Chapter 1

Student: ____

1. Accounting is an information system that identifies, measures, records and communicates relevant information that faithfully represents an organization's economic activities.

   True False

2. Accounting information is only relevant for people in business.

   True False

3. The primary objective of accounting is to help people make better decisions.

   True False

4. "Bookkeeping" is another term for "accounting".

   True False

5. A sole proprietorship is a business owned by one or more persons.

   True False

6. A partnership is a business owned by two or more people.

   True False

7. Ownership of a corporation is divided into units called shares.

   True False

8. In the partnership form of business, the owners of a business are called shareholders.

   True False

9. Unlimited liability is an advantage for both a proprietorship and a partnership.

   True False

10. Although a proprietorship is not a separate legal entity, a partnership is.

True False

11. Limited liability is a key consideration as to why corporations can raise resources from shareholders.

True False

12. Non-business organizations often operate educational and religious services for profit.

True False

13. External users include creditors, shareholders, suppliers, and lawyers.

True False

14. Internal users include creditors, shareholders, internal auditors and managers.

True False

15. Managerial accounting is an area of accounting that provides internal reports to assist the decision-making needs of internal users.

True False

16. Internal operating functions include research and development, distribution, and human resources.

True False

17. Internal controls include procedures to protect assets and prevent fraud.

True False

18. Financial statements are an organization's primary means of financial communication and are the end result of a process, or a cycle, which begins with a business transaction like a sale.

True False

19. Career opportunities in accounting include auditing, forensic accounting, and tax planning.

True False

20. Budgeting is the process of developing formal plans for an organization's future activities.

True False

21. At the request of the Board of Directors, internal auditors perform the audit function to protect shareholder interests.

True False

22. The purpose of an audit is to add credibility to the financial statements.

True False

23. Sole proprietorships and partnerships are not subject to income tax in Canada.

True False

24. The professional designation "CGA" stands for "Chartered General Accountant".

True False

25. Private accountants work for several employers.

True False

26. The preferred ethical path is to take a course of action that avoids casting doubt on one's decisions.

True False

27. Ethics and laws often differ.

True False

28. Ethics and social responsibility are incidental to the primary functions of accounting.

True False

29. Ethical practices are not necessary to build trust and long-term relationships with customers.

True False

30. Social responsibility is concern for the impact of our actions on society as a whole.

True False

31. A balance sheet covers a period of time such as a month or year.

True False

32. The legitimate claims of a business's creditors take precedence over the claims of the business owner or owners.

True False

33. The income statement is a financial statement that shows revenues earned and expenses incurred by a business over a specified period of time.

True False

34. Net income is the excess of expenses over revenues, whereas net loss is the excess of revenues over expenses.

True False

35. The natural business year for businesses is always the same as the calendar year.

True False

36. The balance sheet shows whether or not the firm achieved its primary objective of earning a profit.

True False

37. Expenses are costs incurred or the using up of assets from generating revenue.

True False

38. Liabilities are defined as "the residual interest in the assets of an entity that remains after deducting its equity".

True False

39. A characteristic of assets is their ability to provide current benefits to the business.

True False

40. The statement of cash flows measures the net effect of revenues and expenses for a specified period.

True False

41. A liability expressed by a written promise to make a future payment is usually called an account payable.

True False

42. The balance sheet is also called the statement of financial position because it shows the financial position of the business on a particular date.

True False

43. Revenues are the value of assets exchanged for products or services provided to customers as part of the major operations of the business.

True False

44. The balance sheet can be used in order to assess the creditworthiness of potential customers.

True False

45. Withdrawals represent distributions from a corporation to its owners.

True False

46. Dividends represent distributions of profits to the partners of a business.

True False

47. Equity is increased by owner investments, net income and withdrawals.

True False

48. Although, in a sole proprietorship, owner investments are not recorded as revenue, any withdrawals are recorded as expenses.

True False

49. Equity is increased when cash is received from customers in payment of a previously recorded accounts receivable.

True False

50. An owner's cash investment in a business creates an asset (cash), a liability (note payable), and equity (owner investments).

True False

51. The first section of the income statement reports cash from operating activities.

True False

52. Individuals and organizations who own the right to receive payments from a business are called its debtors.

True False

53. A loss arises when revenues are higher than expenses.

True False

54. A characteristic of liabilities is their capacity to reduce future assets.

True False

55. Net income is equal to the change in equity due to operating activities over a period of time.

True False

56. The equity in a partnership belongs to one owner.

True False

57. The underlying concepts that make up acceptable accounting practices are referred to as generally accepted accounting principles (GAAP).

True False

58. Verifiability ensures that information is complete, neutral and free from error.

True False

59. The Accounting Standards Board (AcSB), is the body that developed the International Financial Reporting Standards.

True False

60. The Accounting Standards Board (AcSB), is the body that developed accounting standards for private enterprises (ASPE).

True False

61. International Accounting Standards have been created to improve comparability of accounting information across countries.

True False

62. Private enterprises are all required to report using International Financial Reporting Standards (IFRS).

True False

63. The primary purpose of Generally Accepted Accounting Principles is to ensure the usefulness of financial information.

True False

64. The cost principle states that if no cash is involved in a transaction the cash-equivalent value must be used.

True False

65. The monetary unit principle means that transactions are expressed using units of money as the common denominator.

True False

66. The assumption that a business will continue to operate until it can sell its assets to pay its creditors underlies the going concern principle.

True False

67. According to the cost principle, it is acceptable for managers to use their own estimate of an asset's value when recording the purchase.

True False

68. The business entity principle requires that an owner keep accounting records separate from personal records or records of any other businesses owned.

True False

69. As a rule, revenues should not be recognized in the accounting records until received in cash.

True False

70. The primary qualitative characteristics of financial information are relevance and faithful representation.

True False

71. A company that is currently in the process of liquidating is considered to be a going concern.

True False

72. The conceptual framework summarizes the qualitative characteristics and supportive building blocks that are required to prepare financial information.

True False

73. Transactions that impact only assets do not require the accounting equation to stay in balance.

True False

74. The financing side of the accounting equation describes where the assets came from.

True False

75. The accounting equation is the link between a company's assets, liabilities and equity.

True False

76. The accounting equation can be restated as assets - equity = liabilities.

True False

77. Liabilities represent non-owner financing.

True False

78. Business transactions are exchanges of economic consideration between two parties.

True False

79. Business events do not affect the accounting equation.

True False

80. The purchase of supplies for cash impacts both the investing and financing sides of the accounting equation.

True False

81. Items such as sales slips, invoices, cheques, purchase orders, and employee earnings records are also called source documents.

True False

82. Payment of accounts payable decreases both liabilities and assets.

True False

83. Chuck Taylor invested $8,000 in cash in FastForward. This amount would be reported in the statement of cash flows under financing.

True False

84. Chuck Taylor withdrew $6,000 in cash for his personal use from his business. This amount should be included as an expense on the income statement.

True False

85. Accounting is an information and measurement system that:

A.
B.
C.
D.
E.

86. The recording of financial transactions either manually or electronically is called:

A.
B.
C.
D.
E.

87. A business:

A.
B.
C.
D.
E.

88. Businesses can take the following form(s):

A.
B.
C.
D.
E.

89. A corporation:

A.
B.
C.
D.
E.

90. A partnership:

A.
B.
C.
D.
E.

91. External users of accounting information include:

A.
B.
C.
D.
E.

92. The primary objective of financial accounting is:

A.
B.
C.
D.
E.

93. The area of accounting aimed at serving the decision-making needs of internal users is:

A.
B.
C.
D.
E.

94. The internal functions of a business include:

A.
B.
C.
D.
E.

95. Internal controls are procedures set up to:

A.
B.
C.
D.
E.

96. Career opportunities in accounting include:

A.
B.
C.
D.
E.

97. An audit:

A.
B.
C.
D.
E.

98. Professional accountants can be:

A.
B.
C.
D.
E.

99. Ethics:

A.
B.
C.
D.
E.

100. Ethical behaviour requires:

A.
B.
C.
D.
E.

101. Social responsibility:

A.
B.
C.
D.
E.

102. Properties or economic resources owned by a business, also described as probable future economic benefits, are called:

A.
B.
C.
D.
E.

103. The value of assets exchanged for goods or services provided to customers as part of the main operations of a business are called:

A.
B.
C.
D.
E.

104. Net income is:

A.
B.
C.
D.
E.

105. The difference between a company's assets and its liabilities, or the residual interest in the assets of an entity that remains after deducting its liabilities, is called:

A.
B.
C.
D.
E.

106. An obligation of a business that represents the claims of others against the assets of the business is called a(n):

A.
B.
C.
D.
E.

107. Costs incurred or the using up of assets as a result of the main operations of a business are called:

A.
B.
C.
D.
E.

108. An individual or organization entitled to receive payments from a business is known to the business as a:

A.
B.
C.
D.
E.

109. An individual or organization that owes an amount to a business is known to the business as a:

A.
B.
C.
D.
E.

110. Assets created by selling products or services on credit are:

A.
B.
C.
D.
E.

111. A statement of financial position is another name for:

A.
B.
C.
D.
E.

112. Equity is also known as:

A.
B.
C.
D.
E.

113. The excess of expenses over revenues for a period is:

A.
B.
C.
D.
E.

114. Which financial statement shows whether the business earned a profit or loss, and also lists the types and amounts of the revenues and expenses?

A.
B.
C.
D.
E.

115. A balance sheet lists:

A.
B.
C.
D.
E.

116. A financial statement providing information that helps users understand a company's financial status at a specific date, is called a(n):

A.
B.
C.
D.
E.

117. The financial statement that describes where a company's cash came from and where it went during the period is the:

A.
B.
C.
D.
E.

118. The financial statement that shows the beginning balance of equity, the changes in equity that resulted from new investments by the owner, net income (or net loss), withdrawals, and the ending balance of equity is the:

A.
B.
C.
D.
E.

119. Cash investments by owners are listed on which of the following statement(s)?

A.
B.
C.
D.
E.

120. Net income appears on which of the following statement(s)?

A.
B.
C.
D.
E.

121. Salaries paid with cash appear on which of the following statement(s)?

A.
B.
C.
D.
E.

122. Fees earned by a business in exchange for services provided by the business appear on which of the following statements?

