

1.

Award: 1.00 point

What is the primary purpose of the statement of financial position?

- ☐ To measure the profit of a business up to a particular point in time.
- ☐ To report the difference between cash inflows and cash outflows for the period.
- ☒ To report the financial position of the reporting entity at a particular point in time.
- ☐ To report assets at their current market value at a particular point in time.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

2.

Award: 1.00 point

On January 1, 20X1, two individuals invested \$150,000 each to form Hornbeck Corporation. Hornbeck had total revenues of \$15,000 during 20X1 and \$40,000 during 20X2. Total expenses for the same periods were \$8,000 and \$22,000, respectively. Cash dividends paid out to shareholders totaled \$6,000 in 20X1 and \$12,000 in 20X2. What was the ending balance in Hornbeck's retained earnings account at the end of 20X1 and 20X2?

- ☐ \$1,000 and \$6,000 respectively.
- ☒ \$1,000 and \$7,000, respectively.
- ☐ \$7,000 and \$19,000 respectively.
- ☐ \$301,000 and \$306,000 respectively.

Calculation: $\$15,000 - \$8,000 - \$6,000 = \$1,000$; $\$1,000 + \$40,000 - \$22,000 - \$12,000 = \$7,000$.

References

Multiple Choice Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

3.

Award: 1.00 point

The BAT Corporation had revenues of \$110,000, expenses of \$85,000, and an income tax rate of 20 percent in 20X2. What would profit after taxes be?

- ☐ \$5,000.
- ☐ \$15,000.
- ☒ \$20,000.
- ☐ \$25,000.

Calculation: $(\$110,000 - \$85,000) \times 80\% = \$20,000$.

References

Multiple Choice

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

4.

Award: 1.00 point

Brown Corporation reported the following amounts at the end of the first year of operations, December 31, 20X1: Share capital \$20,000; Sales revenue \$95,000; Total assets \$85,000, No dividends, and Total liabilities \$35,000. What would shareholders' equity and total expenses be?

- ☒ Shareholders' equity, \$50,000 and expenses \$65,000.
- ☐ Shareholders' equity, \$60,000 and expenses \$75,000.
- ☐ Shareholders' equity, \$80,000 and expenses \$40,000.
- ☐ Shareholders' equity, \$80,000 and expenses \$85,000.

Calculation: $\$85,000 - \$35,000 = \$50,000$; $\$20,000 + \$95,000 - \$50,000 = \$65,000$.

References

Multiple Choice

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

5.

Award: 1.00 point

Which of the following would *not* be considered an internal user of accounting data?

- ☐ The president of a company.
- ☐ The controller of a company.
- ☒ A creditor of a company.
- ☐ A salesperson of a company.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

6.

Award: 1.00 point

If total liabilities increased by \$25,000 and shareholders' equity increased by \$5,000 during a period, then total assets must change by what amount and direction during that same period?

- ☐ \$20,000 decrease.
- ☐ \$20,000 increase.
- ☐ \$25,000 increase.
- ☒ \$30,000 increase.

Calculation: $\$25,000 + \$5,000 = \$30,000$.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

7.

Award: 1.00 point

Which of the following activities involves raising the necessary funds to support the business?

- ☐ Operating.
- ☐ Investing.
- ☒ Financing.
- ☐ Marketing.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

8.

Award: 1.00 point

Buying assets needed to operate a business is an example of a(n)

- ☐ purchasing activity.
- ☐ financing activity.
- ☒ investing activity.
- ☐ operating activity.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

9.

Award: 1.00 point

The common characteristic possessed by all assets is

- ☐ long life.
- ☐ great monetary value.
- ☐ tangible nature.
- ☐ future economic benefit.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

10.

Award: 1.00 point

Expenses are incurred

- ☐ only on rare occasions.
- ☐ to produce assets.
- ☐ to produce liabilities.
- ☐ to generate revenues.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

11.

Award: 1.00 point

The financial statement that summarizes the changes in contributed capital and retained earnings for a specific period of time is the

- ☐ statement of financial position.
- ☐ statement of earnings.
- ☐ statement of cash flows.
- ☒ statement of changes in equity.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

12.

Award: 1.00 point

Retained earnings at the end of the period is equal to

- ☐ retained earnings at the beginning of the period plus net earnings minus liabilities.
- ☒ retained earnings at the beginning of the period plus net earnings minus dividends.
- ☐ net earnings for the period
- ☐ assets plus liabilities.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

13.

Award: 1.00 point

What form does financial accounting information provided by an entity to decision makers generally take?

- ☒ Financial statements.
- ☐ Various forecasts and performance reports.
- ☐ An analysis of changes in the price of a corporation's shares.
- ☐ Comparisons between the company and its competitors.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

14.

Award: 1.00 point

If the retained earnings account increases from the beginning of the year to the end of the year, then

- ☒ profit is greater than dividends.
- ☐ a loss is less than dividends.
- ☐ additional investments are less than reported losses.
- ☐ dividends were paid.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

15.

Award: 1.00 point

Shareholders' equity can be described as claims of

- ☐ creditors on total assets.
- ☒ owners on total assets.
- ☐ customers on total assets.
- ☐ debtors on total assets.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

16.

Award: 1.00 point

Which financial statement would indicate whether the company relies more on debt or shareholders' equity to finance its assets?

- ☐ Statement of cash flows.
- ☐ Statement of changes in equity.
- ☐ Statement of earnings.
- ☒ Statement of financial position.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

17.

Award: 1.00 point

The statement of financial position and statement of changes in equity are related because

- ☐ the total assets on the statement of financial position is reported on the statement of changes in equity.
- ☒ the ending amount on the statement of changes in equity is reported on the statement of financial position.
- ☐ the ending amount on the statement of changes in equity is transferred to the statement of cash flows.
- ☐ both contain information for the corporation.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

18.

Award: 1.00 point

Carrington Company owes you \$500 on account due within 15 days. Which of the following amounts on its statement of financial position would help you to determine the likelihood that you will be paid in full and on time?

- ☒ Cash and trade receivables.
- ☐ Cash and property and equipment.
- ☐ Cash and inventory.
- ☐ Contributed capital and retained earnings.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

19.

Award: 1.00 point

The statement of cash flows and the statement of financial position are interrelated because

- ☐ the ending amount of cash on the statement of cash flows must agree with the amount on the statement of earnings.
- ☐ the ending amount of cash on the statement of cash flows must agree with the amount in the statement of changes in equity.
- ☒ the ending amount of cash on the statement of cash flows must agree with the amount in the statement of financial position.
- ☐ both disclose the corporation's profit.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

20.

Award: 1.00 point

Which of the following are the two primary components of shareholders' equity?

- ☐ Non-current assets and liabilities
- ☒ Contributed capital and Retained earnings.
- ☐ Short term debt and retained earnings
- ☐ Long-term debt and retained earnings.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

21.

