

1.

Award: 1.00 point

The continuity assumption is inappropriate when

- ☐ the business is just starting up.
- ☒ liquidation appears likely.
- ☐ fair values are higher than costs.
- ☐ the business is organized as a proprietorship.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

2.

Award: 1.00 point

Shareholders' equity

- ☐ is equal to liabilities and retained earnings.
- ☒ includes retained earnings and contributed capital.
- ☐ is shown on the income statement.
- ☐ is usually equal to cash on hand.

#### References

**Multiple Choice**

Difficulty: Easy

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

3.

Award: 1.00 point

It is assumed that the activities of Petro Canada Corporation can be distinguished from those of Imperial Oil Limited because of the

- ☐ continuity assumption.
- ☒ separate-entity assumption.
- ☐ unit-of-measure assumption.
- ☐ periodicity assumption.

#### References

**Multiple Choice** Difficulty: Easy

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

4.

Award: 1.00 point

Abe Cox is the sole owner and manager of Cox Auto Repair Shop. In 20X1, Cox purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Cox from recording the cost of the new automobile as an asset to the business?

- ☒ Separate-entity assumption
- ☐ Revenue principle
- ☐ Full disclosure
- ☐ Historical cost principle

#### References

**Multiple Choice** Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

5.

Award: 1.00 point

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The main objective of financial reporting is to:

- ☐ compare a company's performance with its competitors.
- ☐ meet the needs of all potential users.
- ☒ provide information that is useful to individuals making investment and credit decisions.
- ☐ provide information that will be used by a company's managers for product pricing decisions.

#### References

**Multiple Choice**

Difficulty: Easy

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

6.

Award: 1.00 point

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Which one of the following is *not* a qualitative characteristic of useful accounting information?

- ☐ Relevance
- ☐ Faithful representation
- ☒ Materiality
- ☐ Comparability

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

7.

Award: 1.00 point

The adoption of International Financial Reporting Standards can be viewed as an application of which of the following quality enhancing characteristics?

- ☐ Timeliness
- ☐ Representational faithfulness
- ☐ Verifiability
- ☐ Comparability

#### References

**Multiple Choice** Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

8.

Award: 1.00 point

The dominating criteria by which accounting information can be judged is that of

- ☐ freedom from bias.
- ☐ comparability.
- ☐ timeliness.
- ☐ usefulness for decision making.

#### References

**Multiple Choice** Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

9.

Award: 1.00 point

The assumption that a business enterprise will not be liquidated or sold in the near future is known as the

- ☐ monetary unit assumption.
- ☐ economic entity assumption.
- ☒ going concern assumption.
- ☐ conservatism assumption.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

10.

Award: 1.00 point

Accounting information is considered to be relevant when it

- ☐ can be depended on to represent the economic conditions and events that it is intended to represent.
- ☒ is capable of making a difference in a decision.
- ☐ is understandable by reasonably informed users of accounting information.
- ☐ is verifiable and neutral.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

11.

Award: 1.00 point

During the lifetime of an entity, accountants produce financial statements at arbitrary points in time in accordance with which accounting concept?

- ☒ Periodicity
- ☐ Cost/benefit relationship
- ☐ Comparability
- ☐ Monetary unit assumption

#### References

**Multiple Choice** Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

12.

Award: 1.00 point

If Golden Company owed Eye Company \$500, where would Golden Company reflect this?

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

#### References

**Multiple Choice** Difficulty: Medium

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

13.

Award: 1.00 point

Which of the following defines assets?

- ☒ Probable future economic benefits owned by an entity as a result of past transactions.
- ☐ Possible future economic benefits owed by an entity as a result of past transactions.
- ☐ Probable future economic benefits owned by an entity as a result of future transactions.
- ☐ Possible future economic benefits owed by an entity as a result of future transactions.

#### References

**Multiple Choice**

Difficulty: Easy

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

14.

Award: 1.00 point

Which of the following defines liabilities?

- ☐ Possible debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
- ☐ Possible debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
- ☐ Probable debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
- ☒ Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.

#### References

**Multiple Choice**

Difficulty: Easy

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

15.

Award: 1.00 point

Which of the following defines shareholders' equity?

- ☐ Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
- ☐ Assets plus liabilities.
- ☐ Probable future economic benefits owned by an entity as a result of past transactions.
- ☐ The financing provided by the owners and the operations of a business.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

16.

Award: 1.00 point

Liabilities are generally classified on a statement of financial position as

- ☐ small liabilities and large liabilities.
- ☐ present liabilities and future liabilities.
- ☐ tangible liabilities and intangible liabilities.
- ☐ current liabilities and non-current liabilities.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-02 Define the elements of a classified statement of financial position.



17.

Award: 1.00 point

The asset that results when a customer buys goods or services on credit is

- ☐ notes receivable.
- ☐ accounts payable.
- ☐ Cash.
- ☒ accounts receivable.

#### References

**Multiple Choice** Difficulty: Easy

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

18.

Award: 1.00 point

The asset that results from the payment of expenses in advance is

- ☐ short term investments.
- ☒ prepaid expenses.
- ☐ accounts receivable.
- ☐ inventory.

#### References

**Multiple Choice** Difficulty: Easy

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

19.

Award: 1.00 point

Where would we report changes in shareholders' equity caused by operating activities?

- ☒ In the retained earnings account.
- ☐ In a contributed capital account.
- ☐ In a liability account.
- ☐ In an asset account.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

20.

Award: 1.00 point

How are goods, which are purchased for sale later, recorded in the financial statements

- ☐ as prepaid expenses.
- ☐ as cost of goods sold.
- ☒ as inventory.
- ☐ as operating expenses.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

21.

Award: 1.00 point

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On a classified balance sheet, prepaid expenses are classified as

- ☐ a current liability.
- ☐ property, plant, and equipment.
- ☒ a current asset.
- ☐ a long-term investment.

#### References

**Multiple Choice**

Difficulty: Easy

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

22.

Award: 1.00 point

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Which of the following is *not* considered an asset?

- ☐ Equipment
- ☒ Dividends
- ☐ Accounts receivable
- ☐ Inventory

#### References

**Multiple Choice**

Difficulty: Easy

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

23.

Award: 1.00 point

Which of the following liability accounts is usually not satisfied by payment of cash?

- ☐ Trade payables.
- ☒ Unearned revenues.
- ☐ Taxes payable.
- ☐ Short-term borrowings.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

24.

Award: 1.00 point

Accounting systems should record

- ☐ all economic events.
- ☐ events that result in a change in assets, liabilities, or shareholders' equity items.
- ☐ only events that involve cash.
- ☒ items of interest to the shareholders.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.

25.

Award: 1.00 point

Which of the following is least likely to have a liability called Deferred Revenue?

