CHAPTER 1

**Accounting and the Business Environment**

## Chapter Overview

This chapter is an overall introduction to financial accounting. Many of the key concepts are introduced, and are repeated and reinforced in greater detail in the chapters that follow. Core concepts are introduced in the Framework for Financial Reporting and the accounting equation is introduced to help students learn the basics of double-entry accounting and the recording of business transactions. Financial statements and the importance of preparing them in a specific order is discussed.

Chapter 1 covers the following topics:

1. Accounting: The language of business
   * Users of accounting information
   * Financial accounting and management accounting
   * Accountants
   * Ethics in accounting and business
2. Forms of business organizations
   * Proprietorship
   * Partnership
   * Corporation
3. Accounting concepts
   * Framework for financial reporting
4. The accounting equation
   * Assets
   * Liabilities
   * Owner’s equity
   * Accounting for business transactions.
5. The financial statements
   * Income statement
   * Statement of owner’s equity
   * Balance sheet
   * Cash flow statement
   * Relationships among the financial statements
6. What are IFRS and ASPE?

**TRY IT!** questions appear at the end of most Learning Objectives and are useful for students to test their understanding of the Learning Objective just completed. The answers appear at the end of the chapter as well as in MyLab.

Students should be directed to MyLab. The repetition of questions will help to reinforce some of the key concepts introduced in the chapter: forms of business organizations, business transactions, and the accounting equation.

MyLab also contains several Excel templates (Exercises 1-8 and 1-1,3 and Problems 1-5A and 1-5B) that students can use to prepare the financial statements introduced in the chapter.

The ***Assignment Grid*** recommends “Pre-Test” questions in MyLab that can be assigned before a test to ensure students understand the topics, as well as “Post-Test” questions that students can complete after a test to check understanding before moving on.

***Learning Objectives and Key Questions***

|  |  |  |
| --- | --- | --- |
|  | **Learning Objective** | **Key Question** |
| 1 | Define accounting, and describe the users of accounting information | Why is accounting important, and who uses the information? |
| 2 | Compare and contrast the forms of business organizations | In what form can we set up a company? |
| 3 | Describe some concepts and principles of accounting | What are some of the guidelines for accounting, and why do we need them? |
| 4 | Use the accounting equation to analyze business transactions | How do business activities affect the accounting records of a company? |
| 5 | Prepare financial statements | What financial statements are prepared by a company, and how do we create them? |
| 6 | Briefly explain the different accounting standards | What are IFRS and ASPE? |

***Suggested Priority of Chapter Topics***

*Must Cover*

* Accounting, the language of business
* Accounting concepts
* The accounting equation
* The financial statements

*Recommended*

* Forms of business organizations
* ASPE vs. IFRS

***Chapter Outline***

***Learning Objective 1: Define accounting, and describe the users of accounting information***

*(Why is accounting important, and who uses the information?)*

1. **Accounting** is the system that measures business activities, processes information into reports, and communicates these findings to decision makers.

1. **Financial statements** are documents that report on an individual’s or an organization’s business in monetary amounts.

1. **Bookkeeping** is the procedural element of accounting.

**Teaching Tip**

The terms “bookkeeping” and “accounting” are often referred to in the same context. As a result, students may have a preconceived idea that the two terms mean the same thing and can be used interchangeably. Emphasis should be placed on the differences. Accounting is an information system used to measure, organize, report and communicate information to decision makers. Bookkeeping involves the physical recording of business transactions within the accounting system. Try the everyday example provided in the text—skating is to hockey as bookkeeping is to accounting—as a way to emphasize the differences.

The **users** of accounting information are people who need to make business decisions. (Exhibit 1-1 illustrates the role of accounting in business.)

1. **Individuals** use accounting information to manage bank accounts, make investments, and decide whether to buy or rent a home.
2. **Business owners and managers** use accounting information to set goals, evaluate progress toward the goals, and determine corrective action if necessary.
3. **Investors** use financial statements to help determine what income they can reasonably expect from their investment. **Creditors** determine a borrower’s ability to meet scheduled payments on a loan by analyzing financial statements.
4. **Government regulatory agencies** such as the provincial securities commissions verify compliance with financial and other reporting requirements. **Taxing authorities** such as the local, provincial, and federal governments collect taxes based on income determined by using accounting information.
5. **Not-for-profit organizations** use accounting information to deal with budgets, payrolls, and other financial issues.
6. **Other users** of accounting information include labour unions, consumer groups, and the general public.

