Equity

Revenue

Expenses

Account	Type of Account
Revenue	
Utilities Expense	
Cash	
Accounts Payable	
Account Receivable	
Office Supplies	
Wages Expense	
Common Shares	
Notes Payable	
Advertising Expense	
Supplies Expense	

Answer:

Account	Type of Account
Revenue	Revenue
Utilities Expense	Expenses
Cash	Asset
Accounts Payable	Liability
Account Receivable	Asset
Office Supplies	Asset
Wages Expense	Expenses
Common Shares	Shareholders equity
Notes Payable	Liability
Advertising Expense	Expenses
Supplies Expense	Expenses

Diff: 2

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Comprehension

47) Given the following information, show the change in the accounting equation.

- A. Deanne invests \$45,000 and \$10,000 of office equipment into the business.
- B. Furniture is purchased for \$8,000 cash.
- C. Supplies are purchased on credit for \$2,300.
- D. The month's electric bill \$775 was paid.
- E. The month's cash sales were \$5,000.

Answer:

	Assets	=	Liabilities	+	Shareholders' Equity
A	\$55,000				\$55,000
	\$8,000				
B*	(\$8,000)				
C	\$2,300		\$2,300		
D	(\$775)				(\$775)
E	\$5,000				\$5,000

*Assets remain the same as \$8,000 in cash is given for \$8,000 in furniture.

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Application

Blooms: Analysis

48) The following amounts are the ending balances for Graphic Design Corporation. Calculate total assets, total liabilities, and total shareholders' equity.

Account	Amount
Accounts Payable	\$2,100
Accounts Receivable	\$2,300
Loan Payable	\$60,000
Cash	\$3,000
Common shares	\$12,000
Equipment	\$6,000
Expenses	\$23,800
Land and Building	\$100,000
Retained Earnings, Beginning	\$1,000
Revenue	\$60,000

Answer: Total Assets

Cash + Accounts Receivable + Equipment + Land and Building = Assets
 $3,000 + 2,300 + 6,000 + 100,000 = 111,300$

Total Liabilities

Accounts Payable + Loan Payable = Liabilities
 $2,100 + 60,000 = 62,100$

Total Shareholders' Equity

Common Shares + Revenue - Expenses + Beginning Retained Earnings = Shareholders' Equity
 $12,000 + 60,000 - 23,800 + 1,000 = 49,200$

Diff: 3

LO: 1-5 Analyze transactions using the basic accounting equation

Skill: Concept

Blooms: Analysis

1.6 Understand and be able to prepare basic financial statements.

1) The statement of retained earnings is prepared to determine the final amount of retained earnings to show on the statement of financial position.

Answer: TRUE

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

2) The income statement details how cash changed over an accounting period or cycle.

Answer: FALSE

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Concept

Blooms: Comprehension

3) The statement of financial position is reported as of a specific date.

Answer: TRUE

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Concept

Blooms: Comprehension

4) Financial statements are prepared primarily for internal company use.

Answer: FALSE

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

5) A statement of cash flows is usually prepared last.

Answer: TRUE

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

6) ASPE focuses only on net income in the income statement.

Answer: TRUE

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

7) Which of the following financial statements illustrates the accounting equation?

A) Statement of retained earnings

B) Income statement

C) Balance sheet

D) Statement of cash flows

Answer: C

Diff: 2

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Concept

Blooms: Comprehension

8) What is the income statement used to report?

Answer: The results of operations for a specific period

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

9) The net income figure is needed to prepare a financial statement. Name the financial statement.

Answer: A statement of retained earnings

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

10) Name the first financial statement prepared.

Answer: Income statement

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

11) Name the last financial statement prepared.

Answer: Cash flow statement

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

12) A net income or loss is shown on the _____ and the _____.

Answer: income statement, statement of retained earnings

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

13) Of the financial statements, which is dated as of a specific date?

Answer: Balance sheet or statement of financial position (both names are interchangeable)

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

14) Which of the financial statements includes a listing of assets owned by the company?