- ☐ An insurance company
- ☒ A retailer
- ☐ A magazine subscription company
- ☐ A university or college

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.

26.

Award: 1.00 point

When a new business is just starting up, which of the following must be done first?

- ☐ Generate positive cash flow through successful operations.
- ☐ Acquire the assets both long-lived and short-lived so they can operate.
- ☒ Acquire financing from issuance of shares and borrowing from creditors.
- ☐ These activities all occur simultaneously not sequentially.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.

27.

Award: 1.00 point

An account is a part of the financial information system and is described by all except which one of the following?

- ☐ An account has a debit and credit side
- ☐ An account consists of three parts
- ☐ An account has a title
- ☒ An account is a source document

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.

28.

Award: 1.00 point

If total liabilities decreased by \$14,000, and shareholders' equity increased by \$6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)

- ☐ \$20,000 increase.
- ☒ \$8,000 decrease.
- ☐ \$8,000 increase.
- ☐ \$14,000 increase.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model:  $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$ .

29.

Award: 1.00 point

Collection of a \$600 accounts receivable

- ☐ increases an asset \$600; decreases a liability \$600.
- ☐ decreases a liability \$600; increases shareholders' equity \$600.
- ☐ decreases an asset \$600; decreases a liability \$600.
- ☒ has no effect on total assets.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

30.

Award: 1.00 point

The purchase of an asset on credit

- ☐ increases assets and shareholders' equity.
- ☒ increases assets and liabilities.
- ☐ decreases assets and increases liabilities.
- ☐ has no effect on total assets.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

31.

Award: 1.00 point

Assume a company's January 1, 20X1, financial position was: Assets, \$40,000 and Liabilities, \$15,000. During January 20X1, the company completed the following transactions: (a) paid on a note payable, \$4,000 (no interest); (b) collected trade receivables, \$4,000; (c) paid trade payables, \$2,000; and (d) purchased a truck, \$1,000 cash, and \$8,000 notes payable. What is the company's January 31, 20X1 financial position?

|    | Assets   | Liabilities | Shareholders' Equity |
|----|----------|-------------|----------------------|
| A) | \$42,000 | \$9,000     | \$33,000             |
| B) | \$44,000 | \$17,000    | \$27,000             |
| C) | \$43,000 | \$18,000    | \$25,000             |
| D) | \$42,000 | \$17,000    | \$25,000             |

- ☐ Choice A
- ☐ Choice B
- ☐ Choice C
- ☒ Choice D

Calculation:  $\$40,000 - \$4,000 + \$4,000 - \$4,000 - \$2,000 - \$1,000 + \$9,000 = \$42,000$ ;  $\$15,000 - \$4,000 - \$2,000 + \$8,000 = \$17,000$ ;  $\$42,000 - \$17,000 = \$25,000$ .

### References

**Multiple Choice** Difficulty: Hard

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.



## 32. Award: 1.00 point

Winsome Inc. reports total assets and total liabilities of \$225,000 and \$100,000, respectively, at the end of its first year of business. The company earned \$75,000 during the first year and distributed \$30,000 in dividends. What was the corporation's contributed capital?

- ☐ \$125,000
- ☐ \$95,000
- ☒ \$80,000
- ☐ \$50,000

Calculation:  $\$225,000 - \$100,000 = \$125,000$   
 $\$125,000 - (\$75,000 - \$30,000) = \$80,000$ .

### References

#### Multiple Choice

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

## 33. Award: 1.00 point

Which one of the following represents the expanded basic accounting equation?

- ☒ Assets = Liabilities + Contributed capital + Retained Earnings + Revenues - Expenses - Dividends
- ☐ Assets + Liabilities = Dividends + Expenses + Contributed capital + Revenues
- ☐ Assets - Liabilities - Dividends = Contributed capital + Revenues - Expenses
- ☐ Assets = Revenues + Expenses - Liabilities

### References

#### Multiple Choice

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

34.

Award: 1.00 point

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The collection of a trade receivable from a customer would do which of the following?

- ☐ Increase liabilities.
- ☐ Decrease liabilities.
- ☒ Not affect liabilities.
- ☐ Decrease shareholders' equity.

#### References

**Multiple Choice**    Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

35.

Award: 1.00 point

The following amounts are reported in the ledger of Bowers Company:

|                   |                  |
|-------------------|------------------|
| Assets            | \$25,000 (debit) |
| Liabilities       | 15,000 (credit)  |
| Retained earnings | 3,000 (credit)   |

What is the balance in the contributed capital account?

- ☒ \$7,000 credit.
- ☐ \$8,000 debit.
- ☐ \$12,000 credit.
- ☐ \$12,000 debit.

Calculation:  $\$25,000 - \$15,000 - \$3,000 = \$7,000$ .

#### References

##### Multiple Choice

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

36.

Award: 1.00 point

The purchase of an asset on credit

- ☐ increases assets and shareholders' equity.
- ☒ increases assets and liabilities.
- ☐ decreases assets and increases liabilities.
- ☐ has no effect on total assets.

#### References

**Multiple Choice** Difficulty: Easy

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

37.

Award: 1.00 point

Which of the following will not result in recording a transaction?

- ☒ Signing a contract to have an outside cleaning service clean offices nightly.
- ☐ Paying our employees their wages.
- ☐ Selling shares to investors.
- ☐ Buying equipment and agreeing to pay a note payable and interest at the end of a year.

#### References

**Multiple Choice** Difficulty: Easy

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

## 38. Award: 1.00 point

Which of the following transactions will cause both the left and right side of the equation to increase?

- ☐ We collect cash from a customer who owed us money
- ☐ We pay a supplier for inventory we previously bought on account
- ☒ We borrow money from the bank
- ☐ We purchase equipment for cash

### References

**Multiple Choice** Difficulty: Easy

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

## 39. Award: 1.00 point

When a company buys equipment for \$60,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?

- ☐ Cash decreases by \$60,000.
- ☐ Equipment increases by \$20,000.
- ☒ Liabilities increase by \$40,000.
- ☐ Total assets increase by \$60,000.

### References

**Multiple Choice** Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

40.

Award: 1.00 point

The payment of a liability

- ☐ decreases assets and shareholders' equity.
- ☐ increases assets and decreases liabilities.
- ☐ decreases assets and increases liabilities.
- ☒ decreases assets and liabilities.

#### References

**Multiple Choice**

Difficulty: Easy

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

41.

Award: 1.00 point

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

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

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

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

## 42. Award: 1.00 point

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A new company signed a lease for office space during their first month of business. At that time, they paid a total of \$16,000 for first and last months' rent. At the end of the first month, the effect on the financial statements would be:

- ☐ \$14,000 rent expense
- ☒ \$8,000 rent expense and \$8,000 prepaid rent
- ☐ \$14,000 prepaid rent
- ☐ Nothing is recorded because the company has not made any sales yet

### References

#### Multiple Choice

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model:  $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$ .