Users of accounting information may be either **external users** or **internal users**.

1. **Financial accounting** focuses on information that will be useful to **external users**, such as investors and creditors.

2. **Management accounting** focuses on information that will be useful to **internal users,** such as top executives, department heads, etc.

Until recently there were three professional designations for accountants in Canada – now there is only one – the CPA.

The importance of ethics in accounting is introduced. This is an important concept to drive home to students now, and then continuously throughout each chapter.

**Teaching Tip**

Help students understand the need for accounting standards by reminding them of the separation between those preparing/communicating the financial statements (managers) and those using the financial statements (bankers, government, owners, etc.). Ask them: How do the users know the financial statements are reliable? Try some everyday analogies, such as buying meat in the grocery store or drinking water out of the tap. In all of these analogies, standards exist that help the general public to trust and rely on those essential resources. With standards, the risk that financial statements are unreliable is reduced but not eliminated.

***Learning Objective 2: Compare and contrast the forms of business organizations***

*(In what form can we set up a company)*

B. The three **forms of business organization** are the proprietorship, the partnership, and the corporation.

1. A **proprietorship** is a business owned by one individual.

2. A **partnership** is a business owned by two or more individuals.

A **limited-liability partnership** is a partnership in which one partner cannot create a large liability for the other partners.

3. A **corporation** is a business owned by shareholders.

a. A corporation offers limited personal liability to its shareholders.

b. The division of ownership into individual shares of stock encourages corporate growth.

**Teaching Tip**

Exhibit 1-4 provides a comparison of the three forms of business organizations. Volume 1 will focus on the proprietorship, while partnerships are covered in Chapter 12 and corporations are the main focus for the remaining chapters in Volume 2. You may want to highlight that the major difference from an accounting perspective is the recording of business transactions related to ownership (equity).

***Learning Objective 3: Describe some concepts and principles of accounting***

*(What are some of the guidelines for accounting, and why do we need them?)*

C. Accounting concepts and principlesare guidelines that govern how accountants measure, process, and communicate financial information. These practices are also referred to as **generally accepted accounting principles (GAAP).**

As globalization becomes more common, the use of different accounting standards in different countries has become more problematic. To address the concerns of international investors, regulatory groups and other interested parties, **International Financial Reporting Standards** **(IFRS)** issued by the International Accounting Standards Board (IASB)have been adopted by most of the industrialized countries.

1. Since January 1, 2011, **publicly accountable companies** in Canada have been required to use IFRS.
2. Private enterprises in Canada have the option of using IFRS or following **Accounting Standards for Private Enterprises (ASPE)**. The focus in the textbook is on ASPE while the impact of IFRS is discussed in a separate, final Learning Objective in each chapter from Chapter 3 onward.
3. The only major country not following IFRS for publicly accountable companies is the United States.
4. The standards in countries like Canada have historically followed a **“principles-based”** approach,where accountants use professional judgment combined with an understanding of the conceptual framework for accounting to determine the proper accounting treatment for various transactions.

**Teaching Tip**

To illustrate the need for common standards, try comparing the need for common rules in sports such as soccer. Before international competitions became common, different countries might have had slightly different rules for how the game should be played. One simple cultural difference is that the sport itself is called “soccer” here in Canada but “football” in other parts of the world. Now that the World Cup has become popular, all participating countries have to adhere to the same set of rules. Another way to illustrate it is the need to be communicating in the same language; if one individual speaks English and the other Mandarin, then it will be very difficult to understand each other. Similarly, if financial statements were prepared with different standards, it could be very difficult to fully understand the financial statements.

The primary objective of financial reporting is to provide financial information that is useful for making resource allocation decisions and for assessing the performance of a company. Exhibit 1-5 illustrates the framework for financial reporting, which is a hierarchy of qualities that increase the value of information for decision making.Each level of the hierarchy is explained.

1. Level One states the primary objective: “Communicate useful information to users.”

2. Level Two identifies the qualitative characteristics for information to be useful. Those characteristics are: relevance, comparability, reliability, and understandability.