Answer: Statement of financial position or balance sheet (both names are interchangeable)

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

15) In preparing financial statements, the order of preparation is important to ensure accuracy and reduce duplicate work. Put the financial statements below in the order you would prepare them.

Statement of cash flow

Statement of comprehensive income

Statement of financial position

Statement of retained earnings

Answer: Statement of comprehensive income, statement of retained earnings, statement of financial position, and statement of cash flow

Diff: 2

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Concept

Blooms: Comprehension

16) On which financial statements are dividends shown?

Answer: Statement of retained earnings and statement of changes in equity

Diff: 1

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

17) Payables are included in which financial statement?

Answer: Balance sheet or statement of financial position

Diff: 2

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Concept

Blooms: Comprehension

18) Under IFRS, what are the four basic financial statements?

Answer: Statement of comprehensive income, statement of changes in equity, statement of financial position, and statement of cash flow

Diff: 2

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

19) Mandy's Web Design Company has the following account balances on December 31, 2015.

Salary Expense	\$500
Cash	\$400
Supplies Expense	\$300
Insurance Expense	\$100
Accounts Payable	\$200
Other Expenses	\$100
Consulting Revenue	\$6,000

Prepare the Income Statement for Mandy's Web Design Company for the month of December.

Answer: Mandy's Web Design Company

Income Statement

Month Ended December 31, 2015

Consulting Revenue		\$6,000
Expenses		
Salary Expense	\$500	
Supplies Expense	300	
Insurance Expense	100	
Other Expenses	100	
Total Expenses		1,000
Net Income		\$5,000

Diff: 3

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Application

Blooms: Application

20) Barry's Bird House Supplies has the following Balance Sheet items:

Wood Supplies
Accounts Payable
Accounts Receivable
Woodwork Equipment
Common Shares
Cash

Identify the classification of each item.

Assets	
Liabilities	
Shareholders' Equity	

Answer:

Assets	Wood Supplies, Accounts Receivable, Cash, Woodwork Equipment
Liabilities	Accounts Payable
Shareholders' Equity	Common Shares

Diff: 2

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Recall

Blooms: Knowledge

21) The Flower Company's beginning retained earnings are \$31,000; sales are \$46,800; expenses are \$43,500; and dividends paid are \$2,800. Calculate the ending retained earnings.

Answer:

Retained Earnings, beginning	\$31,000
Net Income*	3,300
Dividend	2,800
Retained Earnings, ending	\$31,500
*Net Income	
Sales	\$46,800
Less Expenses	43,500
Net Income	\$3,300

Diff: 3

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Application

Blooms: Application

22) Given the following information, prepare the statement of financial position for Meranda's Accounting Service for December 31, 2015.

Common Shares	\$35,600
Cash	\$58,700
Ending Retained Earnings	\$52,050
Office Furniture	\$14,650
Accounts Receivable	\$15,950
Building	\$91,250
Mortgage Payable	\$77,700
Office Equipment	\$16,300
Accounts Payable	\$31,500

Answer: Meranda's Accounting Service
Statement of Financial Position
As of December 31, 2015

Assets		Liabilities	
Cash	\$58,700	Accounts Payable	\$31,500
Accounts Receivable	15,950	Mortgage Payable	77,700
Office Equipment	16,300	Total Liabilities	109,200
Office Furniture	14,650		
Building	91,250	Shareholders' Equity	
Total Assets	\$196,850	Common Shares	35,600
		Retained Earnings	52,050
		Total Shareholders' Equity	87,650
		Total Liabilities and Equity	\$196,850

Diff: 3

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Application

Blooms: Application

23) Based on the information provided, prepare the statement of retained earnings.

1. On June 1 2013, Accounting Consulting incorporated.
2. Accounting Consulting issued 500 shares at \$20 per share.
3. In their first month, they earned \$10,000 in revenue.
4. In their first month, they incurred \$6,000 in expenses.