## 43. Award: 1.00 point

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Which of the following statements is true?

- ☐ The normal balance is always on the side of the T account that is decreasing.
- ☒ The normal balance is always on the side of the T account that is increasing
- ☐ The normal balance is always on the debit side of the T account.
- ☐ The normal balance is always on the credit side of the T account.

### References

#### Multiple Choice

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

44.

Award: 1.00 point

The classification and normal balance of the dividend account is

- ☐ revenue with a credit balance.
- ☐ an expense with a debit balance.
- ☐ a liability with a credit balance.
- ☒ shareholders' equity with a debit balance.

#### References

**Multiple Choice** Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

45.

Award: 1.00 point

The best interpretation of the word credit is the

- ☐ offset side of an account.
- ☐ increase side of an account.
- ☒ right side of an account.
- ☐ decrease side of an account.

#### References

**Multiple Choice** Difficulty: Easy

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.



46.

Award: 1.00 point

In the first month of operations, the total of the debit entries to the cash account amounted to \$1,900 and the total of the credit entries to the cash account amounted to \$1,500. The cash account has a

- ☐ \$500 credit balance.
- ☐ \$900 debit balance.
- ☒ \$400 debit balance.
- ☐ \$400 credit balance.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

47.

Award: 1.00 point

Borrowing \$100,000 of cash from First National Bank, signing a note to be paid, would do which of the following?

- ☐ Increase cash by a credit.
- ☐ Increase notes payable by a debit.
- ☒ Increase notes payable by a credit.
- ☐ Decrease cash by a debit.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

48.

Award: 1.00 point

Jet Corporation was organized on March 1, 20X2. Jet Corporation issued shares to each of the six owners who paid in a total of \$3,000 cash. On the basis of transaction analysis, the following entry should be recorded in the accounts (dr = debit and cr = credit)

- ☐ Cash (dr), \$3,000; Revenue (cr), \$3,000.
- ☐ Cash (cr), \$3,000; Shareholders' equity (dr), \$3,000.
- ☒ Cash (dr), \$3,000; Contributed capital (cr), \$3,000.
- ☐ Cash (cr), \$3,000; Contributed capital (dr), \$3,000.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

49.

Award: 1.00 point

Salida Company paid a note payable of \$10,000 (interest had previously been paid). This transaction should be recorded as follows on the payment date.

|    |                      |        |        |
|----|----------------------|--------|--------|
| A) | Accounts payable     | 10,000 |        |
|    | Cash                 |        | 10,000 |
| B) | Cash                 | 10,000 |        |
|    | Note payable         |        | 10,000 |
| C) | Note payable         | 10,000 |        |
|    | Cash                 |        | 10,000 |
| D) | Note payable expense | 10,000 |        |
|    | Cash                 |        | 10,000 |

- ☐ Choice A
- ☐ Choice B
- ☒ Choice C
- ☐ Choice D

#### References

**Multiple Choice** Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

50.

Award: 1.00 point

A T account is

- ☒ a way of depicting the basic form of an account.
- ☐ a special account used instead of a journal.
- ☐ a special account used instead of a trial balance.
- ☐ is the actual account form used in real accounting systems.

#### References

**Multiple Choice** Difficulty: Easy

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

51.

Award: 1.00 point

An accountant has debited an asset account for \$500 and credited a revenue account for \$1,000. What can be done to complete the recording of the transaction?

- ☐ Nothing further must be done.
- ☐ Debit a shareholders' equity account for \$500.
- ☒ Debit another asset account for \$500.
- ☐ Credit a different asset account for \$500.

#### References

**Multiple Choice** Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

## 52. Award: 1.00 point

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The trade payables account has a beginning balance of \$1,000 and we purchased \$3,000 of inventory on credit during the month. The ending balance was \$800. How much did we pay our creditors during the month?

- ☐ \$2,800
- ☐ \$3,000
- ☒ \$3,200
- ☐ \$4,800

Calculation:  $\$1,000 + \$3,000 - \$800 = \$3,200$ .

### References

#### Multiple Choice

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

## 53. Award: 1.00 point

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When recording transactions in T-account format, we must add an additional step to the transaction analysis process. Which of the following is the additional step?

- ☐ Determine what accounts and elements in the equation are affected by the transaction.
- ☐ Determine if the affected accounts are increased or decreased by the transaction.
- ☒ We must have equal debits and credits once the entry is recorded in the accounts.
- ☐ The accounting equation must remain in balance after each transaction.

### References

#### Multiple Choice

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

54.

Award: 1.00 point

Assets normally show

- ☐ credit balances.
- ☒ debit balances.
- ☐ debit and credit balances.
- ☐ debit or credit balances.

### References

**Multiple Choice** Difficulty: Easy

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

|                                 |          |                  |                                            |
|---------------------------------|----------|------------------|--------------------------------------------|
| KOOL BILLIARDS LTD.             |          |                  |                                            |
| Statement of Financial Position |          |                  |                                            |
| December 31, 20X6               |          |                  |                                            |
|                                 |          |                  |                                            |
| Cash                            | \$60,000 |                  | Accounts payable \$70,000                  |
| Accounts receivable             | 50,000   |                  | Salaries payable 10,000                    |
| Inventory                       | 70,000   |                  | Mortgage payable <u>90,000</u>             |
| Prepaid insurance               | 40,000   |                  |                                            |
| Land                            | 190,000  |                  | <u>\$170,000</u>                           |
| Building                        | 100,000  |                  | Common shares 140,000                      |
| Less accumulated amortization   | (20,000) |                  | Retained earnings <u>250,000</u>           |
|                                 |          | 80,000           |                                            |
| Trademark net of amortization   |          |                  | Total shareholders' equity                 |
|                                 |          | <u>70,000</u>    | <u>\$390,000</u>                           |
|                                 |          |                  | Total liabilities and shareholders' equity |
| Total assets                    |          | <u>\$560,000</u> | <u>\$560,000</u>                           |

---

**55.**Award: 1.00 point

---

The total dollar amount of assets to be classified as current assets is

- ☐ \$270,000
- ☒ \$220,000
- ☐ \$190,000
- ☐ \$170,000

**References****Multiple Choice**

Difficulty: Medium

Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.

---

**56.**Award: 1.00 point

---

The total dollar amount of assets to be classified as investments is

- ☒ \$0
- ☐ \$150,000
- ☐ \$100,000
- ☐ \$180,000

**References****Multiple Choice**

Difficulty: Easy

Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.

---

57.