3. Level Three names the elements of financial statements: assets, liabilities and equity.

4. Level Four outlines some fundamental assumptions, principles, and constraints that financial reports are based on. These are:

• **Assumptions**: Going Concern, Stable Monetary Unit, Economic Entity and Time Period

• **Principles**: Recognition Criteria (for revenue and expense), Measurement (cost and other), Disclosure

• **Constraints**: Cost-Benefit, Materiality

**Teaching Tip**

Although students may not appear overly interested in learning the specifics of accounting concepts and principles at this point, try comparing the need to understand to that of following the rules for any sport. In competition, players are penalized for not adhering to the rules. In business, the same can be said for those who do not adhere to GAAP.

***Learning Objective 4: Use the accounting equation to analyze business transactions***

*(How do business transactions affect the accounting records of a company?)*

1. The **accounting equation** shows the equality between the assets and the claims on the assets (liabilities and owner’s equity). (See Exhibit 1-6.)

The accounting treatment of all business transactions is based on the accounting equation:

**ASSETS = LIABILITIES + OWNER’S EQUITY**

1. **Assets** are economic resources owned by a business that are expected to be of benefit in the future.
2. **Liabilities** are debts that are payable to creditors.
3. **Owner’s Equity** is the owner’s claim to the business’ assets. It is the amount of assets that remains after subtracting the liabilities. It is also called **capital.** Exhibit 1-9 illustrates the types of transactions that increase and decrease owner’s equity.
4. Owner’s Equity is increasedby owner investment and **revenues**, which are amounts earned by delivering goods or services to customers.
5. Owner’s Equity is decreased by **owner withdrawals** of assets from the business and **expenses**. Expenses occur when assets are used or liabilities increase as a result of earning revenues.
6. Owner’s Equity is also referred to as “net assets”; therefore, the accounting equation can be written as:

**ASSETS – LIABILITIES = OWNER’S EQUITY**

A **business transaction** is any event that affects the financial position of a business *and* can be measured reliably.

The following transactions and their effects on the accounting equation are explained in detail and illustrated after each transaction. The illustration emphasizes that the accounting equation remains equal. Note that the transactions analyzed are for Hunter Environmental Consulting (HEC), the proprietorship featured at the beginning of the chapter.

1. **Starting the business**—increases the asset, Cash and increases the owner’s equity account.

2. **Purchase of land**—increases the asset, Land, and decreases the asset, Cash.

3. **Purchase of office supplies on account**—Increases the asset, Office Supplies, and increases the liability, Accounts Payable.

4. **Earning of service revenue**—Increases the asset, Cash, and increases the owner’s equity account.

5. **Earning service revenue on account**—Increases the asset, Accounts Receivable, and increases the owner’s equity account.

6, 7 & 8. **Payment of expenses**—Decreases the asset, Cash, and decreases the owner’s equity account.

9. **Payment on account**—Decreases the asset, Cash, and decreases the liability, Accounts Payable.

10. **Home remodel paid from personal funds** has no effect on the accounting equation of a business.

11. **Collection on account**—Increases the asset, Cash, and decreases another asset, Accounts Receivable.

12. **Withdrawing cash**—Decreases the asset, Cash, and decreases the owner’s equity account.

The transactions above are then summarized in Exhibit 1-11 to show the effect of each transaction on the Assets, Liabilities, and Owner’s Equity of the business.

**Teaching Tip**

It is very important for students to master this concept as these increases and decreases are the basis for translating business transactions into the debits and credits of journal entries – the next chapter. It is recommended that you explicitly tell students that this is a very important Learning Objective and provide lots of opportunity to practise in the classroom and outside of class.

**Teaching Tip**

Students may find it easier to understand the accounting equation if they can relate it to their personal situation. Try using this example.

Karen Armstrong worked full-time for an auto parts manufacturer from June to August. She was paid $1,000 on a weekly basis and deposited her pay cheque every Friday. After depositing her first pay cheque, her accounting equation would be:

***Assets***  ***= Liabilities + Owner’s Equity***

Cash Karen Armstrong, Capital

+1,000 +1,000 *Wages earned*

Karen then decided she needed a car to travel to and from work. She went to an automobile dealership the next day and negotiated the purchase of a used Honda Accord for $10,000. She used her $1,000 cash as a down payment and signed a Note Payable to the dealership for the balance. This transaction would have the following effect on her accounting equation:

***Assets = Liabilities + Owner’s Equity***

Cash Automobile Note Payable Karen Armstrong, Capital

Bal. 1,000 1,000

-1,000 +10,000 +9,000 0

Bal. 0 10,000 9,000 1,000

10,000 10,000

***“The accounting equation is in balance after every transaction***”

***Learning Objective 5: Prepare financial statements***

*(What financial statements are prepared by a company, and how do we create them?)*

E. The four primary financial statements are the income statement, statement of owner’s equity, balance sheet, and cash flow statement.