Award: 1.00 point

The statement of changes in equity is dependent on the results from

- ☐ the statement of cash flows.
- ☐ the statement of financial position.
- ☒ the statement of earnings.
- ☐ a company's share capital.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

22.

Award: 1.00 point

The primary purpose of the statement of cash flows is to report

- ☐ a company's investing transactions.
- ☐ a company's financing transactions.
- ☒ information about cash receipts and cash payments of a company.
- ☐ the net increase or decrease in cash.

References

Multiple Choice

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

23. Award: 1.00 point

Kamil's Car Repair Shop Ltd. started the year with total assets of \$70,000 and total liabilities of \$40,000. During the year, the business recorded \$100,000 in car repair revenues, \$65,000 in expenses, and dividends of \$5,000. Shareholders' equity at the end of the year was

- ☒ \$60,000.
- ☐ \$65,000.
- ☐ \$70,000.
- ☐ \$75,000.

Calculation: $\$100,000 - \$65,000 - \$5,000 + \$30,000 = \$60,000$.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

24. Award: 1.00 point

The most significant expense for a merchandising company is

- ☐ salaries expense
- ☐ equipment maintenance
- ☒ cost of goods sold
- ☐ income taxes

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

25.

Award: 1.00 point

On the statement of financial position, assets may be presented

- ☐ in order of liquidity
- ☐ in order of reverse liquidity
- ☒ either in order of liquidity or in order of reverse liquidity
- ☐ in alphabetical order

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

26.

Award: 1.00 point

Retained earnings are

- ☐ the shareholders' claim on total assets.
- ☐ equal to cash.
- ☐ equal to revenues.
- ☒ the amount of profit kept in the corporation for future use.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

27.

Award: 1.00 point

What are business liabilities?

- ☐ Amounts it expects to collect in the future from customers.
- ☒ Debts or obligations resulting from past business events.
- ☐ The amounts that owners have invested in the business.
- ☐ The increases in assets that result from profitable operations.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

28.

Award: 1.00 point

Why would Parker Bank, in deciding whether to make a loan to Davis Company, be interested in the amount of liabilities, Davis has on its statement of financial position?

- ☐ The liabilities represent resources that could be used to repay the loan.
- ☒ If Davis already has many other obligations, it might not be able to repay the loan.
- ☐ Existing liabilities give an indication of how profitable Davis has been in the past.
- ☐ Parker would be interested in the amount of Davis's assets but not the amount of liabilities.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

29. Award: 1.00 point

What are the two categories of shareholders' equity usually found on the statement of financial position of a corporation?

- ☐ Share capital and long-term liabilities.
- ☐ Share capital and property, plant, and equipment.
- ☐ Retained earnings and notes payable.
- ☒ Contributed capital and retained earnings.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

30. Award: 1.00 point

Jameson & Johnson Inc., recorded \$250,000 of depreciation expense in December 20X6. The most likely effect on the company's accounting equation is

- ☐ no effect on assets.
- ☒ a decrease in assets of \$250,000.
- ☐ an increase in liabilities of \$250,000.
- ☐ an increase in assets of \$250,000.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

31.

Award: 1.00 point

Allentown Corporation has on its statement of financial position the following amounts:

Total assets of \$3,500,000

Total liabilities of \$500,000

Contributed capital of \$1,000,000.

What is the amount of retained earnings that should appear on Allentown's statement of financial position?

→ ☒ \$2,000,000.

☐ \$3,000,000.

☐ \$4,000,000.

☐ \$5,000,000.

Calculation: $\$3,500,000 - \$500,000 - \$1,000,000 = \$2,000,000$.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

32.

Award: 1.00 point

Which financial statement for a business would you look at to determine the company's performance during an accounting period?

- ☐ Statement of financial position.
- ☐ Statement of cash flows.
- ☒ Statement of earnings.
- ☐ Statement of changes in equity.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

33.

Award: 1.00 point

Which of the following is *not* a principal type of business activity?

- ☐ Operating
- ☐ Investing
- ☐ Financing
- ☒ Delivering

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

34.

Award: 1.00 point

How do most businesses earn revenues?

- ☐ When they collect trade receivables.
- ☒ Through sales of goods or services to customers.
- ☐ By borrowing money from a bank.
- ☐ By selling shares to shareholders.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

35.

Award: 1.00 point

A group of individuals formed a new company with an investment of \$100,000. The most likely effect of this transaction on the company's accounting equation at the time of the formation is an increase in cash and

- ☐ an increase in revenue.
- ☐ an increase in liabilities.
- ☒ an increase in owners' capital.
- ☐ an increase in assets.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

36.

Award: 1.00 point

During 20X2, its second year in operation, Banner Company delivered goods to customers for which customers paid or promised to pay \$5,850,000. The amount of cash collected from customers was \$5,960,000. The amount of trade receivables at the beginning of 20X2 was \$1,200,000. What is the amount of sales revenue that Banner should report on its statement of earnings for 20X2?

- ☐ \$4,650,000.
- ☐ \$4,760,000.
- ☒ \$5,850,000.
- ☐ \$5,960,000.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

37.

Award: 1.00 point

During 20X2, its second year in operation, Banner Company delivered goods to customers for which customers paid or promised to pay \$5,850,000. Assume all sales were on account and the amount of cash collected from customers was \$5,960,000. The amount of trade receivables at the beginning of 20X2 was \$1,200,000. Based on this information, what is the amount of trade receivables that Banner would report at the end of 20X2?

- ☐ \$110,000.
- ☒ \$1,090,000.
- ☐ \$1,310,000.
- ☐ \$5,850,000.

Calculation: $\$1,200,000 + \$5,850,000 - \$5,960,000 = \$1,090,000$.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

38.

Award: 1.00 point

What is the amount of revenue recognized in the statement of earnings by a company that sells goods to customers?

- ☐ The cash collected from customers during the current period.
- ☒ Total sales, both cash and credit sales, for the period.
- ☐ Total sales minus beginning amount of trade receivables.
- ☐ The amount of cash collected plus the beginning amount of trade receivables.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

39. Award: 1.00 point

The statement of cash flows and the statement of financial position are interrelated because

- ☐ the ending amount of cash on the statement of cash flows must agree with the amount in the statement of changes in equity.
- ☒ the ending amount of cash on the statement of cash flows must agree with the amount in the statement of financial position.
- ☐ both disclose the corporation's profit.
- ☐ the ending amount of cash on the statement of cash flows must agree with the amount on the statement of earnings.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

40. Award: 1.00 point

On January 1, 20X1, Taylor Corporation had retained earnings of \$6,500,000. During 20X1, Taylor had profit of \$1,050,000 and dividends of \$450,000. What is the amount of Taylor's retained earnings at the end of 20X1?