A.
B.
C.
D.
E.

123. Which of the following is not reported on the income statement?

A.
B.
C.
D.
E.

124. A primary operating objective of a business is to increase the equity of its owner or owners by:

A.
B.
C.
D.
E.

125. Which of the following statements is true about assets?

A.
B.
C.
D.
E.

126. Payments of cash by a corporation to its shareholders are called:

A.
B.
C.
D.
E.

127. A payment from a proprietorship or partnership to its owner or owners is called a(n):

A.
B.
C.
D.
E.

128. Profit is another name for:

A.
B.
C.
D.
E.

129. A statement of profit and loss is another name for:

A.
B.
C.
D.
E.

130. Revenues are:

A.
B.
C.
D.
E.

131. If financial information is relevant, this means that:

A.
B.
C.
D.
E.

132. Financial information that is verifiable means that:

A.
B.
C.
D.
E.

133. The business entity principle:

A.
B.
C.
D.
E.

134. The accounting principle that requires that transactions are expressed using units of money as the common denominator is the:

A.
B.
C.
D.
E.

135. The accounting principle that states that revenue is recorded at the time that it is earned regardless of whether cash or another asset has been exchanged is the:

A.
B.
C.
D.
E.

136. The accounting principle that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue, is the:

A.
B.
C.
D.
E.

137. The rules adopted by the accounting profession as guides in measuring, recording, and reporting the financial affairs and activities of a business are:

A.
B.
C.
D.
E.

138. If a parcel of land is offered for sale at $45,000, is assessed for tax purposes at $20,000, is considered by its purchasers to be worth $36,000, and is purchased for $34,000, the land should be recorded in the purchaser's books at:

A.
B.
C.
D.
E.

139. To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:

A.
B.
C.
D.
E.

140. The accounting principle that requires financial statement information to be based on costs incurred in business transactions, and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:

A.
B.
C.
D.
E.

141. Generally accepted accounting principles are:

A.
B.
C.
D.
E.

142. The organization established to try to achieve global agreement on the use of a common set of accounting principles is called:

A.
B.
C.
D.
E.

143. According to generally accepted accounting principles, a company's balance sheet should show the company's assets at:

A.
B.
C.
D.
E.

144. If a business is not being sold or closed, the amounts reported in the accounts for assets used in operations are based on costs. This practice is justified by the:

A.
B.
C.
D.
E.

145. Which of the following accounting principles would require that all goods and services purchased be recorded at cost?

A.
B.
C.
D.
E.

146. The rule that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash, and (3) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services is called the:

A.
B.
C.
D.
E.

147. The question of when revenue should be recognized on the income statement (according to GAAP) is answered by the:

A.
B.
C.
D.
E.

148. Revenue is recognized in most businesses:

A.
B.
C.
D.
E.

149. The description of the relationship between a company's assets, liabilities, and equity, which is expressed as Assets = Liabilities + Equity, is known as the:

A.
B.
C.
D.
E.

150. The balance sheet equation is:

A.
B.
C.
D.
E.

151. If equity is $30,000 and liabilities are $73,000, then assets equal:

A.
B.
C.
D.
E.

152. If assets are $175,000 and equity is $47,000, then liabilities equal:

A.
B.
C.
D.
E.

153. If assets are $144,000 and liabilities are $37,000, then equity equals:

A.
B.
C.
D.
E.

154. The accounting equation can be stated as:

A.
B.
C.
D.
E.

155. The assets of a business total $20,000; the liabilities, $8,000. The claims of the owners are:

A.
B.
C.
D.
E.

156. The FastForward Company balance sheet shows cash $5,000, accounts receivable $7,000, office equipment $3,000, and accounts payable $4,000. What is the amount of equity?

A.
B.
C.
D.
E.

157. An exchange between two parties of economic consideration such as goods, services, money, or rights to collect money is called:

A.
B.
C.
D.
E.

158. A business activity that does not involve an exchange of economic consideration between two parties is called a(n):

A.
B.
C.
D.
E.

159. Which of the following is an example of a source document?

A.
B.
C.
D.
E.

160. If the liabilities of a business increased $8,000 during a period of time and equity in the business decreased $4,000 during the same period, the assets of the business must have:

A.
B.
C.
D.
E.

161. If the assets of a business increased $9,000 during a period of time and its liabilities increased $5,000 during the same period, equity in the business must have:

A.
B.
C.
D.
E.

162. Today, Cedar Park Company paid $600 of its accounts payable in cash. What is the effect on the accounting equation?

A.
B.
C.
D.
E.

163. How would the accounting equation of Lenore Turner's consulting business be affected by the billing of a client for $2,000 for consulting work completed?

A.
B.
C.
D.
E.

164. Celery Company has assets of $150,000, liabilities of $90,000, and equity of $60,000. It buys supplies for cash $5,000. What effect would this transaction have on the accounting equation?

A.
B.
C.
D.
E.

165. Blue Company collected $2,000 cash for work completed. The effects on the accounting equation are:

A.
B.
C.
D.
E.

166. Joe Bob has prepared the following analysis of September transactions for his business, Joe Bob's Spareribs. Unfortunately, he has lost some information. Calculate the missing information.

Date	Cash	A/R	Inventory	A/P
Sep 2	4,000	2,100	1,000	?
Sep 6	-1,000	-0-	4,000	?
Sep 10	500	300	-300	-0-

A.

B.

C.

D.

E.

167. From the following information taken from the records of Peach Company at December 31 of this year, calculate equity.

Liabilities	$1,000
Cash	3,000
Accounts Receivable	2,000
Buildings	3,500
Equity	?

A.
B.
C.
D.
E.

168. Something of value, such as products, services and money, is called a(n):

A.
B.
C.
D.
E.

169. Exchanges between the entity and some other person or organization are:

A.
B.
C.
D.
E.

170. Economic events that affect an entity's accounting equation, but that are not transactions between the entity and outside parties are called:

A.
B.
C.
D.
E.

171. Source documents include all of the following *except*:

A.
B.
C.
D.
E.

172. Which of the following statements is correct regarding sales invoices?

A.
B.
C.
D.
E.

173. Source documents:

A.
B.
C.
D.
E.

174. Which of the following items does not appear on the balance sheet?

A.
B.
C.
D.
E.

175. The following information is available for Isla Company for last May. How much is the net income for the month?

Employee salaries	$15,000
Interest paid on bank loan	2,500
Rent paid to landlord	12,500
Service Revenue	50,000

A.
B.
C.
D.
E.

176. Reese's Company reported equity of $22,000 on its December 31, 2014 balance sheet. The following information is available for the year ended December 31, 2015:

Revenues	$73,000
Expenses	59,000
Liabilities	11,000

What are the total assets of Reese's Company at December 31, 2015?

A.
B.
C.
D.
E.

177. At the end of its first year of operations, Lockerbie and Role Company has total assets of $3,000,000 and total liabilities of $1,200,000. The owner originally invested $200,000 in the business, but has not made any further investments or taken any withdrawals. What is the first year's net income for Lockerbie and Role Company?

A.
B.
C.
D.
E.

178. Willie's Attic has the following account balances for the dates given:

Cash, Sept 1	$40
Cash, Sept 30	60
Accounts receivable, Sept 1	10
Accounts receivable, Sept 30	14
Capital, Sept 1	
Capital, Sept 30	
Supplies, Sept 1	30
Supplies, Sept 30	24
Accounts payable, Sept 1	6
Accounts payable, Sept 30	
Net income for September	20

What would equity be on September 1 and September 30?

A.
B.
C.
D.
E.

179. Describe the purpose and importance of accounting

180. Identify the three forms of business organizations.

181. Describe non-business organizations.

182. Identify the form of business organization(s) to which the following characteristics apply.

(a) Is a separate business entity.
(b) Can be owned by one person.
(c) Owner or owners are personally liable for debts of the business.
(d) Is a taxable entity.
(e) Is created by a charter from a provincial or the federal government.
(f) Keeps the accounting of its transactions separate from the owner's(s') personal transactions.
(g) May have a contract specifying the division of profits among the owners.
(h) Owner or owners are not personally liable for debts of the business.

Use the following format to indicate whether or not a characteristic applies to each type of business organization.

	Proprietorship	Partnership	Corporation
a.			
b.			
c.			
d.			
e.			
f.			
g.			
h.			

183. The following is a list of users of accounting information. Match the appropriate user groups to the following information needs. NOTE: Some needs may apply to more than one user group.

(a) Employees
(b) Lenders
(c) External auditors
(d) Managers
(e) Suppliers
(f) Regulators
(g) Shareholders

_______(1) The level of sales necessary to break even.
_______(2) Verification that external reports are accurate.
_______(3) Computation of taxes.
_______(4) The ability of a company to repay its loans.
_______(5) The amount of current income.
_______(6) Fairness of wages.
_______(7) Promptness of customer payment of bills.
_______(8) Profit outlook.