Award: 1.00 point

---

Long-term liabilities total

- ☒ \$90,000
- ☐ \$170,000
- ☐ \$390,000
- ☐ \$560,000

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.

---

58.

Award: 1.00 point

---

The total dollar amount of assets to be classified as property, plant, and equipment is

- ☐ \$80,000
- ☐ \$340,000
- ☒ \$270,000
- ☐ \$190,000

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.



---

59.

Award: 1.00 point

---

The total amount of working capital is

- ☒ \$140,000
- ☐ \$370,000
- ☐ \$40,000
- ☐ \$60,000

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.

---

60.

Award: 1.00 point

---

The current ratio is:

- ☐ 1.75 to 1
- ☐ 1.50 to 1
- ☐ 3.25 to 1
- ☒ 2.75 to 1

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.

---

61.

Award: 1.00 point

---

Earnings retained for use in the business are

- ☐ \$80,000
- ☐ \$390,000
- ☒ \$250,000
- ☐ \$60,000

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.

---

62.

Award: 1.00 point

---

A weakness of the current ratio is

- ☐ the difficulty of the calculation.
- ☒ that it doesn't take the composition of the current assets into account.
- ☐ that it is rarely used by sophisticated analysts.
- ☐ that it can be expressed as a percentage, as a rate, or as a proportion.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.

## 63. Award: 1.00 point

---

Financing activities involve

- ☐ lending money.
- ☐ acquiring investments.
- ☒ issuing shares.
- ☐ acquiring long-lived assets.

### References

**Multiple Choice** Difficulty: Hard

Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they impact cash flows.

## 64. Award: 1.00 point

---

Which of the following would be an example of a financing transaction?

- ☐ Purchasing equipment for cash.
- ☐ Buying inventory from a supplier on credit.
- ☒ Selling shares to investors for cash.
- ☐ Buying inventory from a supplier for cash.

### References

**Multiple Choice** Difficulty: Medium

Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they impact cash flows.

65.

Award: 1.00 point

Investing activities include

- ☒ collecting the principal on loans made.
- ☐ obtaining cash from creditors.
- ☐ obtaining capital from owners.
- ☐ repaying money previously borrowed.

#### References

**Multiple Choice**

Difficulty: Medium

Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they impact cash flows.

66.

Award: 1.00 point

Which of the following would cause an inflow of cash?

- ☐ Payment of a long-term mortgage.
- ☒ Sale of an asset for cash at less than its book value.
- ☐ Payment of accounts payable.
- ☐ Purchase of inventory for debt.

#### References

**Multiple Choice**

Difficulty: Easy

Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they impact cash flows.

67.

Award: 1.00 point

Dow Construction Company reports a net use of cash for investing activities of \$1.2 million and a net source of cash provided by financing of \$.8 million. What was the effect on the cash balance?

- ☐ To cause the balance to increase by \$.8 million.
- ☒ To cause the balance to decrease by \$.4 million.
- ☐ To cause the balance to increase by \$.4 million.
- ☐ Undeterminable because the beginning cash balance was not given.

Calculation: \$.8 million - \$1.2 million = (\$0.4 million).

#### References

**Multiple Choice**

Difficulty: Easy

Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they impact cash flows.

68.

Award: 1.00 point

Which of the following expenses has no effect on the cash flow of a firm?

- ☐ Salaries expense
- ☐ Interest expense
- ☒ Depreciation expense
- ☐ Cost of goods sold

#### References

**Multiple Choice**

Difficulty: Easy

Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they impact cash flows.

## 69. Award: 1.00 point

---

Qualitative characteristics of accounting information are not part of the conceptual framework of accounting.

- ☐ True
- ☒ False

### References

True / False

Difficulty: Easy

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

## 70. Award: 1.00 point

---

If you trade your computer plus cash for a new car, the cost of the new car is equal to the cash paid plus the market value of the computer.

- ☒ True
- ☐ False

### References

True / False

Difficulty: Easy

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

71.

Award: 1.00 point

Faithful representation means information must be free from material error, neutral and complete.

- ☒ True
- ☐ False

#### References

**True / False**

Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

72.

Award: 1.00 point

The unit-of-measure assumption states that financial information is reported in the national monetary unit.

- ☒ True
- ☐ False

#### References

**True / False**

Difficulty: Easy

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

73.

Award: 1.00 point

The separate-entity assumption assumes a stable monetary unit (not affected by inflation or deflation).

☐ True☒ False

#### References

**True / False**

Difficulty: Easy

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

74.

Award: 1.00 point

Three of the four basic assumptions that underlie accounting measurement and reporting relate to the statement of financial position.

☒ True☐ False

#### References

**True / False**

Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.



75.

Award: 1.00 point

The amount shown on the statement of financial position as shareholders' equity represents the current market value of the owners' residual claim against the company.

- ☐ True
- ☐ False

#### References

True / False

Difficulty: Medium

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

76.

Award: 1.00 point

Cash and supplies are both classified as current assets.

- ☐ True
- ☐ False

#### References

True / False

Difficulty: Easy

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

77.

Award: 1.00 point

Assets are economic resources controlled by an entity as a result of past transactions or events and for which future economic benefits may be obtained.

- ☒ True
- ☐ False

#### References

True / False

Difficulty: Easy

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

78.

Award: 1.00 point

Liability accounts are reported on the statement of financial position.

- ☒ True
- ☐ False

#### References

True / False

Difficulty: Easy

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

79.

Award: 1.00 point

The basic system of recording transactions has withstood the test of time, and has been in use for more than 500 years.

- ☒ True
- ☐ False

#### References

True / False

Difficulty: Easy

Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.

80.

Award: 1.00 point

An individual accounting record for a specific asset, liability or shareholders' equity item is called an account.

- ☒ True
- ☐ False

#### References

True / False

Difficulty: Easy

Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.

81.

Award: 1.00 point

Long-term investments appear in the property, plant, and equipment section of the balance sheet.

- ☐ True
- ☒ False

#### References

True / False

Difficulty: Medium

Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.

82.

Award: 1.00 point

On the income statement, assets should always equal liabilities plus shareholders' equity.

- ☐ True
- ☒ False

#### References

True / False

Difficulty: Easy

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model:  $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$ .

83. Award: 1.00 point

---

Transactions have a dual economic effect on the fundamental accounting model.

- ☒ True
- ☐ False

#### References

True / False

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

84. Award: 1.00 point

---

The payment of a liability in cash will decrease shareholders' equity.

- ☐ True
- ☒ False

#### References

True / False

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

## 85. Award: 1.00 point

---

If the correct accounts have been identified and the appropriate direction of the effect on each account has been determined, then the equation should remain in balance.

- ☒ True  
☐ False

### References

True / False

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

## 86. Award: 1.00 point

---

The purchase of a delivery truck for cash increases assets and shareholders' equity.