- ☐ \$6,050,000.
- ☐ \$6,950,000.
- ☒ \$7,100,000.
- ☐ \$7,550,000.

Calculation: $\$6,500,000 + \$1,050,000 - \$450,000 = \$7,100,000$.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

41.

Award: 1.00 point

What are the categories of cash flows that appear on a statement of cash flows?

- ☐ Cash flows from investing, financing, and service activities.
- ☐ Cash flows from operating, production, and internal activities.
- ☐ Cash flows from financing, production, and growth activities.
- ☐ Cash flows from operating, investing, and financing activities.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

42.

Award: 1.00 point

Borrowing money is an example of a(n)

- ☐ delivering activity.
- ☐ financing activity.
- ☐ investing activity.
- ☐ operating activity.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

43. Award: 1.00 point

On the statement of cash flows, how would a company report the purchase of machinery?

- ☐ As cash used in operating activities.
- ☐ As cash used in financing activities.
- ☐ As cash used in purchasing activities.
- ☒ As cash used in investing activities.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

44. Award: 1.00 point

When would a company report a net loss?

- ☐ When retained earnings decreased due to paying dividends to shareholders.
- ☐ When its assets decreased during an accounting period.
- ☐ When its liabilities increased during an accounting period.
- ☒ When its expenses exceeded its revenues for an accounting period.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

45. Award: 1.00 point

Which of the following is the amount of rent expense reported on the statement of earnings?

- ☐ The amount of cash paid for rent in the current period.
- ☐ The amount of cash paid for rent in the current period less any unpaid rent at the end of the period.
- ☒ The amount of rent used up in the current period to earn revenue.
- ☐ The amount of cash paid for rent for the future period.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

46. Award: 1.00 point

What events cause changes in a corporation's retained earnings?

- ☒ Profit or loss and declaration of dividends.
- ☐ Declaration of dividends and issuance of shares to new shareholders.
- ☐ Profit issuance of shares, and borrowing from a bank.
- ☐ Declaration of dividends and purchase of new machinery.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

47.

Award: 1.00 point

The statement of financial position

- ☐ reports the changes in assets, liabilities, and shareholders' equity over a period of time.
- ☒ reports the assets, liabilities, and shareholders' equity at a specific date.
- ☐ presents the revenues and expenses for a specific period of time.
- ☐ summarizes the changes in retained earnings for a specific period of time.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

48.

Award: 1.00 point

If you wanted to know how much of its profit a corporation distributed as dividends, which financial statement would you look at?

- ☐ Statement of financial position.
- ☐ Statement of earnings.
- ☐ Statement of cash flows.
- ☒ Statement of changes in equity.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

49.

Award: 1.00 point

Why is the operating activities section often believed to be the most important part of a statement of cash flows?

- ☐ It gives the most information about how operations have been financed.
- ☐ It shows the dividends that have been paid to shareholders.
- ☒ It indicates a company's ability to generate cash from sales to meet current cash needs.
- ☐ It shows the net increase or decrease in cash during the period.

References

Multiple Choice Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

50.

Award: 1.00 point

If you wanted to know what accounting rules a company follows related to its inventory, where would you look?

- ☐ The statement of financial position.
- ☐ The statement of earnings.
- ☒ The notes to the financial statements.
- ☐ The headings to the financial statements.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

51.

Award: 1.00 point

During 20X1, Burton Company delivered products to customers for which customers promised to pay \$3,820,000. The company collected \$3,670,000 in cash from customers during the year. Indicate which of these amounts will appear on the statement of earnings and which on the statement of cash flows.

- ☐ \$3,670,000 appears on both the statement of earnings and the statement of cash flows.
- ☒ \$3,670,000 appears on the statement of cash flows, and \$3,820,000 appears on the statement of earnings.
- ☐ \$3,820,000 appears on both the statement of earnings and the statement of cash flows.
- ☐ \$3,820,000 appears on the statement of cash flows, and \$3,670,000 appears on the statement of earnings.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

52. Award: 1.00 point

At the beginning of 20X2, Rodriguez Corporation had assets of \$820,000 and liabilities of \$340,000. During the year, assets increased by \$40,000 and liabilities decreased by \$8,000. What was total shareholders' equity at the end of 20X2?

- ☐ \$432,000.
- ☐ \$480,000.
- ☒ \$528,000.
- ☐ \$1,208,000.

Calculation: $(\$820,000 + \$40,000) - (\$340,000 - \$8,000) = \$528,000$.

References

Multiple Choice Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

53. Award: 1.00 point

What term is used for probable future economic benefits owned by an entity, and obtained as the result of past transactions?

- ☒ Assets.
- ☐ Liabilities.
- ☐ Revenues.
- ☐ Retained earnings.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

54.

Award: 1.00 point

What results from the purchase of goods or services on credit and from borrowing?

- ☐ Assets.
- ☒ Liabilities.
- ☐ Share capital.
- ☐ Revenues.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

55.

Award: 1.00 point

How are the differing claims of creditors and investors recognized by a corporation?

- ☐ The claims of creditors are liabilities; those of investors are assets.
- ☐ The claims of both creditors and investors are liabilities, but only the claims of investors are long term.
- ☒ The claims of creditors are liabilities; the claims of investors are recorded as shareholders' equity.
- ☐ The claims of creditors and investors are essentially equivalent.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

56.

Award: 1.00 point

In what order are assets are listed on a statement of financial position?

- ☐ Dollar amount (largest first).
- ☐ Date of acquisition (earliest first).
- ☒ Ease of conversion to cash.
- ☐ Importance to the operation of the business.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

57.

Award: 1.00 point

In what order, would the assets of Any Company be listed on their statement of financial position?

- ☒ Cash, Trade Receivables, Inventory, Plant and Equipment.
- ☐ Cash, Inventory, Trade Receivables, Plant and Equipment.
- ☐ Cash, Trade Receivables, Marketable Securities, Inventory.
- ☐ Cash, Trade Receivables, Plant and Equipment, Inventory.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

58. Award: 1.00 point

The ending retained earnings balance of the Brown Hat restaurant chain increased by \$4.3 billion from the beginning of the year. The company had declared a dividend of \$1.5 billion. What was the profit earned during the year?

- ☐ \$2.8 billion.
- ☐ \$3.0 billion.
- ☒ \$5.8 billion.
- ☐ There is no way to determine net income as not enough information was given.

Calculation: \$4.3 billion + \$1.5 billion = \$5.8 billion.

References

Multiple Choice Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

59. Award: 1.00 point

What section of the statement of cash flows do bankers consider to be the most important?

- ☐ Investing.
- ☒ Operating.
- ☐ Financing.
- ☐ All the sections are equally important.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

60. Award: 1.00 point

Which of the following statements is TRUE?