184. Describe the main user groups, their members, and their uses of accounting information.

185. Explain why ethics and social responsibility are an integral part of accounting.

186. Identify several opportunities in accounting and its related fields.

187. Explain the difference between the functions of an internal auditor and an external auditor.

188. Select the appropriate financial statement for each of the following accounts.

(a) Income statement
(b) Statement of changes in equity
(c) Balance sheet
(d) Statement of cash flows

______ (1) Cash
______ (2) Withdrawals
______ (3) Notes payable
______ (4) Fees earned
______ (5) John Jay, capital
______ (6) Accounts receivable
______ (7) Prepaid Rent
______ (8) Supplies Expense

189. Select the appropriate financial statement for each of the following items.

(a) Income statement
(b) Statement of changes in equity
(c) Balance sheet
(d) Statement of cash flows

_______ (1) Supplies
_______ (2) Net income
_______ (3) Ahmad Khan, Capital
_______ (4) Advertising Expense
_______ (5) Purchased equipment for cash
_______ (6) Withdrawals
_______ (7) Fees earned
_______ (8) Proceeds received from a loan

190. List the three main differences between the sole proprietorship and the corporate form of business.

191. What is the statement of financial position? What is its purpose?

192. What distinguishes liabilities from equity?

193. List the three types of activities reported on the statement of cash flows.

194. Describe the three important guidelines for revenue recognition.

195. How does the cost principle support ethical behaviour?

196. Why should assets be recorded at historical cost?

197. How does the going concern principle affect reporting asset values of a business?

198. A parcel of land is offered for sale at $135,000, is assessed for tax purposes at $60,000, is recognized by its purchasers as easily being worth $108,000, and is purchased for $106,000. At what amount should the land be recorded in the purchaser's books? What accounting principle supports your answer?

199. Before purchasing a parcel of land, Ming's Boutique had the land appraised at $90,000. The management of Ming's Boutique purchased the land for $85,000. At what amount should the land be recorded on Ming's Boutique's books? What accounting principle supports your answer?

200. You are reviewing the accounting records of April's Attic, owned by April Lapierre. You have uncovered the following situations. Compose a memo to Ms. Lapierre. Cite the appropriate accounting principle and suggest an action for each separate item.

(1)	April wrote a cheque for $350 to Wee Care Day C amount paid for day care for Justin Lapierre, Apri
(2)	April plans a Going Out of Business Sale for May closing her business for a month-long vacation in reopen July 1 and will continue operating April's
(3)	April received a shipment of pine furniture from I invoice was stated in U.S. dollars.
(4)	Martinique Gresham paid $1,000 for a dining tabl recorded as revenue. The table will be delivered t weeks.

201. Explain the accounting equation, also called the balance sheet equation.

202. Lionel's Laundry has assets of $180,000 and liabilities of $120,000. Calculate the amount of equity.

203. Caps Lock has liabilities of $150,000 and $100,000 in equity. What is the value of its assets?

204. Sheila's Attic has $650,000 in assets and equity of $250,000. What is the amount of its liabilities?

205. If the liabilities of a business increased $65,000 during a period of time and equity in the business decreased $21,000 during the same period, would the assets of the business have increased or decreased? By what amount?

206. Select from the following list items that are likely to serve as source documents.

(a) Credit card	(e) Balance sheet
(b) Credit card receipt	(f) Bank statement
(c) Purchase order	(g) Accounting equati
(d) Invoice	(h) Electric power bil

207. Explain the difference between a business transaction and a business event.

208. At the beginning of this year, Tong Company had $160,000 in liabilities. During this year, assets increased by $160,000 and at year-end they equaled $360,000. Liabilities decreased $20,000 during this year. Calculate the beginning and ending values of equity.

209. If the liabilities of a business increased $58,000 during a period of time and equity in the business decreased $18,000 during the same period, would the assets of the business have increased or decreased? By what amount?

210. On May 1, Fiona Nash formed a computer consulting business. In order to start the business she invested $20,000 in equipment. Enter the appropriate amounts into the accounting equation format.

211. Blu Lightning Co. spent $6,000 in cash for a computer. Enter the appropriate amounts into the accounting equation format.

212. Blu Lightning Co. bought supplies and testing equipment for $3,000 on credit. Enter the appropriate amounts into the accounting equation format

213. Blu Lightning Co. performed testing services for the Cheetah Co. Blu Lightning Co. billed Cheetah Co. $5,000. Enter the appropriate amounts into the accounting equation format.

214. Blu Lightning Co. paid its employees $2,000 in cash for two weeks' wages. Enter the appropriate amounts into the accounting equation format.

215. Blu Lightning Co. received $5,000 for a previously recorded account receivable from the Cheetah Co. Enter the appropriate amounts into the accounting equation format.

216. If, on January 1, Terry Chervinski Company paid $2,000 of its accounts payable in cash, what would be the effect of this transaction on assets, on liabilities, and on equity?

217. Dallas Parsons, CA, began an accounting practice and completed these transactions during September 2015:

Sept 1	Invested $25,000 of his personal savings into a bank a
	name of the accounting practice.
Sept 2	Purchased office equipment for $2,500, paying $800 the balance in one year.
Sept 3	Rented office space and paid cash for two months in a
Sept 4	Completed accounting work for a client and immedia cash for the work done.
Sept 8	Purchased office supplies for cash, $50.
Sept 15	Completed accounting services for a client on credit,
Sept 20	Received $2,500 from the above client for the work c 15.
Sept 30	Paid utilities expense for month of $300.
Sept 30	Paid the office secretary's salary, $400.
Sept 30	Paid $100 for repairs to the photocopier.

Show the effects of the above transactions on the balance sheet items of Dallas Parsons, CA. Use the following format for your answers.
Increase = I Decrease = D No effect = N

218. For each of the following transactions, identify the effect on the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A", "L", and "E" to indicate assets, liabilities, and equity, respectively.

(a)	R.H. Long invested $100,000 in a sole proprietorship.
(b)	Land was purchased for $50,000 on account.
(c)	Services were rendered to customers on account.
(d)	A building was purchased for $100,000. $50,000 was paid in cash and the remainder was on account.
(e)	The premium for a 12-month insurance policy was paid in cash in advance.
(f)	Paid the office secretary's salary.
(g)	The amount owed on the building was paid.

219. Bandu Company's accounts with the increases or decreases that occurred during this year are as follows:

	Increase
Cash	$ 6,000
Accounts receivable	$(2,000)
Supplies	15,000
Accounts payable	(8,000)
Notes payable	13,000

Except for net income, an investment of $4,000, and a withdrawal of $12,000, no other items affected the capital account during the year. Using the balance sheet equation, calculate net income for this year.

220. The following schedule shows the first month's transactions of the Bill Blue Real Estate Company:

Describe the most likely reason(s) for each transaction.

221. Blu Disc paid its landlord $3,000 in cash for three months' rent in advance. Enter the appropriate amounts into the accounting equation format.

222. Describe source documents and their purpose.

223.

The bookkeeper of the Tide Company prepared a balance sheet immediately after each transaction was recorded. During September 2015, the first month of operation, the following balance sheets were prepared:

Required: Describe the nature of each of the five transactions that took place during the month of September.

Sept	1	
	5	
	9	
	11	
	15	

224. Prepare a balance sheet in good form for the Logitech Trucking Company from the following alphabetical list of the accounts at September 30, 2015:

Accounts receivable	4,000
Accounts payable	12,000
Building	29,000
Cash	5,000
Notes payable	40,000
Office equipment	6,000
P. Dersch, capital	?
Trucks	50,000

225. Prepare a balance sheet in good form at December 31, 2015 for Draydon Insurance Co. from the following items:

Prepaid insurance	$1,500
Commissions earned	38,000
Accounts payable	2,800
Accounts receivable	1,100
John Ace, capital	28,800
Office equipment	6,000
Advertising expense	1,400
Cash	4,100
Land	20,000
Note payable	72,000
Office supplies	400
Salaries expense	7,800
Salaries payable	700
Building	100,000

226. At January 1, 2015, the records of Anna Turcza's law practice showed equity at $47,200. Net income for 2015 was $16,200, and Anna withdrew $3,000 in cash during the year. Prepare the statement of changes in equity for 2015.

On November 1, 2015, Jill Luckovich began Jill Luckovich Interior Design Co. with an initial investment of $6,725, and on November 30 her records showed the following (alphabetically arranged) account balances:

Accounts payable	$600	Office furniture
Accounts receivable	2,250	Jill Luckovich,
Cash	2,875	Rent expense
Fees earned	6,400	Salaries expens
Notes payable	700	Telephone expe
Jill Luckovich, Capital	6,725	

227. From the information given in reference, prepare an income statement for November.

228. From the information given in reference, prepare a statement of changes in equity for November.

229. From the information given in reference, prepare a November 30 balance sheet.

The records of Cohen's Toy Repair Co. at December 31, 2015 showed the following account balances:

Accounts payable	$16,000	Office furniture	
Accounts receivable	7,250	Cohen, withdraw	
Cash	7,875	Advertising exper	
Revenues	43,200	Wages expense	
Notes payable	900	Maintenance exp	
Cohen, Capital	6,725		

230. From the information given in reference, prepare an income statement for 2015.

231. From the information given in reference, prepare a statement of changes in equity for 2015.

232. From the information given in reference, prepare the year-end balance sheet.

233. Data for Inuvic Realty operations are as follows:

Accounts payable	$16,000	Office furniture
Accounts receivable	0	Charlie Inuvic, with
Cash	65,000	Advertising expense
Revenues	111,000	Wages expense
Notes payable		Maintenance expens
Charlie Inuvic, Capital	-	

The owner, Charlie Inuvic, withdrew a total of $23,000 for personal use during 2016. From the above data, prepare Inuvic Realty's statement of changes in equity for the year ended December 31, 2016.

234. Describe the relationship between sales (or revenues), expenses, and profit.

235. Accounting is a(n) __________________ that identifies, measures, records, and communicates relevant information that faithfully represents an organization's economic activities.

____

236. The primary objective of accounting is ______________________.

____

237. A(n) ____________________ is a business owned by one person.

____

238. When a corporation issues only one class of shares they are called _________ shares.

____

239. ______________ of accounting information are not directly involved in running the organization.

____

240. ______________ is the area of accounting aimed at serving external users.

____

241. Persons using accounting information who are directly involved in the running of the organization are called ____________________.

____

242. _________ are beliefs that separate right from wrong.

____

243. An audit is _______________ of an organization's accounting systems and records.

____

244. _____________ is increased by owner's investments and revenues. It is decreased by withdrawals and expenses.

____

245. Profit is also called _____________.

____

246. A(n) ___________ occurs when expenses are greater than revenues.

____

247. A 12-month period that ends when a company's sales activities are at their lowest point is called the _________________.