- ☐ True  
→ ☒ False

### References

True / False

Difficulty: Easy

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

87.

Award: 1.00 point

Recording the borrowing of cash with a note payable increases shareholders' equity.

☐ True

→ ☒ False

#### References

True / False

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

88.

Award: 1.00 point

When a business owner invests cash in the business, the investment causes a liability to increase.

☐ True

→ ☒ False

#### References

True / False

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

89. Award: 1.00 point

---

When a business pays a previously recorded bill, the liabilities of the business decrease.

- ☒ True
- ☐ False

#### References

True / False

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

90. Award: 1.00 point

---

The objective of transaction analysis is to determine the economic effects of each transaction in terms of the accounting model.

- ☒ True
- ☐ False

#### References

True / False

Difficulty: Easy

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.



91.

Award: 1.00 point

If a company has assets of \$60,000 and shareholders' equity of \$30,000, then its liabilities must be \$90,000.

☐ True☒ False

#### References

**True / False**

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model:  $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$ .

92.

Award: 1.00 point

A debit increases an account and a credit decreases an account.

☐ True☒ False

#### References

**True / False**

Difficulty: Easy

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

## 93. Award: 1.00 point

---

A T-account shows total debits of \$25,000 and total credits of \$22,000; therefore, it has a \$3,000 credit balance.

- ☐ True
- ☒ False

### References

True / False

Difficulty: Easy

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

## 94. Award: 1.00 point

---

In its simplest form, a T account consists of three parts: (1) its title, (2) a left or debit side and (3) a right or credit side.

- ☒ True
- ☐ False

### References

True / False

Difficulty: Easy

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

95. Award: 1.00 point

---

Debit and credit can be interpreted to mean "bad" and "good," respectively.

- ☐ True
- ☒ False

#### References

True / False

Difficulty: Easy

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

96. Award: 1.00 point

---

A T-account is an accounting method of expressing the effects of a single transaction in a debits-equal-credits format.

- ☐ True
- ☒ False

#### References

True / False

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

97.

Award: 1.00 point

Normally, asset accounts will have credit balances and liability accounts will have debit balances.

- ☐ True
- ☒ False

#### References

**True / False**

Difficulty: Easy

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

98.

Award: 1.00 point

"Debit" is the designation for the left side of an account, and "credit" is the designation for the right side of an account.

- ☒ True
- ☐ False

#### References

**True / False**

Difficulty: Easy

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

99. Award: 1.00 point

---

Some legal contracts, such as the signing of a contract to hire a new employee, are not reflected in the financial statements.

- ☒ True
- ☐ False

#### References

True / False

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

100. Award: 1.00 point

---

Contributed capital results when a company buys a new delivery truck.

- ☐ True
- ☒ False

#### References

True / False

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

## 101. Award: 1.00 point

---

Usually when a short-term, interest-bearing note payable is paid on its maturity date, an asset is credited and a liability is debited.

- ☒ True
- ☐ False

### References

True / False

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

## 102. Award: 1.00 point

---

By themselves, journal entries do not provide the balances in accounts.

- ☒ True
- ☐ False

### References

True / False

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

### 103. Award: 1.00 point

---

Calculating financial ratios can give clues to underlying conditions that may not be noticed by examining each financial statement item separately.

- ☒ True  
☐ False

#### References

True / False

Difficulty: Easy

Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.

### 104. Award: 1.00 point

---

The current ratio takes into account the composition of current assets.

- ☐ True  
→ ☒ False

#### References

True / False

Difficulty: Medium

Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.

## 105. Award: 1.00 point

---

The sale of land for cash would be classified as a cash inflow from an investing activity.

- ☒ True
- ☐ False

### References

True / False

Difficulty: Easy

Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they impact cash flows.

## 106. Award: 1.00 point

---

The activity from the balance sheet to be presented in the financing activities section of the cash flow statement is based on an analysis of shareholders' equity only.

- ☐ True
- ☒ False

### References

True / False

Difficulty: Easy

Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they impact cash flows.



Match the terminology with the description by entering the proper letter in the space to the left.

- A. Credits
- B. Share Capital
- C. Cost principle
- D. Transaction
- E. Debits
- F. Liability
- G. Statement of financial position
- H. Primary objective of external financial reporting
- I. Separate-entity assumption
- J. Retained earnings
- K. As at December 31, 20X1
- L. For the period ended December 31, 20X1
- M. None of the above is correct

- \_\_\_\_ 1. Increase assets and decreases shareholders' equity.
- \_\_\_\_ 2. An exchange between an entity and another party.
- \_\_\_\_ 3. Normal balances for liabilities.
- \_\_\_\_ 4. To provide useful economic information about a business to help external parties make sound financial decisions.
- \_\_\_\_ 5. Accounting assumption that requires assets to be recorded at their cash equivalent cost.
- \_\_\_\_ 6. Cumulative earnings that have not been distributed to the owners.
- \_\_\_\_ 7. A debt owed by the entity.
- \_\_\_\_ 8. Statement of financial position.
- \_\_\_\_ 9. Account for a business separate from its owners.
- \_\_\_\_ 10. Dating of the statement of financial position (20X1).

1. E; 2. D; 3. A; 4. H; 5. C; 6. J; 7. F; 8. G; 9. I; 10. K

### References

#### Short Answer

Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

## 108. Award: 1.00 point

---

Why is the continuity assumption so important for statement of financial position reporting?

The continuity assumption is also known as the going-concern assumption. It is important for statement of financial position reporting because of valuation issues. If a business is expected to operate into the foreseeable future, amounts presented on the statement of financial position for assets and liabilities are based on the cost principle. If the continuity assumption is not followed, assets and liabilities might be reported at liquidation values as if they are going out of business.

### References

#### Short Answer

Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

## 109. Award: 1.00 point

---

Why is the separate-entity assumption so important for statement of financial position reporting?

The separate-entity assumption is important for statement of financial position reporting because a business should present only its own assets and liabilities on the statement. A business is a separate accounting entity from its owners. Therefore, the owners' assets and liabilities would appear on their own (personal) financial statement.

### References

#### Short Answer

Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

## 110. Award: 1.00 point

Why is the historical cost principle so important for statement of financial position reporting?

The cost principle is important for statement of financial position reporting because of valuation issues. The cash-equivalent cost is verifiable. If it were not for the cost principle, assets and liabilities could be reported at more subjective values. This could lead to manipulation of statement of financial position amounts.

### References

#### Short Answer

Difficulty: Medium

Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.