- ☒ Publicly traded enterprises must use IFRS for external reporting purposes.
- ☐ The Accounting Standards Board is a government body.
- ☐ The SEC is the most influential Canadian regulator of the flow of financial information provided by publicly traded companies in Canada.
- ☐ Publicly traded enterprises must use the accounting standards prescribed for private enterprises for external reporting.

References

Multiple Choice Difficulty: Hard

Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.

61. Award: 1.00 point

Which of the following activities would cause investors to overpay for the acquisition of a company from its current owners?

- ☒ Understated trade payables and overstated inventory.
- ☐ Understated revenues and overstated expenses.
- ☐ Understated assets and overstated expenses.
- ☐ Understated assets and overstated revenues.

References

Multiple Choice Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

62. Award: 1.00 point

Which of the following statements is true about the price earnings (P/E) ratio?

- ☐ It is a ratio of importance to creditors.
- ☐ A high P/E ratio indicates investors have little confidence in the future profit potential of the company.
- ☒ The P/E ratio could be used to approximate the value investors would be willing to pay for the company's acquisition from existing owners.
- ☐ The P/E ratio increases as profit increases.

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

63. Award: 1.00 point

Which government regulatory agency has the legal authority to prescribe financial reporting requirements for corporations that sell their securities in Canadian stock exchanges in the province of Ontario?

- ☐ AcSB.
- ☐ CRA.
- ☒ OSC.
- ☐ CICA.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.

64. Award: 1.00 point

Under IFRS, income includes increases in economic benefits from

- ☐ increases in liabilities not related to owners' contributions
- ☐ increases in owners' equity related to owners' contributions
- ☐ All increases related to owners' contributions.
- ☐ enhancements of assets not related to owners' contributions

References

Multiple Choice Difficulty: Medium

Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.

65. Award: 1.00 point

Which securities regulator in the province of Ontario has broad powers to determine measurement rules for financial statements of publicly traded companies on the Toronto Stock Exchange?

- ☐ The Canada Revenue Agency.
- ☐ The Ontario Securities Commission.
- ☐ The Federal Accounting Office.
- ☐ The Supreme Court.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.

66.

Award: 1.00 point

Financial statements are prepared for the user. Which of the following best describes the responsibility for the preparation of financial statements?

- ☐ It is the responsibility of external auditors.
- ☐ It is the responsibility of shareholders.
- ☒ It is the responsibility of management.
- ☐ It is the responsibility of standard setters.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.

67.

Award: 1.00 point

With whom does primary responsibility for the information in a corporation's financial statements rest?

- ☐ The shareholders of the corporation.
- ☒ The managers of the corporation.
- ☐ The Ontario Securities Commission.
- ☐ The public accountant who audited the financial statements.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.

68.

Award: 1.00 point

What is an examination of the financial statements of a business to ensure that they conform with international financial reporting standards called?

- ☐ A certification.
- ☒ An audit.
- ☐ A verification.
- ☐ A validation.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.

69.

Award: 1.00 point

What is the purpose of an audit?

- ☐ To prove the accuracy of an entity's financial statements.
- ☒ To lend credibility to an entity's financial statements.
- ☐ To endorse the quality of leadership that managers provide for a corporation.
- ☐ To establish that a corporation's shares are a sound investment.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.

70.

Award: 1.00 point

Why do the managers of a corporation hire independent auditors?

- ☐ To guarantee annual and quarterly financial statements.
- ☐ To handle some personnel issues and problems.
- ☒ To audit and report on the fairness of financial statement presentation.
- ☐ To lobby the AcSB for changes in generally accepted accounting principles.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.

71.

Award: 1.00 point

Why is the auditor's role in performing audits, important to our society?

- ☐ Auditors provide direct financial advice to potential investors.
- ☐ Auditors have the primary responsibility for the information contained in financial statements.
- ☐ Auditors issue reports on the accuracy of each financial transaction.
- ☒ An audit of financial statements helps investors and others to know that they can rely on the information presented in the financial statements.

References

Multiple Choice Difficulty: Easy

Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.

72.

Award: 1.00 point

What is one of the disadvantages of a corporation, when compared to a partnership?

- ☐ The shareholders have limited liability.
- ☐ The shareholders are treated as a separate legal entity from the corporation.
- ☒ The corporation and its shareholders are potentially subject to double taxation.
- ☐ The corporation provides continuity of life.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

73.

Award: 1.00 point

Which of the following statements is true about a sole proprietorship?

- ☐ The owner and the business are separate legal entities but not separate accounting entities.
- ☒ The owner and the business are separate accounting entities but not separate legal entities.
- ☐ The owner and the business are separate legal entities and separate accounting entities.
- ☐ Most large businesses in this country are organized as sole proprietorships.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

74.

Award: 1.00 point

For a business organized as a general partnership, which statement is true?

- ☐ The owners and the business are separate legal entities.
- ☒ Each partner is potentially responsible for the debts of the business.
- ☐ Formation of a partnership requires getting a charter from the province of incorporation.
- ☐ A partnership is not considered to be a separate accounting entity.

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

75.

Award: 1.00 point

For what reason might a group of people establishing a business prefer to set it up as a corporation rather than a partnership?

- ☒ To have limited liability.
- ☐ To avoid double taxation.
- ☐ Because of ease of formation.
- ☐ To avoid complex reporting procedure for government agencies

References

Multiple Choice

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

76.

Award: 1.00 point

Accounting is a system that collects and processes financial information about an organization and reports that information to decision makers.

- ☒ True
- ☐ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

77.

Award: 1.00 point

External users of accounting information include the managers who plan, organize, and run a business.

- ☐ True
- ☒ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

78. Award: 1.00 point

In accounting and reporting for a business entity, the accounting and reporting for the business must be kept separate from other economic affairs of its owners.

- ☒ True
- ☐ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

79. Award: 1.00 point

Accounting communicates financial information about a business to both internal and external users.

- ☒ True
- ☐ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

80. Award: 1.00 point

A statement of financial position should be dated for a period (such as "For the year ended December 31, 20X1"), whereas a statement of earnings should be dated at a point in time (such as "At December 31, 20X1").

- ☐ True
- ☒ False

References

True / False

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

81. Award: 1.00 point

Expenses are the cost of assets consumed or services used in the process of generating revenue.

- ☒ True
- ☐ False

References

True / False

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

82. Award: 1.00 point

Financing activities for corporations include borrowing money and selling shares.

- ☒ True
- ☐ False

References

True / False

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

83. Award: 1.00 point

Total assets are \$60,000, total liabilities, \$30,000, and share capital is \$20,000; therefore, retained earnings is \$5,000.

- ☐ True
- ☒ False

Calculation: $\$60,000 - \$30,000 - \$20,000 = \$10,000$.

References

True / False

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

84.

Award: 1.00 point

Investing activities involve collecting the necessary funds to operate the business.

☐ True

→ ☒ False

References

True / False

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

85.

Award: 1.00 point

The purchase of equipment is an example of a financing activity.