____

248. Assets removed from the business by the business owner are called ____________.

____

249. A(n) ______________ reports revenues earned and expenses incurred by a business over a period of time.

____

250. ____________ are the value of assets exchanged for products and services provided to customers as part of the main operations of a business.

____

251. The _________________ reports changes in equity over the reporting period.

____

252. A common characteristic of __________ is their ability to provide future benefits to a business.

____

253. A primary purpose of ________________ is to make information in financial statements relevant and faithfully represented.

____

254. In accounting, the principle that requires that assets, services, and liabilities be recorded initially at the cash or cash-equivalent value of what was given up or of the item received is called ______________________________.

____

255. The ___________________ principle means that every organization is accounted for separately from its owner's personal activities.

____

256. The accounting equation is __________________________________.

____

257. The accounting equation is Assets = ___________ + Equity.

____

258. The owner of a business buys a building for $200,000 and immediately contributes the building to the business as his investment. If the business assumes responsibility for paying a $120,000 bank loan that was obtained for the purpose of buying the building, equity should be increased by $_________ in recognition of the investment.

____

259. During the accounting period, the assets of a business increased $12,315 and the liabilities decreased $18,590; consequently, equity in the business must have _____________ (increased, decreased) by $_______________.

____

260. Source documents identify and describe ________________ and provide objective evidence and amounts for recording.

____

261. Match the following terms with the appropriate definition.

1. Involves considering the impact of and being accountable for the effects that actions might have on society.	Accounting	____
2. Persons using accounting information who are directly involved in managing and operating an organization.	Bookkeeping	____
3. Codes of conduct by which actions are judged as right or wrong, fair or unfair, honest or dishonest.	External users	____
4. The part of accounting that involves recording economic transactio	Internal users	____

ns and events, either electronically or manually.		
5. Persons using accounting information who are directly involved in managing and operating an organization.	Ethics	____
6. Persons using accounting information who are not directly involved in the running of the organization.	Social responsibility	____

262. Match the following terms with the appropriate definitions.

1. The area of accounting aimed at serving the decision-making needs of internal users.	Managerial accounting	____
2. The process of developing formal plans for future activities, which often serve as a basis for evaluating actual performance.	Audit	____
3. The area of accounting aimed at serving external users.	Budgeting	____
4. The chief accounting officer of an organization.	Financial accounting	____
5. A check of an organization's accounting systems and records.	Controller	____

263. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

1. Statement of changes in equity	Properties or resources owned by a business.	____
2. Going-concern principle	The rule that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue.	____
3. Assets	A financial statement that reports the changes in equity over the reporting period; beginning equity is adjusted for increases such as owner	____

	investment or net income and for decreases such as owner withdrawals or a net loss.	
4. Cost principle	Another name for equity.	____
5. Liabilities	Debts or obligations of a business.	____
6. Withdrawal	The accounting principle that requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange.	____
7. Statement of financial position	A payment of cash or other assets from a proprietorship or partnership to its owner or owners.	____
8. Net assets	Value of assets exchanged for products	____

	or services provided to customers as part of the main operations of the business.	
9. Revenues	Another name for the balance sheet.	____

264. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

1. Business entity principle	A financial statement that describes where a company's cash came from (receipts) and where it went during the period (payments); the cash flows are arranged by an organization's major activities.	____
2. Expenses	An economic event that changes the financial position of an organization; often takes the form of an exchange of economic consideration between two parties.	____
3. Accounting equation	The expression of transactions and	____

4. Liabilities	events in money units. The principle that requires every business to be accounted for separately from its owner or owners.	_____
5. Business transaction	The principle that provides guidance on when revenue should be reflected on the income statement.	_____
6. Revenue recognition principle	A description of the relationship between a company's assets, liabilities, and equity.	_____
7. Statement of changes in equity	A financial statement that reports the changes in equity over the reporting period; beginning equity is	_____

	adjusted for increases such as owner investment or net income and for decreases such as owner withdrawals or a net loss.	
8. Monetary unit principle	The using up of assets as a result of the main operations of a business.	____
9. Statement of cash flows	Debts owed by a business or organization.	____

265. Match each of the following situations to the applicable accounting principle(s).

1. Marva Stevens, a sole proprietor, pays for her daughter's preschool out of busine.ss funds.	Revenue recognition	____
2. Mayan Imports receives a shipment from Mexico. The invoice is stated in pesos.	Cost	____
3. A building is for sale at $480,000. An appraisal is given for $450,000.	Business entity	____
4. An insurance company receives insurance premiums for six months' worth of coverage.	Monetary unit	____

Chapter 1 Key

1. Accounting is an information system that identifies, measures, records and communicates relevant information that faithfully represents an organization's economic activities.

TRUE

Difficulty: Easy
Larson - Chapter 01 #1
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Type: Knowledge

2. Accounting information is only relevant for people in business.

FALSE

Difficulty: Easy
Larson - Chapter 01 #2
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Type: Knowledge

3. The primary objective of accounting is to help people make better decisions.

TRUE

Difficulty: Easy
Larson - Chapter 01 #3
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Type: Knowledge

4. "Bookkeeping" is another term for "accounting".

FALSE

Difficulty: Easy
Larson - Chapter 01 #4
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Type: Knowledge

5. A sole proprietorship is a business owned by one or more persons.

FALSE

Difficulty: Easy
Larson - Chapter 01 #5
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

6. A partnership is a business owned by two or more people.

TRUE

Difficulty: Easy
Larson - Chapter 01 #6
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

7. Ownership of a corporation is divided into units called shares.

TRUE

Difficulty: Easy
Larson - Chapter 01 #7
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

8. In the partnership form of business, the owners of a business are called shareholders.

FALSE

Difficulty: Easy
Larson - Chapter 01 #8
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

9. Unlimited liability is an advantage for both a proprietorship and a partnership.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #9
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

10. Although a proprietorship is not a separate legal entity, a partnership is.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #10
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

11. Limited liability is a key consideration as to why corporations can raise resources from shareholders.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #11
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

12. Non-business organizations often operate educational and religious services for profit.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #12
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

13. External users include creditors, shareholders, suppliers, and lawyers.

TRUE

Difficulty: Easy
Larson - Chapter 01 #13
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

14. Internal users include creditors, shareholders, internal auditors and managers.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #14
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

15. Managerial accounting is an area of accounting that provides internal reports to assist the decision-making needs of internal users.

TRUE

Difficulty: Easy
Larson - Chapter 01 #15
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

16. Internal operating functions include research and development, distribution, and human resources.

TRUE

Difficulty: Easy
Larson - Chapter 01 #16
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

17. Internal controls include procedures to protect assets and prevent fraud.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #17
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

18. Financial statements are an organization's primary means of financial communication and are the end result of a process, or a cycle, which begins with a business transaction like a sale.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #18
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

19. Career opportunities in accounting include auditing, forensic accounting, and tax planning.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #19
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

20. Budgeting is the process of developing formal plans for an organization's future activities.

TRUE

Difficulty: Easy
Larson - Chapter 01 #20
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

21. At the request of the Board of Directors, internal auditors perform the audit function to protect shareholder interests.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #21
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

22. The purpose of an audit is to add credibility to the financial statements.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #22
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

23. Sole proprietorships and partnerships are not subject to income tax in Canada.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #23
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

24. The professional designation "CGA" stands for "Chartered General Accountant".

FALSE

Difficulty: Easy
Larson - Chapter 01 #24
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

25. Private accountants work for several employers.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #25
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

26. The preferred ethical path is to take a course of action that avoids casting doubt on one's decisions.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #26
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Type: Knowledge

27. Ethics and laws often differ.

FALSE

Difficulty: Easy
Larson - Chapter 01 #27
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Type: Knowledge

28. Ethics and social responsibility are incidental to the primary functions of accounting.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #28
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Type: Knowledge

29. Ethical practices are not necessary to build trust and long-term relationships with customers.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #29
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Type: Knowledge

30. Social responsibility is concern for the impact of our actions on society as a whole.

TRUE

Difficulty: Easy
Larson - Chapter 01 #30
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Type: Knowledge

31. A balance sheet covers a period of time such as a month or year.

FALSE

Difficulty: Easy
Larson - Chapter 01 #31
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

32. The legitimate claims of a business's creditors take precedence over the claims of the business owner or owners.

TRUE

Difficulty: Easy
Larson - Chapter 01 #32
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

33. The income statement is a financial statement that shows revenues earned and expenses incurred by a business over a specified period of time.

TRUE

Difficulty: Easy
Larson - Chapter 01 #33
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

34. Net income is the excess of expenses over revenues, whereas net loss is the excess of revenues over expenses.

FALSE

Difficulty: Easy
Larson - Chapter 01 #34
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

35. The natural business year for businesses is always the same as the calendar year.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #35
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

36. The balance sheet shows whether or not the firm achieved its primary objective of earning a profit.

FALSE

Difficulty: Easy
Larson - Chapter 01 #36
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

37. Expenses are costs incurred or the using up of assets from generating revenue.

TRUE

Difficulty: Easy
Larson - Chapter 01 #37
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

38. Liabilities are defined as "the residual interest in the assets of an entity that remains after deducting its equity".

FALSE

Difficulty: Easy
Larson - Chapter 01 #38
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

39. A characteristic of assets is their ability to provide current benefits to the business.

FALSE

Difficulty: Hard
Larson - Chapter 01 #39
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

40. The statement of cash flows measures the net effect of revenues and expenses for a specified period.

FALSE

Difficulty: Easy
Larson - Chapter 01 #40
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

41. A liability expressed by a written promise to make a future payment is usually called an account payable.

FALSE

Difficulty: Easy
Larson - Chapter 01 #41
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

42. The balance sheet is also called the statement of financial position because it shows the financial position of the business on a particular date.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #42
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

43. Revenues are the value of assets exchanged for products or services provided to customers as part of the major operations of the business.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #43
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

44. The balance sheet can be used in order to assess the creditworthiness of potential customers.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #44
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

45. Withdrawals represent distributions from a corporation to its owners.

FALSE

Difficulty: Easy
Larson - Chapter 01 #45
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

46. Dividends represent distributions of profits to the partners of a business.

FALSE

Difficulty: Easy
Larson - Chapter 01 #46
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

47. Equity is increased by owner investments, net income and withdrawals.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #47
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

48. Although, in a sole proprietorship, owner investments are not recorded as revenue, any withdrawals are recorded as expenses.