Answer: Accounting Consulting Incorporated

Statement of Retained Earnings

Month Ended June 31, 2013

	Common Number of Shares	Shares Capital	Retained Earnings	Total
Balance, June 1,2013				
Issued Common Shares	500	\$10,000		10,000
Net Income			\$4,000	4,000
Dividends				0
Balance, June 31,2013	500	\$10,000	\$4,000	\$14,000

Share dollars = 500 shares \times \$20 = \$10,000

Net Income = \$10,000 - \$6,000 = \$4,000

Diff: 3

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Application

Blooms: Application

24) The following amounts are the ending balances from Lavender Water Distillery accounting records for December 31, 2014.

Loans Payable	10,000
Cash	55,000
Accounts Receivable	50,000
Accounts Payable	65,000
Common Shares	50,000
Retained Earnings	5,000
Supplies	1,000
Equipment	24,000

Prepare a Statement of Financial Position for Natural Spring Water Distillery for December 31, 2014.

Answer:

Natural Spring Water Distillery
Statement of Financial Position
As of December 31, 2014

Assets		Liabilities	
Cash	\$55,000	Accounts Payable	\$65,000
Accounts Receivable	50,000	Loan Payable	10,000
Supplies	1,000	Total Liabilities	75,000
Equipment	24,000		
		Shareholders' Equity	
		Common Shares	50,000
		Retained Earnings	5,000
		Total Shareholder's Equity	55,000
Total Assets	\$130,000	Total Liabilities & Shareholders' Equity	\$130,000

Diff: 3

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Application

Blooms: Application

25) Prepare an income statement, a statement of retained earnings, and a statement of financial position for Web Application Services Company from the items listed below for the month of December 2013.

Retained Earnings, Beginning (December 1).....	\$35,200
Accounts Payable.....	7,000
Equipment.....	30,000
Service Revenue.....	25,000
Supplies Expense.....	3,500
Cash.....	8,000
Utilities Expense.....	700
Supplies.....	2,800
Salaries Expense.....	7,000
Accounts Receivable.....	14,000
Common Shares	1,000
Dividends Issued.....	200
Rent Expense.....	2,000

Answer: Web Application Services Company
 Income Statement
 Month Ended December 31, 2013

Revenues			
	Service revenue		\$25,000
Expenses			
	Salaries expense	\$ 7,000	
	Supplies expense	3,500	
	Rent expense	2,000	
	Utilities expense	700	
	Total expense		13,200
Net Income			\$11,800

Web Application Services Company
 Statement of Financial Position
 As of December 31, 2013

Assets		Liabilities	
Cash	\$8,000	Accounts Payable	\$7,000
Accounts receivable	14,000		
Supplies	2,800	Shareholders' Equity	
Equipment	30,000	Retained Earnings	48,200
		Total Liabilities and	
Total assets	\$54,800	Shareholders' Equity	\$54,800

Web Application Services Company
Statement of Retained Earnings
Month Ended December 31, 2013

Balance, beginning December 1, 2013	\$35,200
Common Shares	1,000
Net Income	11,800
Dividends	200
Balance, ending December 31, 2013	\$48,200

Diff: 3

LO: 1-6 Understand and be able to prepare basic financial statements

Skill: Application

Blooms: Analysis

1.7 Cumulative Questions

1) Phillip recently started a business. Phillip's Photography will provide photography for weddings and special events. Listed below are the second month's transactions.

- March 1 Purchases computer supplies for \$400 cash.
- March 7 Pays \$550 for wages to the photography assistant.
- March 14 Completes special events photography for a client, who pays \$700 for the service.
- March 16 Advertisements for Phillip's Photography in the local newspaper at a cost of \$600 on account.
- March 18 Provides services totalling \$1,200 for several clients—one client whose bill is \$200 pays cash, the remainder are on account.
- March 20 Pays the amount owing to the newspaper for the advertisements on March 16th .
- March 24 Half the amount receivable from customers is collected.
- March 30 Purchases additional photography equipment for \$450, cash.

Required

- (a) Set up the table to reflect the accounts and set up the headings in the order of the accounting equation.
- (b) Record each transaction on the table.
- (c) What are the total assets for March 2013?
- (d) What are the total liabilities for March 2013?
- (e) What is the net profit or net loss for March 2013?
- (f) Prepare the income statement for Phillip's Photography.
- (g) Demonstrate that the accounting equation is in balance.