☐ True

→ ☒ False

References

True / False

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

86.

Award: 1.00 point

The reasons for a decrease in cash can be determined by examining the statement of earnings.

☐ True

→ ☒ False

References

True / False

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

87.

Award: 1.00 point

Economic resources that are owned by a business are called shareholders' equity.

☐ True

→ ☒ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

88. Award: 1.00 point

The accounting model for the statement of financial position is: Assets + Liabilities - Shareholders' Equity.

- ☐ True
- ☒ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

89. Award: 1.00 point

Assets are resources owned by a business that provide current services or benefits to the business.

- ☐ True
- ☒ False

References

True / False

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

90. Award: 1.00 point

Profit is the excess of total revenues over total expenses incurred to generate revenue during a specific period.

- ☒ True
- ☐ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

91. Award: 1.00 point

The financial statements prepared by a corporation include a statement of financial position, statement of earnings, statement of cash flows, and statement of money.

- ☐ True
- ☒ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

92. Award: 1.00 point

A banker who is considering making a loan to a corporation would be one of the corporation's internal decision makers.

- ☐ True
- ☐ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

93. Award: 1.00 point

Assets are economic resources controlled by the entity as a result of past transactions or events and from which future economic benefits can be obtained.

- ☐ True
- ☐ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

94.

Award: 1.00 point

The financial statement that shows an entity's economic resources and its liabilities is the statement of retained earnings.

- ☐ True
- ☐ False

References

True / False

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

95.

Award: 1.00 point

The statement of comprehensive income reports the change in shareholders' equity during a period from business activities other than investments by shareholders or distributions to shareholders.

- ☐ True
- ☐ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

96.

Award: 1.00 point

A note payable is a borrowing instrument that generally does not involve the payment of interest.

- ☐ True
- ☒ False

References

True / False

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

97.

Award: 1.00 point

If a corporation does not pay its obligations when they are due, its creditors may be able to force the sale of the business's assets to pay their claims.

- ☒ True
- ☐ False

References

True / False

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

98. Award: 1.00 point

When a company ships products to a customer and bills the customer, the company should recognize revenue as earned.

- ☒ True
- ☐ False

References

True / False

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

99. Award: 1.00 point

The amount of cash paid by a business for office rent would be reported on the statement of cash flows as a financing activity.

- ☐ True
- ☒ False

References

True / False

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

100. Award: 1.00 point

Repayment of a bank loan is classified on the statement of cash flows as an operating activity.

- ☐ True
- ☒ False

References

True / False

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

101. Award: 1.00 point

Liabilities are the entity's legal obligations that result from past business events.

- ☒ True
- ☐ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

102. Award: 1.00 point

International Financial Accounting Standards are produced by the International Accounting Standards Board (IASB), which is an independent standard-setting board consisting of 15 members from twelve countries.

- ☒ True
- ☐ False

References

True / False	Difficulty: Easy	Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.
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103. Award: 1.00 point

Accounting is based on man-made rules that sometimes undergo change.

- ☒ True
- ☐ False

References

True / False	Difficulty: Easy	Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.
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104. Award: 1.00 point

Primary responsibility for the information in the financial statements lies with management.

- ☒ True
- ☐ False

References

True / False	Difficulty: Medium	Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.
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105. Award: 1.00 point

The AcSB is currently the body responsible for establishing accounting standards.

- ☒ True
- ☐ False

References

True / False	Difficulty: Medium	Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.
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106. Award: 1.00 point

The Accounting Standards Board (AcSB) is an agency of the federal government that establishes generally accepted accounting principles for businesses.

- ☐ True
- ☒ False

References

True / False	Difficulty: Medium	Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.
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107. Award: 1.00 point

Generally accepted accounting principles are essentially identical in most developed countries.

- ☐ True
- ☒ False

References

True / False	Difficulty: Medium	Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.
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108. Award: 1.00 point

One of the disadvantages of a corporation when compared to a partnership is the limited liability of the owners.

- ☐ True
- ☐ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

109. Award: 1.00 point

A partnership is an incorporated entity that has more than one owner.

- ☐ True
- ☐ False

References

True / False

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

110. Award: 1.00 point

Accountants generally must meet educational requirements, pass a rigorous exam, and meet experience requirements before becoming licensed CAs, CGAs, or CMAs.

- ☒ True
- ☐ False

References

True / False	Difficulty: Medium	Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).
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111. Award: 1.00 point

Independent CAs in the public practice of accounting are viewed as employees of their clients.

- ☐ True
- ☒ False

References

True / False	Difficulty: Medium	Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.
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112. Award: 1.00 point

An audit involves the examination of the financial reports (prepared by the management of the company) to ensure that they represent what they claim and conform with IFRS.

- ☒ True
- ☐ False

References

True / False	Difficulty: Medium	Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.
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113. Award: 1.00 point

Many opportunities exist for managers to intentionally prepare misleading financial reports.

- ☒ True
- ☐ False

References

True / False	Difficulty: Medium	Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.
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114. Award: 1.00 point

Failure to comply with professional rules of conduct can result in serious penalties for professional accountants, but not the rescinding of the professional designation of an offending member.

- ☐ True
- ☒ False

References

True / False	Difficulty: Medium	Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.
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115. Award: 1.00 point

High standards of ethics are not required for preparers of financial information.

- ☐ True
- ☒ False

References

True / False	Difficulty: Medium	Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.
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116. Award: 1.00 point

Identify which of the following accounts appear on a statement of financial position.

- (a) Service revenue
- (b) Cash
- (c) Common shares
- (d) Accounts payable
- (e) Rent expense
- (f) Supplies
- (g) Land

(b), (c), (d), (f), (g)

References

Short Answer

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

117.

Award: 1.00 point

For the items listed below, fill in the appropriate code letter to indicate whether the item is an asset, liability, or shareholders' equity item.

	Code
Asset	A
Liability	L
Shareholders' Equity	SE

_____ 1. Rent expense	_____ 7. Trade receivables
_____ 2. Office equipment	_____ 8. Retained earnings
_____ 3. Trade payables	_____ 9. Service revenue
_____ 4. Common shares	_____ 10. Bank loan payable
_____ 5. Insurance expense	_____ 11. Dividends
_____ 6. Cash	_____ 12. Unearned revenue

Please review the following information:

1. SE	7. A
2. A	8. SE
3. L	9. SE
4. SE	10. L
5. SE	11. SE
6. A	12. L

References

Short Answer

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

118. Award: 1.00 point

Classify each of these items as an asset (A), liability (L), or shareholders' equity (SE).

____ 1. Rent receivable	____ 6. Cash
____ 2. Salaries payable	____ 7. Mortgage payable
____ 3. Preferred shares	____ 8. Land
____ 4. Office supplies	____ 9. Dividends
____ 5. Retained earnings	____ 10. Office supplies expense

Please review the following information:

1. A	6. A
2. L	7. L
3. SE	8. A
4. A	9. SE
5. SE	10. SE

References

Short Answer

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

Match each definition with its related term or abbreviation by entering the appropriate letter in the space provided.