1. The **income statement (statement of earnings** or **statement of operations**) lists revenues and expenses and shows **net income—**revenues minus expenses.

2. The **statement of owner’s equity** shows the changes that take place in owner’s equity (capital) during the period resulting from net income or net loss and personal withdrawals or investments by the owner.

3. The **balance sheet** lists all assets, liabilities, and owner’s equity for a specific point in time, like a snapshot. Note the other three statements are for a period of time, telling the financial story for that time period, whereas the balance sheet shows the financial position at the end of the period. Therefore, it is also known as **statement of financial position**.

4. The **cash flow statement** reports the cash receipts and cash payments during a period, as well as the net cash inflow or outflow.

Each financial statement has a **heading** that includes the name of the business (who), the name of the statement (what), and the date or time period covered by the statement (when).

1. The date of the balance sheet is the last day of the accounting period
2. The statement of owner’s equity, the income statement, and the cash flow statement cover an entire accounting period.

The financial statements must be prepared in the following order: income statement, statement of owner’s equity, balance sheet, and cash flow statement. The reason is each statement requires a key piece of information from the previous statement. For example, net income is included on the statement of owner’s equity; net income is determined by the previous statement, the income statement. It is important to emphasize this relationship.

1. Net income (or net loss) is reported on the **income statement**.

1. Report a **net income** if revenues exceed expenses. Report a **net loss** if expenses exceed revenues.
2. Expenses are often listed in **decreasing** order by dollar amount but may also be listed alphabetically.
3. The formula for net income is:

Revenues

– Expenses

= Net income

1. The **statement of owner’s equity** appears in the following format:

Capital, beginning of the period

Add: Investment by owner

Net income (from income statement)

### Less: Withdrawals by owner

### Net loss (from income statement)

# Capital, end of period

1. The **balance sheet** reports assets, liabilities, and owner’s equity as of the end of the period.
2. The balance sheet must balance. The sum of the assets must equal the sum of the liabilities plus owner’s equity, just like the accounting equation.
3. The owner’s equity is taken directly from the statement of owner’s equity.
4. The **cash flow statement** reports cash flows from three types of activities:
5. Cash flows from operating activities are cash flows from earning revenues and paying related expenses.
6. Cash flows from investing activitiesare cash flows from the purchase and sale of assets that the business expects to use for a long time.
7. Cash flows from financing activitiesare receipts and payments from people who finance the business—the owner and creditors.
8. The ending cash balance on the cash flow statement must match the cash balance presented on the balance sheet. This is a challenging statement to create and is studied further, including the three types of activities, in Volume 2.

**Teaching Tip**

Students need to understand the relationship between the financial statements. Using Exhibit 1-15, follow the lines linking numbers from one statement to the next. Depending on your computer resources and student’s knowledge of Excel, you may want to consider recreating the statements using formulas and linking to demonstrate the effects of changing a revenue or expense amount.

## Learning Objective 6: Briefly explain the different accounting standards

## (What are IFRS and ASPE?)

F. Explain that IFRS and ASPE are different standards but that this textbook focuses on ASPE. Note to students that each chapter discusses the differences between ASPE and IFRS.