FALSE

Difficulty: Easy
Larson - Chapter 01 #48
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

49. Equity is increased when cash is received from customers in payment of a previously recorded accounts receivable.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #49
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

50. An owner's cash investment in a business creates an asset (cash), a liability (note payable), and equity (owner investments).

FALSE

Difficulty: Moderate
Larson - Chapter 01 #50
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

51. The first section of the income statement reports cash from operating activities.

FALSE

Difficulty: Easy
Larson - Chapter 01 #51
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

52. Individuals and organizations who own the right to receive payments from a business are called its debtors.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #52
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

53. A loss arises when revenues are higher than expenses.

FALSE

Difficulty: Easy
Larson - Chapter 01 #53
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.

Type: Knowledge

54. A characteristic of liabilities is their capacity to reduce future assets.

TRUE

Difficulty: Hard
Larson - Chapter 01 #54
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

55. Net income is equal to the change in equity due to operating activities over a period of time.

TRUE

Difficulty: Hard
Larson - Chapter 01 #55
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

56. The equity in a partnership belongs to one owner.

FALSE

Difficulty: Easy
Larson - Chapter 01 #56
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

57. The underlying concepts that make up acceptable accounting practices are referred to as generally accepted accounting principles (GAAP).

TRUE

Difficulty: Easy
Larson - Chapter 01 #57
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

58. Verifiability ensures that information is complete, neutral and free from error.

FALSE

Difficulty: Hard
Larson - Chapter 01 #58
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

59. The Accounting Standards Board (AcSB), is the body that developed the International Financial Reporting Standards.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #59
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

60. The Accounting Standards Board (AcSB), is the body that developed accounting standards for private enterprises (ASPE).

TRUE

Difficulty: Moderate
Larson - Chapter 01 #60
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

61. International Accounting Standards have been created to improve comparability of accounting information across countries.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #61
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

62. Private enterprises are all required to report using International Financial Reporting Standards (IFRS).

FALSE

Difficulty: Moderate
Larson - Chapter 01 #62
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

63. The primary purpose of Generally Accepted Accounting Principles is to ensure the usefulness of financial information.

TRUE

Difficulty: Easy
Larson - Chapter 01 #63
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

64. The cost principle states that if no cash is involved in a transaction the cash-equivalent value must be used.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #64
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

65. The monetary unit principle means that transactions are expressed using units of money as the common denominator.

TRUE

Difficulty: Easy
Larson - Chapter 01 #65
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

66. The assumption that a business will continue to operate until it can sell its assets to pay its creditors underlies the going concern principle.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #66
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

67. According to the cost principle, it is acceptable for managers to use their own estimate of an asset's value when recording the purchase.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #67
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

68. The business entity principle requires that an owner keep accounting records separate from personal records or records of any other businesses owned.

TRUE

Difficulty: Easy
Larson - Chapter 01 #68
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

69. As a rule, revenues should not be recognized in the accounting records until received in cash.

FALSE

Difficulty: Easy
Larson - Chapter 01 #69
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

70. The primary qualitative characteristics of financial information are relevance and faithful representation.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #70
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

71. A company that is currently in the process of liquidating is considered to be a going concern.

FALSE

Difficulty: Easy
Larson - Chapter 01 #71
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

72. The conceptual framework summarizes the qualitative characteristics and supportive building blocks that are required to prepare financial information.

TRUE

Difficulty: Easy
Larson - Chapter 01 #72
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

73. Transactions that impact only assets do not require the accounting equation to stay in balance.

FALSE

Difficulty: Easy
Larson - Chapter 01 #73
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

74. The financing side of the accounting equation describes where the assets came from.

TRUE

Difficulty: Easy
Larson - Chapter 01 #74
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

75. The accounting equation is the link between a company's assets, liabilities and equity.

FALSE

Difficulty: Easy
Larson - Chapter 01 #75
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.

Type: Knowledge

76. The accounting equation can be restated as assets - equity = liabilities.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #76
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

77. Liabilities represent non-owner financing.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #77
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

78. Business transactions are exchanges of economic consideration between two parties.

TRUE

Difficulty: Easy
Larson - Chapter 01 #78
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

79. Business events do not affect the accounting equation.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #79
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

80. The purchase of supplies for cash impacts both the investing and financing sides of the accounting equation.

FALSE

Difficulty: Moderate
Larson - Chapter 01 #80
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

81. Items such as sales slips, invoices, cheques, purchase orders, and employee earnings records are also called source documents.

TRUE

Difficulty: Easy
Larson - Chapter 01 #81
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

82. Payment of accounts payable decreases both liabilities and assets.

TRUE

Difficulty: Moderate
Larson - Chapter 01 #82
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

83. Chuck Taylor invested $8,000 in cash in FastForward. This amount would be reported in the statement of cash flows under financing.

TRUE

Difficulty: Hard
Larson - Chapter 01 #83
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

84. Chuck Taylor withdrew $6,000 in cash for his personal use from his business. This amount should be included as an expense on the income statement.

FALSE

Difficulty: Easy
Larson - Chapter 01 #84
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

85. Accounting is an information and measurement system that:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #85
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Type: Knowledge

86. The recording of financial transactions either manually or electronically is called:

A.
B.
C.
D.
E.

Difficulty: Easy

Larson - Chapter 01 #86
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Type: Knowledge

87. A business:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #87
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

88. Businesses can take the following form(s):

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #88
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

89. A corporation:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #89
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

90. A partnership:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #90
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

91. External users of accounting information include:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #91
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

92. The primary objective of financial accounting is:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #92
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

93. The area of accounting aimed at serving the decision-making needs of internal users is:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #93
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

94. The internal functions of a business include:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #94
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

95. Internal controls are procedures set up to:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #95
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

96. Career opportunities in accounting include:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #96
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

97. An audit:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 01 #97
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

98. Professional accountants can be:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #98
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

99. Ethics:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #99
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Type: Knowledge

100. Ethical behaviour requires:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #100
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Type: Knowledge

101. Social responsibility:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #101
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Type: Knowledge

102. Properties or economic resources owned by a business, also described as probable future economic benefits, are called:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #102
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

103. The value of assets exchanged for goods or services provided to customers as part of the main operations of a business are called:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #103
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

104. Net income is:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #104
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

105. The difference between a company's assets and its liabilities, or the residual interest in the assets of an entity that remains after deducting its liabilities, is called:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #105
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

106. An obligation of a business that represents the claims of others against the assets of the business is called a(n):

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #106
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

107. Costs incurred or the using up of assets as a result of the main operations of a business are called:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #107
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

108. An individual or organization entitled to receive payments from a business is known to the business as a:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #108
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

109. An individual or organization that owes an amount to a business is known to the business as a:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #109
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

110. Assets created by selling products or services on credit are:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #110
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

111. A statement of financial position is another name for:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #111
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

112. Equity is also known as:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #112
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.

Type: Knowledge

113. The excess of expenses over revenues for a period is:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #113
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

114. Which financial statement shows whether the business earned a profit or loss, and also lists the types and amounts of the revenues and expenses?

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #114
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

115. A balance sheet lists:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #115
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

116. A financial statement providing information that helps users understand a company's financial status at a specific date, is called a(n):

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #116
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

117. The financial statement that describes where a company's cash came from and where it went during the period is the:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 01 #117
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

118. The financial statement that shows the beginning balance of equity, the changes in equity that resulted from new investments by the owner, net income (or net loss), withdrawals, and the ending balance of equity is the:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #118
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

119. Cash investments by owners are listed on which of the following statement(s)?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #119
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

120. Net income appears on which of the following statement(s)?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #120
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

121. Salaries paid with cash appear on which of the following statement(s)?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #121
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

122. Fees earned by a business in exchange for services provided by the business appear on which of the following statements?

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #122
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

123. Which of the following is not reported on the income statement?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #123
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

124. A primary operating objective of a business is to increase the equity of its owner or owners by:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #124
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

125. Which of the following statements is true about assets?

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 01 #125
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

126. Payments of cash by a corporation to its shareholders are called:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #126
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

127. A payment from a proprietorship or partnership to its owner or owners is called a(n):

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #127
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

128. Profit is another name for:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #128
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.

Type: Knowledge

129. A statement of profit and loss is another name for:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #129
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

130. Revenues are:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #130
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

131. If financial information is relevant, this means that:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 01 #131
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

132. Financial information that is verifiable means that:

A.
B.
C.
D.
E.

Difficulty: Hard

Larson - Chapter 01 #132
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

133. The business entity principle:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #133
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

134. The accounting principle that requires that transactions are expressed using units of money as the common denominator is the:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #134
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

135. The accounting principle that states that revenue is recorded at the time that it is earned regardless of whether cash or another asset has been exchanged is the:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #135
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

136. The accounting principle that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue, is the:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #136
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

137. The rules adopted by the accounting profession as guides in measuring, recording, and reporting the financial affairs and activities of a business are:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #137
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

138. If a parcel of land is offered for sale at $45,000, is assessed for tax purposes at $20,000, is considered by its purchasers to be worth $36,000, and is purchased for $34,000, the land should be recorded in the purchaser's books at:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #138
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Application

139. To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #139
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

140. The accounting principle that requires financial statement information to be based on costs incurred in business transactions, and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #140
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

141. Generally accepted accounting principles are:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #141
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

142. The organization established to try to achieve global agreement on the use of a common set of accounting principles is called:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #142
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

143. According to generally accepted accounting principles, a company's balance sheet should show the company's assets at:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 01 #143
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

144. If a business is not being sold or closed, the amounts reported in the accounts for assets used in operations are based on costs. This practice is justified by the:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #144
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

145. Which of the following accounting principles would require that all goods and services purchased be recorded at cost?