- _____ 1.OSC
- _____ 2.CICA
- _____ 3.AcSB
- _____ 4.CA
- _____ 5.IFRS

Term or Abbreviation Definition

- A. A system that collects and processes financial information about an organization and reports that information to decision makers.
- B. Measurement of information about an entity in the monetary unit-dollars or other national currency.
- C. An unincorporated business owned by two or more persons.
- D. The organization for which financial data are to be collected (separate and distinct from its owners).
- E. An incorporated entity that issues shares as evidence of ownership.
- F. Initial recording of financial statement elements at acquisition cost.
- G. An examination of the financial reports to assure that they represent what they claim and conform with international financial reporting standards.
- H. Chartered Accountant.
- I. An unincorporated business owned by one person.
- J. A report that describes the auditors' opinion of the fairness of the financial statement presentations and the evidence gathered to support that opinion.
- K. Ontario Securities Commission.
- L. Accounting Standards Board.
- M. Company that can be bought and sold by investors on established stock exchanges.
- N. International financial reporting standards
- O. Canadian Institute of Chartered Accountants.

1. K; 2. O; 3. L; 4. H; 5. N

References

Short Answer

Difficulty: Medium

Learning Objective: 01-02 Identify the role of International Financial Reporting Standards (IFRS) in determining the content of financial statements and how companies ensure the accuracy of their financial statements.

120. Award: 1.00 point

Using the income statement model and the statement of financial position model, fill-in the missing amounts for each independent case below. Assume the amounts given are at the end of the first full year of operations of the company.

Case	Total Revenue	Total Assets	Total Expenses	Total Liabilities	Profit (Loss)	Shareholders' Equity
A	\$500,000	\$300,000	\$425,000	\$110,000	\$	\$
B	75,000	\$	\$	70,000	15,000	55,000
C	\$	145,000	70,000	\$	(10,000)	90,000
D	250,000	375,000	200,000	60,000	\$	\$
E	\$	\$	64,000	88,000	3,000	65,000

Please review the following information:

Case	Total Revenue	Total Assets	Total Expenses	Total Liabilities	Profit (Loss)	Shareholders' Equity
A					\$75,000	\$190,000
B		\$125,000	\$60,000			
C	\$60,000			\$55,000		
D					\$50,000	\$315,000
E	\$67,000	\$153,000				

References

Short Answer

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

121. Award: 1.00 point

Plants Supreme, Inc., a small retail store which sells house plants, started business on January 1, 20X1. At the end of January, 20X1, the following information was available:

Sales of plants for cash	\$50,000
Sales of plants for credit	3,000
Cost of plants which were sold and paid for during January	30,000

Cash expenditures during January:

Salaries	\$4,500
Telephone	100
Office Supplies (all used)	100
Electricity	200
Rent on the store for January, 20X1 (will not be paid until February, 20X1)	800

- A. Using the above information, prepare the income statement for Plants Supreme for the month ended January 31, 20X1.
- B. What is the amount of cash flows provided by operating activities to be presented on the statement of cash flows?

Plants Supreme, Inc.
Income Statement
For the Month Ended January 31, 20X1

Revenue (\$50,000 + \$3,000)		\$53,000
Expenses:		
Cost of goods sold	\$30,000	
Salaries	4,500	
Telephone	100	
Office supplies used	100	
Electricity	200	
Rent	800	
		35,700
Profit		\$17,300

B. $\$17,300 - \$3,000 + \$800 = \$15,100$ OR $\$50,000 - \$30,000 - \$4,500 - \$100 - \$100 - \$200 = \$15,100$

References

Short Answer

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

122. Award: 1.00 point

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

	Assets	Liabilities	Shareholders' Equity
(a)	\$360,000	\$?	\$98,000
(b)	\$178,000	\$73,000	\$?
(c)	\$?	\$302,000	\$310,000

(a) \$262,000 ($\$360,000 - \$98,000 = \$262,000$).

(b) \$105,000 ($\$178,000 - \$73,000 = \$105,000$).

(c) \$612,000 ($\$302,000 + \$310,000 = \$612,000$).

References**Short Answer**

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

123. Award: 1.00 point

Rockaway Corporation's shareholders' equity equals one-fifth of the company's total assets. The company's liabilities are \$125,000. What is the amount of the company's shareholders' equity?

$$\$31,250 \text{ (} X = 1/5X + \$125,000 \text{)}$$

Where X = total assets

Solving for X

$$X - 1/5X = \$125,000 \text{ Shareholder's equity} = (1/5) \times \$156,250 = \$31,250$$

$$4/5X = \$125,000$$

$$X = \$125,000 \times 5/4$$

$$X = \$156,250 \text{ Proof: } \$31,250 + \$125,000 = \$156,250$$

References

Short Answer

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

124. Award: 1.00 point

Lopez Corporation began operations at the start of 20X3. During the year, it made cash and credit sales totaling \$974,000 and collected \$860,000 in cash from its customers. It purchased inventory costing \$508,000, paid \$25,000 for dividends and the cost of goods sold was \$445,000. The corporation incurred the following expenses:

Salary expense	\$180,000
Interest expense	15,000
Insurance expense	10,000
Supplies expense	18,000
Income tax expense	65,000

Required:

1. Prepare an income statement showing revenues, expenses, pretax profit, income tax expense, and profit for the year ended December 31, 20X3.
2. Based on the above information, what is the amount of trade receivables on the statement of financial position prepared at the end of 20X3?
3. Based on the above information, what is the amount of retained earnings on the statement of financial position prepared at the end of 20X3?

1. Lopez Corporation Income Statement For the Year Ended December 31, 20X3

Revenues:		
Sales	\$974,000	
Total revenues		\$974,000
Expenses:		
Cost of goods sold	445,000	
Salary expense	180,000	
Supplies expense	18,000	
Interest expense	15,000	
Insurance expense	10,000	
Total expenses		668,000
Pretax profit		306,000
Income tax expense		65,000
Profit		\$241,000

2. $\$974,000 - 860,000 = \$114,000$ trade receivables at the end of the year.
3. $\$0$ beginning amount + $\$241,000$ profit - $\$25,000$ dividends = $\$216,000$.

References

Short Answer

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

125. Award: 1.00 point

Delft Corporation was established on December 31, 20X1, by a group of investors who invested a total of \$100,000 for shares of the new corporation. During the month of January, 20X2, Delft provided services to customers for which the total revenue was \$40,000. Of this amount, \$4,500 had not been collected by the end of January. Delft recorded salary expense of \$17,000, of which 90% had been paid by the end of the month; rent expense of \$3,000, which had been paid on January 1, 20X2; and other expenses of \$8,500, which had been paid by check. On January 31, 20X2, Delft purchased a van by paying cash of \$25,000. There were no other events that affected cash.