Answer: Parts (a) and Part (b)

Transaction	Cash	Accounts Receivable	Supplies	Equipment	Accounts Payable	Revenue	Expenses
March 1	-400		+400				
March 7	-550						-550
March 14	+700					+700	
March 16					+600		-600
March 18	+200	+1,000				+1,200	
March 20	-600				-600		
March 24	+500	-500					
March 30	-450			+450			
Total	\$500	\$500	\$400	\$450	\$0	\$1,900	\$1,150

(c) Total assets = $500 + 500 + 400 + 450 = \$1,850$

(d) Total liabilities = 0

(e) Profit = $1,900 - 1,150 = \$750$

(f)

Phillips Photography

Income Statement

Month Ended March 31, 2015

Revenue	\$1,900
Expenses	1,150
Net Income	\$750
	=====

(g) Shareholders Equity = Common Shares+ Retained Earnings + Profit
 Assets - Liabilities = Shareholders Equity
 Shareholders Equity = Common Share + Beginning Retained Earnings + Income - Loss
 $\$1,850 - 0 - 750 = \$1,100$
 The accounting equation =
 $\$1,850 = 0 + 1,850$
 Asset = Liabilities + Shareholders Equity
 $\$1,850 + 0 = \$1,850 \quad (750 + 1100)$

Diff: 3
 LO: 1-4, 1-5
 Skill: Application
 Blooms: Analysis

2) The following are the assets, liability, and equity of Anil's Animation.

Cash
 Retained Earnings
 Accounts Payable
 Accounts Receivable
 Office Equipment
 Common Shares
 Notes Payable
 Art Supplies

a) What type of business organization is Anil's Animation?
 b) Identify the accounts according to the accounting equation.
 Answer: a) Corporation. Common shares/retained earnings identifies Anil's Animation as a corporation.

b)

Assets	Cash
	Accounts Receivable
	Office Equipment
	Art Supplies
Liabilities	Accounts Payable
	Note Payable
Shareholders' Equity	Retained Earnings
	Common Shares

Diff: 3
 LO: 1-1, 1-4
 Skill: Concept
 Blooms: Analysis

3) The following amounts are the ending balances for Graphic Design Corporation.

a) For each account and amount indicate whether it is an Asset (A), Liability (L), or Shareholders Equity (SE).

b) Prepare the Statement of Financial Position for the year ended January 31, 2013.

Account	Amount	A / L / SE
Accounts Payable	\$2,100	
Accounts Receivable	\$2,300	
Loan Payable	\$60,000	
Cash	\$3,000	
Common Shares	\$12,000	
Equipment	\$6,000	
Expenses	\$23,800	
Land and Building	\$100,000	
Retained Earnings, Beginning	\$1,000	
Revenue	\$60,000	

Answer: a)

Account	Amount	A / L / SE
Accounts Payable	\$2,100	L
Accounts Receivable	\$2,300	A
Loan Payable	\$60,000	L
Cash	\$3,000	A
Common Shares	\$12,000	SE
Equipment	\$6,000	A
Expenses	\$23,800	SE
Land and Building	\$100,000	A
Retained Earnings, Beginning	\$1,000	SE
Revenue	\$60,000	SE

b)

Graphic Design Corporation
Statement of Financial Position
As of January 31, 2013

ASSETS		LIABILITIES	
Cash	\$3,000	Accounts Payable	\$2,100
Accounts Receivable	2,300	Loan Payable	60,000
Equipment	6,000	Total Liabilities	62,100
Land and Building	100,000		
		SHAREHOLDERS' EQUITY	
		Common Shares	12,000
		Retained Earnings*	37,200
		Shareholders' Equity	49,200
Total Assets	\$111,300	Total Liabilities & Shareholders' Equity	\$111,300

*Retained Earnings = Beginning \$1,000+ Revenue \$60,000 - Expenses \$23,800 = \$37,200

Diff: 3

LO: 1-4, 1-5

Skill: Application

Blooms: Analysis