## 111. Award: 1.00 point

Classify the following statement of financial position accounts for White Goose Linen Co.

|       |                                  |
|-------|----------------------------------|
| _____ | a. Investments in associates     |
| _____ | b. Retained Earnings             |
| _____ | c. Notes Payable due in 3 months |
| _____ | d. Land                          |
| _____ | e. Short-term investments        |
| _____ | f. Bonds Payable                 |
| _____ | g. Supplies                      |
| _____ | h. Share Capital                 |
| _____ | i. Notes Payable due in 5 years  |
| _____ | j. Income Taxes Payable          |

(a) NCA, (b) SE, (c) CL, (d) NCA, (e) CA, (f) NCL, (g) CA, (h) SE, (i) NCL, (j) CL

### References

#### Short Answer

Difficulty: Medium

Learning Objective: 02-02 Define the elements of a classified statement of financial position.

112.

Award: 1.00 point

---

For each of the following events, which ones result in an exchange transaction for the O'Brien Company?

|       |                                                                       |
|-------|-----------------------------------------------------------------------|
| _____ | a. Purchased land for cash and a note payable                         |
| _____ | b. Agreed to purchase one million inventory parts from a new supplier |
| _____ | c. Paid the employees for the week                                    |
| _____ | d. One of our shareholders sells her shares to a new investor         |
| _____ | e. Received inventory from a supplier under the new contract          |
| _____ | f. Entered into a contract with a new cleaning service                |

(a) Y, (b) N, (c) Y, (d) N, (e) Y, (f) N

References

Short Answer

Difficulty: Medium

Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.

For each item below, indicate whether the account will be debited or credited:

1. Decrease in Accounts Payable
2. Increase in Dividends
3. Increase in Common Shares
4. Increase in Unearned Revenue
5. Decrease in Interest Payable
6. Increase in Prepaid Insurance
7. Decrease in Wages Expense
8. Decrease in Supplies
9. Increase in Revenues
10. Decrease in Accounts Receivable

Please review the following information:

|                                     |            |
|-------------------------------------|------------|
| 1. Decrease in Accounts Payable     | <u>Dr.</u> |
| 2. Increase in Dividends            | <u>Dr.</u> |
| 3. Increase in Common Shares        | <u>Cr.</u> |
| 4. Increase in Unearned Revenue     | <u>Cr.</u> |
| 5. Decrease in Interest Payable     | <u>Dr.</u> |
| 6. Increase in Prepaid Insurance    | <u>Dr.</u> |
| 7. Decrease in Wages Expense        | <u>Cr.</u> |
| 8. Decrease in Supplies             | <u>Cr.</u> |
| 9. Increase in Revenues             | <u>Cr.</u> |
| 10. Decrease in Accounts Receivable | <u>Cr.</u> |

### References

#### Short Answer

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

Analyze the transactions of the business organized as a corporation described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (-) to indicate a decrease.

|                                                          | <u>Assets</u> | = <u>Liabilities</u> | + <u>Shareholders' Equity</u> |
|----------------------------------------------------------|---------------|----------------------|-------------------------------|
| 1. Received cash for services provided.                  |               |                      |                               |
| 2. Purchased office equipment on credit.                 |               |                      |                               |
| 3. Paid employees' salaries.                             |               |                      |                               |
| 4. Received cash from customer in payment on account.    |               |                      |                               |
| 5. Paid telephone bill for the month.                    |               |                      |                               |
| 6. Paid for office equipment purchased in transaction 2. |               |                      |                               |
| 7. Purchased office supplies on credit.                  |               |                      |                               |
| 8. Dividends were paid.                                  |               |                      |                               |
| 9. Obtained a loan from the bank.                        |               |                      |                               |
| 10. Billed customers for services performed.             |               |                      |                               |

Please review the following information:

|                                                          | <u>Assets</u> | = <u>Liabilities</u> | + <u>Shareholders' Equity</u> |
|----------------------------------------------------------|---------------|----------------------|-------------------------------|
| 1. Received cash for services provided.                  | +             |                      | +                             |
| 2. Purchased office equipment on credit.                 | +             | +                    |                               |
| 3. Paid employees' salaries.                             | -             |                      | -                             |
| 4. Received cash from customer in payment on account.    | +, -          |                      |                               |
| 5. Paid telephone bill for the month.                    | -             |                      | -                             |
| 6. Paid for office equipment purchased in transaction 2. | -             | -                    |                               |
| 7. Purchased office supplies on credit.                  | +             | +                    |                               |
| 8. Dividends were paid.                                  | -             |                      | -                             |
| 9. Obtained a loan from the bank.                        | +             | +                    |                               |
| 10. Billed customers for services performed.             | +             |                      | +                             |

**Short Answer**

Difficulty: Hard

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

**115.**

Award: 1.00 point

For each financial statement element listed, enter check marks to reflect the Debit = Credit concept.

| Element |                   | Debit    |          | Credit   |          |
|---------|-------------------|----------|----------|----------|----------|
|         |                   | Increase | Decrease | Increase | Decrease |
| A       | Assets            |          |          |          |          |
| B       | Liabilities       |          |          |          |          |
| C       | Share Capital     |          |          |          |          |
| D       | Retained Earnings |          |          |          |          |

Please review the following information:

| Element |                   | Debit    |          | Credit   |          |
|---------|-------------------|----------|----------|----------|----------|
|         |                   | Increase | Decrease | Increase | Decrease |
| A       | Assets            | X        |          |          | X        |
| B       | Liabilities       |          | X        | X        |          |
| C       | Share Capital     |          | X        | X        |          |
| D       | Retained Earnings |          | x        | X        |          |

**References****Short Answer**

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

## 116. Award: 1.00 point

For each of the accounts listed below, enter a check mark in the space provided to the right to indicate whether the typical or normal balance is a debit or credit.

| Transaction |                   | Typical Balance |        |
|-------------|-------------------|-----------------|--------|
|             |                   | Debit           | Credit |
| A           | Supplies          |                 |        |
| B           | Notes payable     |                 |        |
| C           | Retained earnings |                 |        |
| D           | Equipment         |                 |        |
| E           | Prepaid insurance |                 |        |
| F           | Trade receivables |                 |        |
| G           | Building          |                 |        |
| H           | Share capital     |                 |        |
| I           | Trade payables    |                 |        |

Please review the following information:

| Transaction |                   | Typical Balance |        |
|-------------|-------------------|-----------------|--------|
|             |                   | Debit           | Credit |
| A           | Supplies          | X               |        |
| B           | Notes payable     |                 | X      |
| C           | Retained earnings |                 | X      |
| D           | Equipment         | X               |        |
| E           | Prepaid insurance | X               |        |
| F           | Trade receivables | X               |        |
| G           | Building          | X               |        |
| H           | Share capital     |                 | X      |
| I           | Trade payables    |                 | X      |

### References

Short Answer

Difficulty: Medium

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.



117.