Required:

1. In which section of the statement of cash flows would the amount of cash paid for salaries be reported?
2. In which section of the statement of cash flows would the amount of cash paid for the van be reported?
3. By how much did Delft's cash increase or decrease during January?
4. If the amount of cash was \$100,000 at the beginning of January, how much cash did Delft have at the end of the month?
5. What was Delft's profit or loss (after income tax expense) for the month of January? The income tax rate was 25%.
6. Explain why the net increase or decrease in cash for a business generally will be different than the profit, or net loss, for the same period.

1. Cash used in operating activities
2. Cash used in investing activities
- 3.

Amount collected from customers	\$35,500
Payment of salaries	(15,300)
Payment of rent	(3,000)
Payment of other expenses	(8,500)
Payment for van	(25,000)
Decrease in cash	\$(16,300)

4.

Amount of cash at the end of January:
 $\$100,000 - 16,300 = \$83,700$

5.

Revenues		\$40,000
Less expenses:		
Salaries expense	\$17,000	
Rent expense	3,000	
Other expenses	8,500	28,500
Income before taxes		11,500
Income taxes		2,875
Profit		\$8,625

6. Profit or loss for a period is equal to revenues minus expenses; it is not equal to the change in cash. Revenues are reported on the income statement when the goods or services are sold to the customer, which may be before or after the period in which cash is received from the customer. Expenses are reported on the income statement in the period they are used to earn revenues. Again, the payment of cash may occur before or after the period when an expense appears on the income statement.

References

Short Answer

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

126. Award: 1.00 point

Pool Supply, Inc., reported the following items for the year ended December 31, 20X3:

Wages and salary expense	\$825,000
Cost of goods sold	1,400,000
Rent expense	490,000
Sales revenue	3,417,000
Interest expense	50,000
Income tax expense	161,000
Trade receivables	25,000

Required:

Prepare an income statement for the year.

Pool Supply, Inc.
Income Statement
For the Year Ended December 31, 20X3

Revenue:		
Sales revenue	<u>\$3,417,000</u>	
Total revenues		\$3,417,000
Expenses:		
Cost of goods sold	1,400,000	
Wages and salary expense	825,000	
Rent expense	490,000	
Interest expense	<u>50,000</u>	
Total expenses		<u>2,765,000</u>
Pretax profit		652,000
Income tax expense		<u>161,000</u>
Profit		<u>\$491,000</u>

Note: Trade receivables of \$25,000 would appear on the statement of financial position, not on the income statement.

References

Short Answer

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

127. Award: 1.00 point

Empire Stores, Ltd., reported the following amounts on its statement of financial position on December 31, 20X2:

Inventory	\$710,000
Notes payable	160,000
Cash	300,000
Share capital	900,000
Net property, plant and equipment	425,000
Trade receivables	88,000
Trade payables	131,000
Retained earnings	?

Required:

1. What is the amount of Empire's total assets at the end of 20X2?
2. Identify the items listed above that are liabilities.
3. What is the amount of Empire's retained earnings at the end of 20X2?
4. Prepare a statement of financial position for Empire Stores as of December 31, 20X2.
5. Empire Stores wishes to purchase merchandise from your company on account. The amount of the purchases would probably be about \$5,000 per month, and the terms would require Empire to make payment in full within 30 days. Would you recommend that your company grant credit to Empire under these terms? Explain the reasoning for your response.

1. Total assets = \$710,000 + 300,000 + 425,000 + 88,000 = \$1,523,000
2. Liabilities: Trade payables and Notes payable.
3. Assets = Liabilities + Shareholder's equity
 $\$1,523,000 = (131,000 + 160,000 + \text{Shareholder's equity})$
 Shareholder's equity = \$1,232,000 = Share capital + retained earnings
 $\$900,000 + \text{retained earnings} = \$1,232,000$
 Retained earnings = \$332,000
- 4.

Empire Stores, LTD	
Statement of Financial Position	
At December 31, 20X2	
(in dollars)	
Assets	
Cash	\$300,000
Trade receivables	88,000
Inventory	710,000
Net property, plant and equipment	425,000
Total Assets	\$1,523,000
Liabilities	
Trade payables	\$131,000
Notes payable (long-term)	160,000
Total liabilities	\$291,000

Shareholders' Equity	
Share capital	\$900,000
Retained earnings	<u>332,000</u>
Total shareholders' equity	\$1,232,000
Total liabilities and shareholders' equity	<u>\$1,523,000</u>

5. The statement of financial position of Empire Stores shows that the company can pay its short-term liabilities. There is cash of \$300,000, more than enough to settle the accounts payable of \$131,000. I would recommend that my company grant credit to Empire Stores.

References

Short Answer

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

128. Award: 1.00 point

During 20X2, Wilmont Company performed services for which customers promised to pay \$286,000. Of this amount, \$270,000 had been collected by year end. Wilmont paid \$125,000 in cash for employee wages and owed the employees \$5,000 at the end of the year for work that had been done but had not paid for. Wilmont paid interest expense of \$1,700 and \$80,000 for other service expenses. The income tax rate was 25%, and income taxes had not yet been paid at the end of the year. Wilmont declared and paid dividends of \$6,000. There were no other events that affected cash.

Required:

1. What was the amount of the increase or decrease in cash during the year?
2. Prepare an income statement for Wilmont for the year.

1. Amount of increase or decrease in cash:

\$270,000	Collected from customers
-125,000	Paid to employees
-1,700	Interest expense
-80,000	Other service expense
-6,000	Dividends
\$57,300	Increase in cash

- 2.

Wilmont Company		
Income Statement		
For the Year Ended December 31, 20X2		
Revenues		
Service revenues	\$286,000	
Total Revenues		286,000
Expenses		
Wages expense	130,000	
Service expense	80,000	
Interest expense	1,700	
Total expense		211,700
Pretax profit		74,300
Income tax expense		18,575
Net income		\$55,725

References

Short Answer

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

129. Award: 1.00 point

Alfred Company manufactures men's clothing. During 20X2, the company reported the following items that affected cash. Indicate whether each of these items is a cash flow from operating activities (O), investing activities (I), or financing activities (F).

Description	Classification
Purchased equipment by paying cash	
Collected cash on account from customers	
Paid dividends to shareholders	
Paid cash for supplies	
Paid suppliers for fabric	
Borrowed money from bank on a long-term note	
Paid interest to bank on the note	
Paid wages to employees	
Sold shares to new shareholders	

Purchased equipment by paying cash: I
Collected cash on account from customers: O
Paid dividends to shareholders: F
Paid cash for supplies: O
Paid suppliers for fabric: O
Borrowed money from bank on a long-term note: F
Paid interest to bank on the note: O
Paid wages to employees: O
Sold shares to new shareholders: F

References**Short Answer**

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

130. Award: 1.00 point

Fulton Company was established on January 1, 20X4 when several investors paid a total of \$200,000 to purchase Fulton shares. No additional investments in shares were made during the year. By the end of that year, Fulton had cash on hand of \$45,000, office equipment (net) of \$40,000, inventories of \$156,000, and trade payables of \$10,000. Sales for the year were \$812,000. Of this amount, customers still owed \$20,000. Fulton paid dividends of \$25,000 to its investors.