***Assignment Grid*** *(\* = Excel template available in MyLab; W = writing required)*

| ***Assignment*** |  | ***Topic(s)*** | ***Learning***  ***Objective*** | ***Time in***  ***Minutes*** | ***Level of***  ***Difficulty*** | ***MAL***  ***Pre-Test/***  ***(Post-Test)*** |
| --- | --- | --- | --- | --- | --- | --- |
| S1-1 |  | Financial and management accounting | 1 | 5 | Easy | Pre-Test |
| S1-2 |  | Users of financial information | 1 | 5 | Easy | Pre-Test |
| S1-3 |  | Internal and external users of financial information | 1 | 5 | Easy | Pre-Test |
| S1-4 |  | Forms of business organizations | 2 | 5-10 | Easy | Pre-Test |
| S1-5 |  | Describing accounting assumptions, principles and constraints | 3 | 10-15 | Easy |  |
| S1-6 |  | Defining transactions | 3 | 5-10 | Easy |  |
| S1-7 |  | Explaining revenues and expenses | 3 | 5 | Medium | Post-Test |
| S1-8 |  | Applying accounting concepts and principles | 3, 4 | 5-10 | Easy |  |
| S1-9 |  | Identifying accounts | 4 | 5-10 | Medium |  |
| S1-10 |  | Using the accounting equation | 4 | 5-10 | Easy | Pre-Test |
| S1-11 |  | Identifying accounts in statements | 5 | 5-10 | Easy | Pre-Test |
| S1-12 |  | Calculating missing information | 5 | 10 | Easy |  |
| S1-13 |  | Preparing a balance sheet | 5 | 10 | Easy | Pre-Test |
| S1-14 |  | Preparing the income statement | 5 | 10 | Medium |  |
| S1-15 |  | Using the income statement to assess a business | 5 | 10 | Medium |  |
| E1-1 | W | Users of financial statements | 1 | 5-10 | Easy | Post-Test |
| E1-2 |  | Forms of business organizations | 2 | 5-10 | Easy |  |
| E1-3 |  | Describing accounting assumptions, principles, and constraints | 3 | 5-10 | Medium | Post-Test |
| E1-4 |  | Using the accounting equation | 4 | 5-10 | Easy |  |
| E1-5 |  | Using the accounting equation | 4 | 5-15 | Easy | Post-Test |
| E1-6 |  | Using the accounting equation | 4 | 5-10 | Easy | Pre-Test |
| E1-7 |  | Transaction analysis | 4 | 10-20 | Easy | Pre-Test |
| E1-8 | \* | Transaction analysis, accounting equation | 4 | 10-20 | Easy |  |
| E1-9 |  | Using accounting vocabulary | 4, 5 | 5-10 | Easy | Pre-Test |
| E1-10 |  | Classifying accounts, working with financial statements | 4, 5 | 10-15 | Easy |  |
| E1-11 |  | Business organization, transactions, net income | 4, 5 | 10-20 | Easy |  |
| E1-12 |  | Business organization, balance sheet | 2, 5 | 10-20 | Easy | Post-Test |
| E1-13 | \* | Income statement for a proprietorship | 5 | 15-20 | Medium | Post-Test |
| E1-14 |  | Preparing the income statement | 5 | 10-15 | Medium |  |
| E1-15 |  | Preparing the statement of owner’s equity | 5 | 15-20 | Medium |  |
| E1-16 |  | Preparing the balance sheet | 5 | 10-15 | Medium |  |
| E1-17 | \* | Using Excel to prepare transaction analysis and financial statements | 5 | 60-75 | Medium |  |
| E1-18 |  | Using the accounting equation for transaction analysis and preparing financial statements | 3, 4, 5 | 35-40 | Medium |  |
| E1-19 |  | Using the financial statements | 4, 5 | 30-40 | Difficult | Pre-Test |
| E1-20 |  | Using the accounting equation, preparing the statement of owner’s equity | 4, 5 | 15-20 | Difficult |  |
| BN1-1 |  | Analyzing a loan request | 1, 5 | 15-30 | Medium |  |
| Ethical Issue 1 | W | Transaction analysis, effects on financial statements | Not noted | Not noted | Medium |  |
| P1-1A |  | Accounting concepts/principles | 3 | 20-30 | Easy |  |
| P1-2A |  | Entity concepts, transaction analysis, accounting equations | 3, 4 | 10-15 | Easy | Pre-Test |
| P1-3A |  | Business transactions and analysis | 4 | 25-35 | Easy |  |
| P1-4A |  | Balance sheet for a proprietorship, entity concept | 2, 3, 5 | 20-25 | Medium |  |
| P1-5A | \* | Income statement, statement of owner’s equity, balance sheet, evaluating business performance | 4 | 45-60 | Medium | Pre-Test |
| P1-6A |  | Correcting a balance sheet | 5 | 20-25 | Medium |  |
| P1-7A |  | Transaction analysis, accounting equation, financial statements | 4, 5 | 45-60 | Medium |  |
| P1-8A | W | Transaction analysis, accounting equation, financial statements, evaluation | 4, 5 | 40-60 | Medium |  |
| P1-1B |  | Accounting concepts/principles | 3 | 20-30 | Easy |  |
| P1-2B |  | Entity concepts, transaction analysis, accounting equations | 3, 4 | 15-20 | Easy | Pre-Test |
| P1-3B |  | Business transactions and analysis | 4 | 25-35 | Easy |  |
| P1-4B |  | Balance sheet, entity concept | 3, 5 | 20-25 | Medium |  |
| P1-5B | \* | Income statement, statement of owner’s equity, balance sheet | 5 | 40-60 | Medium | Pre-Test |
| P1-6B |  | Correcting a balance sheet | 5 | 20-25 | Medium |  |
| P1-7B |  | Transaction analysis, accounting equation, financial statements | 4, 5 | 45-60 | Medium |  |
| P1-8B | W | Transaction analysis, accounting equation, financial statements, evaluation | 4, 5 | 40-60 | Medium |  |
| P1-1C | W | Understanding the going-concern assumption | 3 | 15-20 | Medium |  |
| P1-2C | W | Accounting for business transactions | 4 | 15-20 | Medium |  |
| DP-1 |  | Using financial statements to evaluate a request for a loan | 1, 5 | 30-40 | Medium |  |
| FS Case 1 |  | Identifying items from a company’s financial statements | 4, 5 | 30-40 | Medium |  |
| FS Case 2 |  | Identifying items from a company’s financial statements | 4, 5 | 30-40 | Medium |  |
| IFRS Mini-Case | W | See MyLab | 6 | See MyLab | See MyLab |  |

Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Date\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Section\_\_\_\_\_\_\_\_\_\_\_\_\_

**CHAPTER 1**

**TEN-MINUTE QUIZ**

**Circle the letter of the best response.**

1. The primary objective of financial reporting is to provide information

A. In an ethical manner.

B. To the professional accounting associations.

C. To people outside the company for making decisions.

D. Useful to managers in making daily decisions.

2. It is vital that company accountants and their auditors behave in a(n) \_\_\_\_\_\_\_\_\_ manner.

A. professional

B. ethical

C. prudent

D. elitist

3. Which of the following statements is false?

A. The proprietorship form of business organization protects the personal assets of the owners from creditors of the business.

B. A proprietorship has a single owner.

C. Accounting is the information system that measures business activities, processes that information into reports, and communicates the results to decision makers.

D. The Accounting Standards Board sets the rules for how accounting is practised in Canada.

4. Level 2 of the hierarchy of financial-statement concepts, which describes the qualitative characteristics of accounting information, includes:

A. Relevance and reliability

B. Revenue and expenses

C. Comparability and understandability

D. Both A and C

5. Which of the following statements is false?

A. Liabilities are economic obligations to outsiders.

B. Assets are economic resources that are expected to benefit future periods.

C. Expenses are decreases in owner’s equity that result from delivering goods and services to customers.

D. Revenues are assets because they represent economic benefits.

6. Purchasing office furniture on account

A. increases assets.

B. has no effect on liabilities.

C. increases owner’s equity.

D. all of the above.

7. Which of the following transactions would not affect owner’s equity?

A. Service provided on account

B. Investment of cash by the owner

C. Cash purchase of supplies

D. Payment of salaries

8. If assets decrease $8,000 during the period and liabilities decrease $40,000 during the period, owner’s equity must have:

A. Decreased $32,000.

B. Decreased $48,000

C. Increased $32,000

D. Increased $48,000

9. A balance sheet reports:

A. The assets, liabilities, and owner’s equity on a particular date.

B. The difference between revenues and expenses during the period.

C. The change in the owner’s equity during the period.

D. The cash receipts and cash payments during the period.

10. The amount of net income shown on the income statement also appears on the

A. Balance sheet.

B. Statement of owner’s equity.

C. Statement of financial position.

D. Cash flow statement.

#### *Answer Key to Chapter 1 Quiz*

1. C 2. B 3. A 4. D 5. D 6. A 7. C 8. C 9. A 10. B