Award: 1.00 point

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In what two places do amounts for transactions appear in the accounting system or "the books"? Describe them.

Transactions are first recorded in the journal. This is known as the book of original entry. Transactions are entered chronologically in a debit-credit format. After transactions are journalized, the amounts are posted to the ledger (the book of final entry). The ledger contains accounts for each financial statement element so that balances can be determined.

#### References

##### Short Answer

Difficulty: Easy

Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders' Equity.

The accounts with identification letters for Wild World Inc. are listed below.  
Letter Account Title

- A Cash
- B Trade Receivables
- C Office supplies
- D Equipment
- E Land
- F Trade Payables
- G Notes Payable
- H Share Capital
- I Retained Earnings

During 20X1, the company completed the transactions given below. You are to indicate the appropriate journal entry for each transaction by giving the account letter and amount. Some entries may need three letters. The first transaction is given as an example.

| Transaction |                                                                                          | Debit  |          | Credit |          |
|-------------|------------------------------------------------------------------------------------------|--------|----------|--------|----------|
|             |                                                                                          | Letter | Amount   | Letter | Amount   |
| Ex.         | Owners invested \$30,000 cash for shares.                                                | A      | \$30,000 | H      | \$30,000 |
| A           | Borrowed \$50,000 and signed a note.                                                     |        |          |        |          |
| B           | Purchased equipment for \$30,000. Paid \$10,000 in cash, signed a \$20,000 note payable. |        |          |        |          |
| C           | Collected \$16,000 trade receivables.                                                    |        |          |        |          |
| D           | Paid \$8,000 of trade payables.                                                          |        |          |        |          |
| E           | Acquired a \$40,000 piece of land by issuing capital shares.                             |        |          |        |          |
| F           | Purchased \$2,000 of office supplies (an asset) on credit.                               |        |          |        |          |
| G           | Paid for the office supplies in (F).                                                     |        |          |        |          |

Please review the following information:

| Transaction |                                                                                          | Debit  |        | Credit |                  |
|-------------|------------------------------------------------------------------------------------------|--------|--------|--------|------------------|
|             |                                                                                          | Letter | Amount | Letter | Amount           |
| A           | Borrowed \$50,000 and signed a note.                                                     | A      | 50,000 | G      | 50,000           |
| B           | Purchased equipment for \$30,000. Paid \$10,000 in cash, signed a \$20,000 note payable. | D      | 30,000 | A<br>G | 10,000<br>20,000 |
|             |                                                                                          |        |        |        |                  |

|   |                                                              |   |        |   |        |
|---|--------------------------------------------------------------|---|--------|---|--------|
| C | Collected \$16,000 trade receivables.                        | A | 16,000 | B | 16,000 |
| D | Paid \$8,000 of trade payables.                              | F | 8,000  | A | 8,000  |
| E | Acquired a \$40,000 piece of land by issuing capital shares. | E | 40,000 | H | 40,000 |
| F | Purchased \$2,000 of office supplies (an asset) on credit.   | C | 2,000  | F | 2,000  |
| G | Paid for the office supplies in (F).                         | F | 2,000  | A | 2,000  |

## References

### Short Answer

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

Analyze the effect of the following transactions using the basic accounting equation and the format provided below.

- i. Bought land with an estimated fair value of \$150,000 by issuing 100,000 shares.
- ii. Issued 10,000 common shares for \$15,000 cash
- iii. Purchased a 2-year insurance policy for \$4,800.
- iv. Paid rent of \$3,000
- v. Bought equipment for \$50,000. Paid 20% down in cash and the balance on a 5-year, 6% note payable.
- vi. Purchased \$9,000 of merchandise inventory on credit.
- vii. Paid utilities bill for \$750.
- viii. Sold \$8,000 of merchandise inventory for \$16,000 cash.
- ix. Paid \$2,500 on merchandise inventory previously purchased.
- x. Declared a \$1,000 dividend.
- xi. Recognized that 1 month of the insurance coverage had expired.

FORMAT:

| ASSETS =       |      |     |           |                 |         |           | LIABILITIES+ |                  |                | SHAREHOLDERS' EQUITY |                   |
|----------------|------|-----|-----------|-----------------|---------|-----------|--------------|------------------|----------------|----------------------|-------------------|
| Transaction    | Cash | A/R | Inventory | Prepaid expense | Land    | Equipment | A/P          | Dividend Payable | Long-term debt | Common shares        | Retained Earnings |
| Example        |      |     |           |                 |         |           |              |                  |                |                      |                   |
|                |      |     |           |                 | 150,000 |           |              |                  |                | 150,000              |                   |
|                |      |     |           |                 |         |           |              |                  |                |                      |                   |
|                |      |     |           |                 |         |           |              |                  |                |                      |                   |
|                |      |     |           |                 |         |           |              |                  |                |                      |                   |
|                |      |     |           |                 |         |           |              |                  |                |                      |                   |
|                |      |     |           |                 |         |           |              |                  |                |                      |                   |
|                |      |     |           |                 |         |           |              |                  |                |                      |                   |
|                |      |     |           |                 |         |           |              |                  |                |                      |                   |
|                |      |     |           |                 |         |           |              |                  |                |                      |                   |
|                |      |     |           |                 |         |           |              |                  |                |                      |                   |
|                |      |     |           |                 |         |           |              |                  |                |                      |                   |
|                |      |     |           |                 |         |           |              |                  |                |                      |                   |
| Account totals |      |     |           |                 |         |           |              |                  |                |                      |                   |
| TOTALS         | \$   |     |           |                 |         |           | \$           |                  |                | \$                   |                   |

Please review the following information:

[illegible]

|                |             |    |        |        |          |         |             |        |         |          |        |
|----------------|-------------|----|--------|--------|----------|---------|-------------|--------|---------|----------|--------|
|                | -3,000      |    |        |        |          |         |             |        |         |          | -3,000 |
|                | -           |    |        |        |          | +50,000 |             |        | +40,000 |          |        |
|                | 10,000      |    |        |        |          |         |             |        |         |          |        |
|                |             |    | +9,000 |        |          |         | +9,000      |        |         |          |        |
|                | -750        |    |        |        |          |         |             |        |         |          | -750   |
|                | +16,000     |    | -8,000 |        |          |         |             |        |         |          | +8,000 |
|                | -2,500      |    |        |        |          |         | -2,500      |        |         |          |        |
|                |             |    |        |        |          |         |             | +1,000 |         |          | -1,000 |
|                |             |    |        | -200   |          |         |             |        |         |          | -200   |
| Account totals | +9,950      | 0. | +1,000 | +4,600 | +150,000 | +50,000 | +6,500      | +1,000 | +40,000 | +165,000 | +3,050 |
| TOTALS         | = \$215,550 |    |        |        |          |         | = \$215,550 |        |         |          |        |

## References

### Short Answer

Difficulty: Hard

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

120. Award: 1.00 point

(A) Complete the following schedule for Gold Eye Company.

| Transaction                                                       | Assets   | Liabilities | Shareholders' Equity |
|-------------------------------------------------------------------|----------|-------------|----------------------|
| Beginning financial position                                      | \$75,000 | \$25,000    | \$50,000             |
| Borrowed \$20,000 cash using a note payable, face amount \$20,000 |          |             |                      |
| Collected trade receivables for cash, \$5,000                     |          |             |                      |
| Paid trade payables, \$1,000 cash                                 |          |             |                      |
| Purchased office supplies on credit, \$1,000                      |          |             |                      |
| Sold shares to new investors for \$5,000 of cash                  |          |             |                      |
| Paid a \$10,000 note payable                                      |          |             |                      |
| Ending financial position                                         |          |             |                      |

(B) How much did cash change during the period?