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #145
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

146. The rule that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash, and (3) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services is called the:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #146
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

147. The question of when revenue should be recognized on the income statement (according to GAAP) is answered by the:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #147
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

148. Revenue is recognized in most businesses:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #148
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

149. The description of the relationship between a company's assets, liabilities, and equity, which is expressed as Assets = Liabilities + Equity, is known as the:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #149
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

150. The balance sheet equation is:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #150
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

151. If equity is $30,000 and liabilities are $73,000, then assets equal:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #151

Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

152. If assets are $175,000 and equity is $47,000, then liabilities equal:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #152
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

153. If assets are $144,000 and liabilities are $37,000, then equity equals:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #153
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

154. The accounting equation can be stated as:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 01 #154
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

155. The assets of a business total $20,000; the liabilities, $8,000. The claims of the owners are:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #155
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

156. The FastForward Company balance sheet shows cash $5,000, accounts receivable $7,000, office equipment $3,000, and accounts payable $4,000. What is the amount of equity?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #156
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

157. An exchange between two parties of economic consideration such as goods, services, money, or rights to collect money is called:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #157
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

158. A business activity that does not involve an exchange of economic consideration between two parties is called a(n):

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #158
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

159. Which of the following is an example of a source document?

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #159
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

160. If the liabilities of a business increased $8,000 during a period of time and equity in the business decreased $4,000 during the same period, the assets of the business must have:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #160
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

161. If the assets of a business increased $9,000 during a period of time and its liabilities increased $5,000 during the same period, equity in the business must have:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #161
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

162. Today, Cedar Park Company paid $600 of its accounts payable in cash. What is the effect on the accounting equation?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #162
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

163. How would the accounting equation of Lenore Turner's consulting business be affected by the billing of a client for $2,000 for consulting work completed?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #163
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

164. Celery Company has assets of $150,000, liabilities of $90,000, and equity of $60,000. It buys supplies for cash $5,000. What effect would this transaction have on the accounting equation?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #164
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

165. Blue Company collected $2,000 cash for work completed. The effects on the accounting equation are:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #165
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

166. Joe Bob has prepared the following analysis of September transactions for his business, Joe Bob's Spareribs. Unfortunately, he has lost some information. Calculate the missing information.

Date	Cash	A/R	Inventory	A/P
Sep 2	4,000	2,100	1,000	?
Sep 6	-1,000	-0-	4,000	?
Sep 10	500	300	-300	-0-

A.

B.

C.

D.

E.

Difficulty: Hard
Larson - Chapter 01 #166
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

167. From the following information taken from the records of Peach Company at December 31 of this year, calculate equity.

Liabilities	$1,000
Cash	3,000
Accounts Receivable	2,000
Buildings	3,500
Equity	?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #167
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

168. Something of value, such as products, services and money, is called a(n):

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #168
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

169. Exchanges between the entity and some other person or organization are:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #169
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

170. Economic events that affect an entity's accounting equation, but that are not transactions between the entity and outside parties are called:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #170
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

171. Source documents include all of the following *except*:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #171
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

172. Which of the following statements is correct regarding sales invoices?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #172
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

173. Source documents:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #173

Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

174. Which of the following items does not appear on the balance sheet?

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #174
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Knowledge

175. The following information is available for Isla Company for last May. How much is the net income for the month?

Employee salaries	$15,000
Interest paid on bank loan	2,500
Rent paid to landlord	12,500
Service Revenue	50,000

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 01 #175
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

176. Reese's Company reported equity of $22,000 on its December 31, 2014 balance sheet. The following information is available for the year ended December 31, 2015:

Revenues	$73,000
Expenses	59,000
Liabilities	11,000

What are the total assets of Reese's Company at December 31, 2015?

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 01 #176
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

177. At the end of its first year of operations, Lockerbie and Role Company has total assets of $3,000,000 and total liabilities of $1,200,000. The owner originally invested $200,000 in the business, but has not made any further investments or taken any withdrawals. What is the first year's net income for Lockerbie and Role Company?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 01 #177
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

178. Willie's Attic has the following account balances for the dates given:

Cash, Sept 1	$40
Cash, Sept 30	60
Accounts receivable, Sept 1	10
Accounts receivable, Sept 30	14
Capital, Sept 1	
Capital, Sept 30	
Supplies, Sept 1	30
Supplies, Sept 30	24
Accounts payable, Sept 1	6
Accounts payable, Sept 30	
Net income for September	20

What would equity be on September 1 and September 30?

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 01 #178
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

179. Describe the purpose and importance of accounting

Accounting is an information system. It provides organizations with the tools to identify, record, and communicate relevant information that faithfully represents of an organization's economic activities. Accounting helps organizations to better assess opportunities, products, investments, and social and community responsibilities.

Difficulty: Moderate
Larson - Chapter 01 #179
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Type: Knowledge

180. Identify the three forms of business organizations.

The three forms of business organizations are sole proprietorships, partnerships, and corporations.

Difficulty: Easy
Larson - Chapter 01 #180
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

181. Describe non-business organizations.

Non-business organizations operate not for profit, but rather for other goals such as health, education, cultural and social activities.

Difficulty: Moderate
Larson - Chapter 01 #181
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

182. Identify the form of business organization(s) to which the following characteristics apply.

(a) Is a separate business entity.
(b) Can be owned by one person.
(c) Owner or owners are personally liable for debts of the business.
(d) Is a taxable entity.
(e) Is created by a charter from a provincial or the federal government.
(f) Keeps the accounting of its transactions separate from the owner's(s') personal transactions.
(g) May have a contract specifying the division of profits among the owners.
(h) Owner or owners are not personally liable for debts of the business.

Use the following format to indicate whether or not a characteristic applies to each type of business organization.

	Proprietorship	Partnership	Corporation
a.			
b.			
c.			
d.			
e.			
f.			
g.			
h.			

	Proprietorship	Partnership	Corporation
a.	yes	yes	yes
b.	yes	no	yes
c.	yes	yes	no
d.	no	no	yes
e.	no	no	yes
f.	yes	yes	yes
g.	no	yes	no
h.	no	no	yes

Difficulty: Moderate
Larson - Chapter 01 #182
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

183. The following is a list of users of accounting information. Match the appropriate user groups to the following information needs. NOTE: Some needs may apply to more than one user group.

(a) Employees
(b) Lenders
(c) External auditors
(d) Managers
(e) Suppliers
(f) Regulators
(g) Shareholders

_______(1) The level of sales necessary to break even.
_______(2) Verification that external reports are accurate.
_______(3) Computation of taxes.
_______(4) The ability of a company to repay its loans.
_______(5) The amount of current income.
_______(6) Fairness of wages.
_______(7) Promptness of customer payment of bills.
_______(8) Profit outlook.

(1) d (2) b, c, e, f, g (3) d or f (4) b (5) b, d, f, g (6) a (7) b, d (8) g

Difficulty: Hard
Larson - Chapter 01 #183
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

184. Describe the main user groups, their members, and their uses of accounting information.

There are two types of users of accounting information. Internal users are individuals directly involved in managing and operating an organization. Internal user groups include research and development, purchasing, human resources, production, distribution, marketing and servicing. They require information to improve the efficiency and effectiveness of an organization in delivering products and services.
External users include shareholders, lenders, directors, customers, suppliers, regulators, lawyers, brokers and the press. The information required depends on the kind of decision being made.

Difficulty: Hard
Larson - Chapter 01 #184
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

185. Explain why ethics and social responsibility are an integral part of accounting.

The purpose of accounting is to provide useful information for decision makers. For information to be useful, it must be complete, neutral and free from bias. This requires ethical and socially responsible behaviour by accountants and managers in all phases of gathering, analyzing, and reporting financial information.

Difficulty: Hard
Larson - Chapter 01 #185
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Type: Knowledge

186. Identify several opportunities in accounting and its related fields.

The traditional areas of accounting include financial accounting, managerial accounting, auditing, and taxation. Other opportunities include management advising, investigations, and planning. Work in related fields includes consulting, underwriting, appraisals and trading.

Difficulty: Moderate
Larson - Chapter 01 #186
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

187. Explain the difference between the functions of an internal auditor and an external auditor.

An internal auditor is employed within the organization for the purpose of evaluating the efficiency and effectiveness of organizational procedures.
An external auditor performs an audit of the company's records at the request of the Board of Directors to protect shareholder interests.

Difficulty: Moderate
Larson - Chapter 01 #187
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

188. Select the appropriate financial statement for each of the following accounts.

(a) Income statement
(b) Statement of changes in equity
(c) Balance sheet
(d) Statement of cash flows

_____ (1) Cash
_____ (2) Withdrawals
_____ (3) Notes payable
_____ (4) Fees earned
_____ (5) John Jay, capital
_____ (6) Accounts receivable
_____ (7) Prepaid Rent
_____ (8) Supplies Expense

(1) c, d (2) b (3) c (4) a (5) b, c (6) c (7) c (8) a

Difficulty: Moderate
Larson - Chapter 01 #188
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

189. Select the appropriate financial statement for each of the following items.

(a) Income statement
(b) Statement of changes in equity
(c) Balance sheet
(d) Statement of cash flows

______ (1) Supplies
______ (2) Net income
______ (3) Ahmad Khan, Capital
______ (4) Advertising Expense
______ (5) Purchased equipment for cash
______ (6) Withdrawals
______ (7) Fees earned
______ (8) Proceeds received from a loan

(1) c (2) a, b, d (3) b, c (4) a (5) d (6) b, d (7) a (8) d

Difficulty: Moderate
Larson - Chapter 01 #189
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

190. List the three main differences between the sole proprietorship and the corporate form of business.

	Type of Business Organizat
Difference	Sole Proprietorship
Equity section on the balance sheet is called:	equity
Distribution to owners are called:	withdrawals
When managers are also owners, their salaries are:	not an expense

Difficulty: Moderate
Larson - Chapter 01 #190
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

191. What is the statement of financial position? What is its purpose?

The statement of financial position, or balance sheet, is a listing of the types and amounts of assets, liabilities, and equity of a business at a specified point in time. The statement's purpose is to provide information that helps users understand the financial status of the business.