Required:

1. Based on the information above, prepare a statement of financial position for Fulton Company as at December 31, 20X4. In the process of preparing the statement, you must calculate the ending balance in retained earnings.
2. What was the amount of Fulton's profit for the year?
3. Was Fulton successful during its first year in operation?

1.

Fulton Company	
Statement of Financial Position	
At December 31, 20X4	
Assets	
Cash	\$45,000
Trade receivables	20,000
Inventories	156,000
Office Equipment (net)	40,000
Total Assets	\$261,000
Liabilities	
Trade payables	\$10,000
Shareholders' Equity	
Share capital	\$200,000
Retained earnings	51,000
Total shareholders' equity	251,000
Total liabilities and shareholders' equity	\$261,000

2.

Retained earnings, January 1, 20X4	\$-0-
Profit (plug)	76,000
Dividends to shareholders	(25,000)
Retained earnings, December 31, 20X4	\$51,000

3. Yes, Fulton's first year was successful. The company earned a healthy amount of profit, and many new companies have losses during their early years of operations. Also, it was able to pay dividends to its shareholders. At the end of the first year, the company has just \$10,000 in liabilities. It appears to be in sound financial condition.

References

Short Answer

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

131. Award: 1.00 point

For Baggerly Fashions, the following information is available for the year ended December 31, 20X3:

Sales revenue	\$5,500,000
Cost of goods sold	2,800,000
Salaries expense	1,100,000
Rent expense	620,000
Administrative expense	490,000

The income tax rate is 35%.

Required:

Prepare an income statement for Baggerly Fashions.

Baggerly Fashions
Income Statement
For the Year Ended December 31, 20X3

Revenue:		
Sales revenue	\$5,500,000	
Total revenue		\$5,500,000
Expenses (excluding income taxes):		
Cost of goods sold	2,800,000	
Salaries expense	1,100,000	
Rent expense	620,000	
Administrative expense	490,000	
Total expenses		5,010,000
Pretax profit		490,000
Less income tax expense		171,500
Profit		\$318,500

References

Short Answer

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

132. Award: 1.00 point

The following data was taken from the books of Amelmen Inc. as of December 31, 20X1:

Cost of goods sold	\$15,300	Selling & admin expense	\$3,500
Income tax expense	6,120	Accounts payable	12,000
Cash	3,500	Common shares, (6,500 shares)	20,000
Dividends	6,000	Other income	1,500
Interest expense	900	Sales revenue	35,000
Amortization expense	1,500	Retained earnings	8,000

Prepare an income statement for Amelmen Inc.

Amelmen Inc.
Income Statement
For the Year Ended December 31, 20X1

Sales	\$35,000
Other income	1,500
Total revenues	36,500
Costs and expenses:	
Cost of goods sold	15,300
Selling & administrative expense	3,500
Interest expense	900
Amortization expense	1,500
Total costs and expenses	<u>21,200</u>
Earnings before taxes	15,300
Income taxes	<u>6,120</u>
Net income	<u>\$9,180</u>

References

Short Answer

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

Baseline Corporation was formed two years ago, to manufacture fitness equipment. It has been profitable and is growing rapidly. It currently has 150 shareholders and 90 employees; most of the employees own at least a few shares of Baseline's shares. The company has received financing from two banks. It will sell additional shares within the next three months and will also seek additional loans and hire new employees to support its continued growth.

Required:

1. Explain who relies on the information in financial statements prepared by Baseline Corporation.
2. Why is compliance with international financial reporting standards and accuracy in accounting important for Baseline?
3. A new accountant who tried to prepare Baseline's financial statements at the end of the current year made several errors. For each of the following items, indicate how the income statement and statement of financial position are affected by the error and the nature of the effect. (For example, an error might cause revenues and net income on the income statement and retained earnings and assets on the statement of financial position to be overstated). Ignore the effects of income taxes.
 - A. The company had sales for cash of \$3,000,000. It also had sales on account of \$1,800,000 that had been collected by the end of the year, and sales on account of \$200,000 that are expected to be collected early the following year. The accountant reported total sales revenue of \$4,800,000.
 - B. The company had total inventories of \$600,000 at the end of the year. Of this amount, inventory reported at \$30,000 was obsolete and will have to be scrapped. The statement of financial position prepared by the accountant showed total inventories of \$600,000.
 - C. The company has a bank loan for which interest expense during the year of \$10,000 will be paid early in January of the next year. The accountant did not record either the interest expense or the related liability.

1. Various external decision makers rely on the financial statements of a corporation. For Baseline, these decision makers include the bankers who have loaned money to the company. These creditors would monitor the performance of Baseline to estimate the likelihood that Baseline will be able to repay existing loans when they come due, and to decide whether to make additional loans to Baseline in the future. Current shareholders would want to review Baseline's financial statements to decide whether they wanted to continue to own Baseline's shares. Potential shareholders and creditors would use the information to decide whether they wanted to purchase Baseline's shares or loan money to the company in the future. Baseline anticipates hiring additional workers in the near future; potential employees might use information in the financial statements to evaluate the company as an employer.
2. Compliance with international financial reporting standards and accuracy in accounting are important to Baseline because they are important to the people who use Baseline's financial statements. To maintain the credibility of its financial statements, Baseline must comply with IFRS and must ensure the accuracy of its accounting records.
3.
 - A. On the income statement, revenues are understated by \$200,000 and profit is understated. On the statement of financial position, trade receivables and retained earnings are understated.
 - B. On the statement of financial position, inventory and retained earnings are overstated by \$30,000. On the income statement, expenses are understated and profit is overstated.
 - C. On the income statement, expenses are understated and profit is overstated by \$10,000. On the statement of financial position, interest payable is understated and retained earnings are overstated.

References

Short Answer

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).

134. Award: 1.00 point

Lloyd Company ends the first year of operations with \$2.2 million in retained earnings when no dividends were paid out. Since the company began operations on January 1st, 20X2 of the current year ending December 31st, 20X2 calculate the amount of beginning retained earnings and explain your answer.

The beginning balance of retained earnings is zero because a new business would not have generated income from prior operations. Retained earnings represents the profit generated through operations not distributed in the form of a dividend. A company just beginning operations could not have any profit so there would always be a zero beginning balance for new companies.

References**Short Answer**

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and how the information is used by different decision makers (investors, creditors, and managers).