(A)

| Transaction                                                       | Assets           | Liabilities | Shareholders' Equity |
|-------------------------------------------------------------------|------------------|-------------|----------------------|
| Beginning financial position                                      | \$75,000         | \$25,000    | \$50,000             |
| Borrowed \$20,000 cash using a note payable, face amount \$20,000 | +20,000          | +20,000     |                      |
| Collected trade receivables for cash, \$5,000                     | +5,000<br>-5,000 |             |                      |
| Paid trade payables, \$1,000 cash                                 | -1,000           | -1,000      |                      |
| Purchased office supplies on credit, \$1,000                      | +1,000           | +1,000      |                      |
| Sold shares to new investors for \$5,000 of cash                  | +5,000           |             | +5,000               |
| Paid a \$10,000 note payable                                      | -10,000          | -10,000     |                      |
| Ending financial position                                         | \$90,000         | \$35,000    | \$55,000             |

(B) Cash increase, \$19,000  
(+ 20,000 + 5,000 - 1,000 + 5,000 - 10,000)

### References

#### Short Answer

Difficulty: Hard

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

Scott, Kim and Koko organized the SKK Corporation on January 1 20X1. Each of these owners invested \$30,000 cash and received shares. Below are selected transactions that were completed during January.

(A) Give the entry on SKK's books for each transaction:

- (1) Sold shares to the owners.
- (2) Borrowed \$100,000 on one-year note payable.
- (3) Purchased land by signing a \$20,000 note payable.
- (4) Paid \$5,000 of trade payables.
- (5) Purchased two service vehicles, \$21,000 each; paid cash.
- (6) Accepted a promissory note of \$1,000 from a customer.

(B) Complete the following based only on the 6 transactions above:

Assets \$

Liabilities \$

Shareholders' equity \$

a)

|    |                                                           |         |         |
|----|-----------------------------------------------------------|---------|---------|
| 1. | Cash(30,000 × 3) (A)                                      | 90,000  |         |
|    | Share capital (SE)                                        |         | 90,000  |
|    | Investment by owners                                      |         |         |
| 2. | Cash (A)                                                  | 100,000 |         |
|    | Note payable (L)                                          |         | 100,000 |
|    | Borrowed \$100,000 on a one-year note.                    |         |         |
| 3. | Land (A)                                                  | 20,000  |         |
|    | Note payable (L)                                          |         | 20,000  |
|    | Purchased land by signing a \$20,000 note payable.        |         |         |
| 4. | Trade payables (L)                                        | 5,000   |         |
|    | Cash (A)                                                  |         | 5,000   |
|    | Paid \$5,000 of trade payables.                           |         |         |
| 5. | Equipment (A)                                             | 42,000  |         |
|    | Cash (A)                                                  |         | 42,000  |
|    | Purchased two service vehicles, \$21,000 each (paid cash) |         |         |
| 6. | Notes receivable (A)                                      | 1,000   |         |
|    | Cash (A)                                                  |         | 1,000   |
|    | Accepted a \$1,000 promissory note from a customer.       |         |         |

b)

|                      |           |
|----------------------|-----------|
| Assets               | \$205,000 |
| Liabilities          | \$115,000 |
| Shareholders' equity | \$90,000  |



## References

### Short Answer

Difficulty: Medium

Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.

## 122. Award: 1.00 point

On January 1, 20X1, Cliff Constable started a new professional corporation, Cliff Constable, LLC., to practice medicine with an initial investment of \$50,000. On June 30, 20X1 the accounting records contained the following amounts:

|                   |        |
|-------------------|--------|
| Trade Payables    | \$100  |
| Trade Receivables | 3,900  |
| Cash              | 25,100 |
| Share Capital     | 50,000 |
| Office Equipment  | 24,000 |
| Office Supplies   | 500    |
| Retained Earnings | 3,400  |

Prepare a statement of financial position at June 30, 20X1.

Cliff Constable, LLC.  
Statement of Financial Position  
As of June 30, 20X1

|                                            |                 |
|--------------------------------------------|-----------------|
| Assets                                     | \$25,100        |
| Cash                                       | 3,900           |
| Trade receivables                          | 500             |
| Office supplies                            | 24,000          |
| Total assets                               | <u>\$53,500</u> |
| Liabilities                                |                 |
| Trade payables                             | \$100           |
| Shareholders' Equity                       |                 |
| Share capital                              | \$50,000        |
| Retained earnings                          | 3,400           |
| Total shareholders' equity                 | <u>53,400</u>   |
| Total liabilities and shareholders' equity | <u>\$53,500</u> |

### References

#### Short Answer

Difficulty: Medium

Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.

## 123. Award: 1.00 point

For each of the transactions listed below, indicate whether it is an investing (I) or financing (F) activity on the cash flow statement. Also, indicate if the transaction increases (+) or decreases (-) cash.

| Transaction                                     | Type of Activity | Effect on Cash |
|-------------------------------------------------|------------------|----------------|
| Ex. Paid dividends to the owners                | F                | -              |
| A Purchased equipment to use in the business.   |                  |                |
| B Issued shares for cash.                       |                  |                |
| C Borrowed money at the bank.                   |                  |                |
| D Sold a piece of land adjacent to the plant.   |                  |                |
| E Paid the principal balance of a note payable. |                  |                |

Please review the following information:

| Transaction                                     | Type of Activity | Effect on Cash |
|-------------------------------------------------|------------------|----------------|
| A Purchased equipment to use in the business.   | I                | -              |
| B Issued shares for cash.                       | F                | +              |
| C Borrowed money at the bank.                   | F                | +              |
| D Sold a piece of land adjacent to the plant.   | I                | +              |
| E Paid the principal balance of a note payable. | F                | -              |

### References

Short Answer

Difficulty: Medium

Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they impact cash flows.