Difficulty: Moderate
Larson - Chapter 01 #191
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

192. What distinguishes liabilities from equity?

Liabilities are the debts of an entity. They represent claims or rights of creditors to be paid. Creditors can force an entity to liquidate its assets in order to satisfy their claims. Any "residual interest in the assets of an entity after deducting its liabilities" is equity (net assets).

Difficulty: Hard
Larson - Chapter 01 #192
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

193. List the three types of activities reported on the statement of cash flows.

The three types of activities reported on the statement of cash flows include (1) operating, (2) financing, and (3) investing.

Difficulty: Easy
Larson - Chapter 01 #193
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

194. Describe the three important guidelines for revenue recognition.

The three important guidelines for revenue recognition include: (1) Revenue is recognized when earned. (2) Assets received from selling products and services do not have to be in cash. (3) Revenue recognized is measured by cash received, plus the cash equivalent or market value of other assets received.

Difficulty: Moderate
Larson - Chapter 01 #194
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

195. How does the cost principle support ethical behaviour?

The cost principle supports ethical behaviour since it requires that financial information be recorded at the actual cash amount received or paid regardless of what the owner thinks the value of the asset is.

Difficulty: Moderate
Larson - Chapter 01 #195
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

196. Why should assets be recorded at historical cost?

The cost principle requires that assets be recorded at historical cost in order to provide users with reliable, objective information regarding completed business transactions.

Difficulty: Moderate
Larson - Chapter 01 #196
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

197. How does the going concern principle affect reporting asset values of a business?

The going-concern principle means that financial statements reflect an assumption that the business will continue in operation instead of being closed or sold. Assets are therefore reported at historical cost rather than at liquidation value.

Difficulty: Hard
Larson - Chapter 01 #197
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

198. A parcel of land is offered for sale at $135,000, is assessed for tax purposes at $60,000, is recognized by its purchasers as easily being worth $108,000, and is purchased for $106,000. At what amount should the land be recorded in the purchaser's books? What accounting principle supports your answer?

$106,000. The cost principle requires the acquisition of an asset to be recorded in the accounting records at cost.

Difficulty: Moderate
Larson - Chapter 01 #198
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

199. Before purchasing a parcel of land, Ming's Boutique had the land appraised at $90,000. The management of Ming's Boutique purchased the land for $85,000. At what amount should the land be recorded on Ming's Boutique's books? What accounting principle supports your answer?

$85,000. The cost principle requires the acquisition of an asset to be recorded in the accounting records at cost.

Difficulty: Moderate
Larson - Chapter 01 #199
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Application

200. You are reviewing the accounting records of April's Attic, owned by April Lapierre. You have uncovered the following situations. Compose a memo to Ms. Lapierre. Cite the appropriate accounting principle and suggest an action for each separate item.

(1)	April wrote a cheque for $350 to Wee Care Day (amount paid for day care for Justin Lapierre, Apri
(2)	April plans a Going Out of Business Sale for Ma closing her business for a month-long vacation in reopen July 1 and will continue operating April's
(3)	April received a shipment of pine furniture from I invoice was stated in U.S. dollars.
(4)	Martinique Gresham paid $1,000 for a dining tabl recorded as revenue. The table will be delivered weeks.

(1)	Business entity principle. April should refund th or, the business should record this as a withdrawa should use a personal cheque to pay for day care.
(2)	Going-concern principle. April's Attic is not goir business is just closing for vacation. She should l reduction sale or other appropriate sale.
(3)	Monetary unit principle. The invoice should be r dollars.
(4)	Revenue recognition principle. Since the table ha revenue should not be recognized. The $1,000 sh account such as Deposits Received from Custom Revenue)

Difficulty: Hard
Larson - Chapter 01 #200
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Analysis

201. Explain the accounting equation, also called the balance sheet equation.

The accounting equation is stated as assets = liabilities + equity. Assets are economic resources controlled by a business. Creditors' claims are called liabilities. The owner's claim to assets is called equity. The accounting equation shows that the ownership of business assets can be shared between creditors and owners.

Difficulty: Moderate
Larson - Chapter 01 #201
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

202. Lionel's Laundry has assets of $180,000 and liabilities of $120,000. Calculate the amount of equity.

$60,000

Difficulty: Easy
Larson - Chapter 01 #202
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

203. Caps Lock has liabilities of $150,000 and $100,000 in equity. What is the value of its assets?

$250,000

Difficulty: Easy
Larson - Chapter 01 #203
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

204. Sheila's Attic has $650,000 in assets and equity of $250,000. What is the amount of its liabilities?

$400,000

Difficulty: Easy
Larson - Chapter 01 #204

Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

205. If the liabilities of a business increased $65,000 during a period of time and equity in the business decreased $21,000 during the same period, would the assets of the business have increased or decreased? By what amount?

Assets would have increased $44,000.
Assets = Liabilities + Equity
+$44,000 = +$65,000 + (-$21,000)

Difficulty: Moderate
Larson - Chapter 01 #205
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

206. Select from the following list items that are likely to serve as source documents.

(a) Credit card	(e) Balance sheet
(b) Credit card receipt	(f) Bank statement
(c) Purchase order	(g) Accounting equati
(d) Invoice	(h) Electric power bil

(a) No (b) Yes (c) Yes (d) Yes (e) No (f) Yes (g) No (h) Yes

Difficulty: Easy
Larson - Chapter 01 #206
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

207. Explain the difference between a business transaction and a business event.

A business transaction is an exchange of economic consideration between two parties that causes a change in assets, liabilities, or equity. A business event is an activity that does not involve an exchange of economic consideration between two parties, and therefore does not affect the accounting equation.

Difficulty: Moderate
Larson - Chapter 01 #207
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

208. At the beginning of this year, Tong Company had \$160,000 in liabilities. During this year, assets increased by \$160,000 and at year-end they equaled \$360,000. Liabilities decreased \$20,000 during this year. Calculate the beginning and ending values of equity.

Beginning equity = \$40,000
Ending equity = \$220,000

		Assets	=	Liabilities	+
	Beginning	\$200,000	=	\$160,000	+
	Change	+160,000	=	(20,000)	+
	Ending	\$360,000	=	\$140,000	+

Difficulty: Hard
Larson - Chapter 01 #208
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

209. If the liabilities of a business increased $58,000 during a period of time and equity in the business decreased $18,000 during the same period, would the assets of the business have increased or decreased? By what amount?

Assets would have increased $40,000.

	Assets	=	Liabilities	+	Equity
	+$40,000	=	$58,000	+	(-$18,000)

Difficulty: Easy
Larson - Chapter 01 #209
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

210. On May 1, Fiona Nash formed a computer consulting business. In order to start the business she invested $20,000 in equipment. Enter the appropriate amounts into the accounting equation format.

Assets = Liabilities + Equity
+$20,000 = 0 +$20,000

Difficulty: Easy
Larson - Chapter 01 #210
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

211. Blu Lightning Co. spent $6,000 in cash for a computer. Enter the appropriate amounts into the accounting equation format.

Assets = Liabilities + Equity
+ 6,000 = 0 + 0
-6,000

Difficulty: Easy
Larson - Chapter 01 #211
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

212. Blu Lightning Co. bought supplies and testing equipment for $3,000 on credit. Enter the appropriate amounts into the accounting equation format

Assets = Liabilities + Equity
+$3,000 = +$3,000 + 0

Difficulty: Easy
Larson - Chapter 01 #212
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

213. Blu Lightning Co. performed testing services for the Cheetah Co. Blu Lightning Co. billed Cheetah Co. $5,000. Enter the appropriate amounts into the accounting equation format.

Assets = Liabilities + Equity
+$5,000 = 0 + +$5,000

Difficulty: Easy
Larson - Chapter 01 #213
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

214. Blu Lightning Co. paid its employees $2,000 in cash for two weeks' wages. Enter the appropriate amounts into the accounting equation format.

Assets = Liabilities + Equity
-$2,000 = 0 + -$2,000

Difficulty: Easy
Larson - Chapter 01 #214
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

215. Blu Lightning Co. received $5,000 for a previously recorded account receivable from the Cheetah Co. Enter the appropriate amounts into the accounting equation format.

Assets = Liabilities + Equity
+$5,000 = 0 + 0
-$5,000 = 0 + 0

Difficulty: Moderate
Larson - Chapter 01 #215
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

216. If, on January 1, Terry Chervinski Company paid $2,000 of its accounts payable in cash, what would be the effect of this transaction on assets, on liabilities, and on equity?

Assets would decrease $2,000, liabilities would decrease $2,000, and equity would not change.
Assets = Liabilities + Equity
-$2,000 = -$2,000 + $0

Difficulty: Moderate
Larson - Chapter 01 #216
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

217. Dallas Parsons, CA, began an accounting practice and completed these transactions during September 2015:

Sept 1	Invested $25,000 of his personal savings into a bank a
	name of the accounting practice.
Sept 2	Purchased office equipment for $2,500, paying $800 the balance in one year.
Sept 3	Rented office space and paid cash for two months in a
Sept 4	Completed accounting work for a client and immedia cash for the work done.
Sept 8	Purchased office supplies for cash, $50.
Sept 15	Completed accounting services for a client on credit,
Sept 20	Received $2,500 from the above client for the work c 15.
Sept 30	Paid utilities expense for month of $300.
Sept 30	Paid the office secretary's salary, $400.
Sept 30	Paid $100 for repairs to the photocopier.

