

CHAPTER 1

ACCOUNTING IN ACTION

20-MINUTE QUIZ #1

Circle the correct answer.

True/False

- | | | | |
|----|--|------|-------|
| 1. | Accounting is an information system that identifies, records, and communicates economic events of an organization to interested users. | True | False |
| 2. | According to the revenue recognition principle, a company should recognize revenue once it meets its performance obligation. | True | False |
| 3. | The basic objective of financial reporting is to provide useful information to investors and creditors to make decisions. | True | False |
| 4. | Private companies have a choice of whether to follow ASPE or IFRS. | True | False |
| 5. | According to the cost principle, assets should be reported at their replacement cost, not their original cost. | True | False |
| 6. | The enhancing qualitative characteristic of verifiability is met when independent observers using the same method obtain the same results. | True | False |
| 7. | Collection of an account receivable will increase both cash and accounts receivable. | True | False |
| 8. | An expense paid with cash would result in an equal decrease in liabilities and owner's equity. | True | False |
| 9. | Liabilities represent the ownership claim on total assets. | True | False |

- | | | | |
|-----|--|------|-------|
| 10. | The going concern assumption assumes that a company will liquidate in the near future. | True | False |
|-----|--|------|-------|

Multiple Choice

1. In a proprietorship, owner's equity increases when:
 - a) The owner withdraws money for personal use.
 - b) Money is borrowed from the bank.
 - c) Cash is collected from a customer who had previously been billed for services.
 - d) A service is provided to a customer on account.
2. A company has a profit when:
 - a) Assets exceed liabilities for the period.
 - b) Investments exceed drawings for the period.
 - c) Revenues exceed expenses for the period.
 - d) Revenues exceed liabilities for the period.
3. Owner's Equity is not:
 - a) Existing debts and obligations of the company.
 - b) The owner's claim on total assets.
 - c) Assets minus total liabilities.
 - d) Often called residual equity.
4. A payment of accounts payable would:
 - a) Decrease liabilities and increase owner's equity.
 - b) Decrease assets and decrease liabilities.
 - c) Decrease liabilities and decrease owner's equity.
 - d) Increase assets and increase liabilities.
5. The financial statement that reports the assets, liabilities, and owner's equity at a specific date is the:
 - a) Income statement.
 - b) Statement of owner's equity.
 - c) Balance sheet.
 - d) Cash flow statement.

ANSWERS TO 20-MINUTE QUIZ #1

True/False

1. True
2. True
3. True
4. True
5. False
6. True
7. False
8. False
9. False
10. False

Multiple Choice

1. d
2. c
3. a
4. b
5. c

20-MINUTE QUIZ #2

1. Define and give an example of each of the following terms. Assume that you are the proprietor of a house painting business.

a) Assets

b) Liabilities

c) Expenses

2. How is profit calculated?

3. Bob Manor is the proprietor of Manor Accounting. For each of the following transactions, indicate the effects on the company's assets, liabilities, and owner's equity. Indicate the dollar amount and whether it is an increase (+) or a decrease (-).

	Transactions	Assets	Liabilities	Owner's Equity			
				Capital	Drawings	Revenue	Expenses
1.	Prepares a tax return for a client and bills the client \$85.						
2.	Buys \$200 office supplies on account.						
3.	Pays for the office supplies from #2.						
4.	Collects the \$85 owed by the customer from #1.						
5.	Pays \$800 for employee salaries.						
6.	Does an audit for a customer and receives \$2,500.						

ANSWERS TO 20-MINUTE QUIZ #2

1.

Define and give an example of each of the following terms. Assume that you are the proprietor of a house painting business. (Various examples will be acceptable here.)

- a) Assets Resources owned by a business which are capable of providing future services or benefits
e.g., equipment
- b) Liabilities Current obligations, arising from past events, to make future payments of assets or services.
e.g., accounts payable
- c) Expenses The cost of assets consumed or services used in a company's ordinary business activities.
e.g., salaries expense

2.

How is profit calculated? $\text{Revenues} - \text{Expenses} = \text{Profit}$

3.

Bob Manor is the proprietor of Manor Accounting. For each of the following transactions, indicate the effects on the company's assets, liabilities and owner's equity. Indicate the dollar amount and whether it is an increase (+) or a decrease (-).

	Transactions	Assets	Liabilities	Owner's Equity			
				Capital	Drawings	Revenue	Expenses
1.	Prepares a tax return for a client and bills the client \$85.	+\$85				+\$85	
2.	Buys \$200 office supplies on account.	+200	+\$200				
3.	Pays for the office supplies from #2.	-200	-200				
4.	Collects the \$85 owed by the customer from #1.	+85 -85					
5.	Pays \$800 for employee salaries.	-800					-\$800
6.	Does an audit for a customer and receives \$2,500.	+2,500				+2,500	
	Balance	\$1,785	0	0	0	\$2,585	-\$800

\$1,785 =

\$1,785