Show the effects of the above transactions on the balance sheet items of Dallas Parsons, CA. Use the following format for your answers.
Increase = I Decrease = D No effect = N

Date	Assets	Liabilities
September 1	I	N
September 2	I,D	I
September 3	I,D	N
September 4	I	N
September 8	I,D	N
September 15	I	N
September 20	I,D	N
September 30	D	N
September 30	D	N
September 30	D	N

Difficulty: Moderate
Larson - Chapter 01 #217
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

218. For each of the following transactions, identify the effect on the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A", "L", and "E" to indicate assets, liabilities, and equity, respectively.

(a)	R.H. Long invested $100,000 in a sole proprietorship.
(b)	Land was purchased for $50,000 on account.
(c)	Services were rendered to customers on account.
(d)	A building was purchased for $100,000. $50,000 was paid in cash and the remainder was on account.
(e)	The premium for a 12-month insurance policy was paid in cash in advance.
(f)	Paid the office secretary's salary.
(g)	The amount owed on the building was paid.

(a) +A +E
(b) +A, +L
(c) +A +E
(d) +A, -A, +L
(e) +A -A
(f) -A -E
(g) -A -L

Difficulty: Moderate
Larson - Chapter 01 #218
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

219. Bandu Company's accounts with the increases or decreases that occurred during this year are as follows:

	Increase
Cash	$ 6,000
Accounts receivable	$(2,000)
Supplies	15,000
Accounts payable	(8,000)
Notes payable	13,000

Except for net income, an investment of $4,000, and a withdrawal of $12,000, no other items affected the capital account during the year. Using the balance sheet equation, calculate net income for this year.

In order to maintain the balance sheet equation, Assets = Liabilities + Equity, net income must be $22,000.

	Assets		=	Liabilities	+	Ec
	+19,000		+	5,000	+	14

Change in assets: 6,000 - 2,000 + 15,000 = 19,000
Change in liabilities: 13,000 - 8,000 = 5,000
Change in equity: 4,000 -12,000 + X = 14,000 X = 22,000

Difficulty: Hard
Larson - Chapter 01 #219
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

220. The following schedule shows the first month's transactions of the Bill Blue Real Estate Company:

Describe the most likely reason(s) for each transaction.

(1) Investment of cash in business by owner or performed services for cash.
(2) Purchased equipment for cash.
(3) Purchased supplies on credit.
(4) Investment of cash in business by owner or performed services for cash.
(5) Performed services for cash and on credit.
(6) Paid accounts payable.
(7) Received cash for an account receivable.
(8) Used supplies in business.
(9) Withdrawal of cash from business by owner for personal use or paid an expense of the business.

Difficulty: Hard
Larson - Chapter 01 #220
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

221. Blu Disc paid its landlord $3,000 in cash for three months' rent in advance. Enter the appropriate amounts into the accounting equation format.

Assets	=	Liabilities	+
Cash + Prepaid Rent	=	Liabilities	+
-$3,000 + $3,000	=	0	+

Difficulty: Moderate
Larson - Chapter 01 #221
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

222. Describe source documents and their purpose.

Source documents are the business papers that identify and describe transactions and events. They are used to prevent errors, to verify transactions, and to serve as the basis for internal control. Source documents support the qualitative characteristic of verifiability and provide objective evidence of transactions. Examples of source documents include cheques, invoices, sales receipts, credit card statements, and bank statements.

Difficulty: Moderate
Larson - Chapter 01 #222
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

223. The bookkeeper of the Tide Company prepared a balance sheet immediately after each transaction was recorded. During September 2015, the first month of operation, the following balance sheets were prepared:

Required: Describe the nature of each of the five transactions that took place during the month of September.

Sept	1	
	5	
	9	
	11	
	15	

Sept	1	Owner invested $50,000 cash in the compa
	5	Land and building were purchased for $10, note payable
	9	Office supplies were purchased for $3,000
	11	Office furniture was purchased for $4,000
	15	$10,000 of the note payable was paid.

Difficulty: Moderate

Larson - Chapter 01 #223
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

224. Prepare a balance sheet in good form for the Logitech Trucking Company from the following alphabetical list of the accounts at September 30, 2015:

Accounts receivable	4,000
Accounts payable	12,000
Building	29,000
Cash	5,000
Notes payable	40,000
Office equipment	6,000
P. Dersch, capital	?
Trucks	50,000

Logitech Trucking Company
Balance Sheet
September 30, 2015

Assets			
Cash	$ 5,000	Accounts pay
Accounts receivable	4,000	Notes payabl
Office equipment	6,000	Total Liabilitie
Building	29,000	
Trucks	50,000	P. Dersch, cap
Total Assets	$ 94,000	Total Liabilitie

Difficulty: Moderate
Larson - Chapter 01 #224
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

225. Prepare a balance sheet in good form at December 31, 2015 for Draydon Insurance Co. from the following items:

Prepaid insurance	$1,500
Commissions earned	38,000
Accounts payable	2,800
Accounts receivable	1,100
John Ace, capital	28,800
Office equipment	6,000
Advertising expense	1,400
Cash	4,100
Land	20,000
Note payable	72,000
Office supplies	400
Salaries expense	7,800
Salaries payable	700
Building	100,000

Draydon Insurance Co.
Balance Sheet
December 31, 2015

Assets			
Cash	$ 4,100		Accounts pay
Accounts receivable	1,100		Salaries payal
Office supplies	400		Note payable
Prepaid insurance	1,500		
Office equipment	6,000		Total Liabilitie
Land	20,000		
Building	100,000		John Ace, cap
Total Assets	$ 133,100		Total Liabilitie

Difficulty: Moderate
Larson - Chapter 01 #225
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

226. At January 1, 2015, the records of Anna Turcza's law practice showed equity at $47,200. Net income for 2015 was $16,200, and Anna withdrew $3,000 in cash during the year. Prepare the statement of changes in equity for 2015.

Anna Turcza, Law
Statement of Changes in Equity
For the Year Ended December 31, 2015

Anna Turcza, capital, Jan 1	$ 47,200
Add:	
Net Income	16,200
Total	$ 63,400
Less: Withdrawals by owner	3,000
Anna Turcza, capital, Dec 31	$ 60,400

Difficulty: Easy
Larson - Chapter 01 #226
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

On November 1, 2015, Jill Luckovich began Jill Luckovich Interior Design Co. with an initial investment of $6,725, and on November 30 her records showed the following (alphabetically arranged) account balances:

Accounts payable	$600	Office furniture
Accounts receivable	2,250	Jill Luckovich,
Cash	2,875	Rent expense
Fees earned	6,400	Salaries expens
Notes payable	700	Telephone expe
Jill Luckovich, Capital	6,725	

Larson - Chapter 01

227. From the information given in reference, prepare an income statement for November.

Jill Luckovich Interior Design Co.
Income Statement
For the Month Ended November 30, 20

Revenue:		
Fees earned		
Operating Expenses:		
Rent expense	$ 2,500	
Salaries expense	2,200	
Telephone expense	1,250	
Net Income		

Difficulty: Moderate
Larson - Chapter 01 #227
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

228. From the information given in reference, prepare a statement of changes in equity for November.

Jill Luckovich Interior Design Co.
Statement of Changes in Equity
For the Month Ended November 30, 2015

Jill Luckovich, Capital , Nov 1	$ 6,725
Add:	
Net Income	450
Total	$ 7,175
Less: Withdrawals by owner	350
Jill Luckovich, Capital , Nov 30	$ 6,825

Difficulty: Hard
Larson - Chapter 01 #228
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

229. From the information given in reference, prepare a November 30 balance sheet.

Jill Luckovich Interior Design Co.
Balance Sheet
November 30, 2015

Assets			
Cash	$ 2,875	Accounts payabl	
Accounts receivable	2,250	Notes payable	
Office furniture	$3,000	Total Liabilities	
		Jill Luckovich, C	
Total Assets	$ 8,125	Total Liabilities a	

Difficulty: Hard
Larson - Chapter 01 #229
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

The records of Cohen's Toy Repair Co. at December 31, 2015 showed the following account balances:

Accounts payable	$16,000	Office furniture	
Accounts receivable	7,250	Cohen, withdraw	
Cash	7,875	Advertising exper	
Revenues	43,200	Wages expense	
Notes payable	900	Maintenance exp	
Cohen, Capital	6,725		

Larson - Chapter 01

230. From the information given in reference, prepare an income statement for 2015.

Cohen's Toy Repair Co.
Income Statement
For the Year Ended December 31, 2015

Revenue:			
	Revenues		
Operating Expenses:			
	Advertising expense	$ 10,500	
	Wages expense	12,200	
	Maintenance expense	13000	
Net Income			

Difficulty: Hard
Larson - Chapter 01 #230
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

231. From the information given in reference, prepare a statement of changes in equity for 2015.

Cohen's Toy Repair Co.
Statement of Changes in Equity
For the Year Ended December 31, 2015

Cohen, Capital , Dec 1		$ 6,725
Add:		
	Net Income	7,500
Total		$14,225
Less: Withdrawals by owner		2,000
Cohen, Capital , Dec 31		$12,225

Difficulty: Hard
Larson - Chapter 01 #231
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

232. From the information given in reference, prepare the year-end balance sheet.

Cohen's Toy Repair Co.
Balance Sheet
December 31, 2015

Assets		]
Cash	$ 7,875	Accounts payable
Accounts receivable	7,250	Notes payable
Office furniture	$14,000	Total Liabilities
		Cohen, Capital
Total Assets	$29,125	Total Liabilities an

Difficulty: Hard
Larson - Chapter 01 #232
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

233. Data for Inuvic Realty operations are as follows:

Accounts payable	$16,000	Office furniture	
Accounts receivable	0	Charlie Inuvic, with	
Cash	65,000	Advertising expense	
Revenues	111,000	Wages expense	
Notes payable		Maintenance expens	
Charlie Inuvic, Capital	-		

The owner, Charlie Inuvic, withdrew a total of $23,000 for personal use during 2016. From the above data, prepare Inuvic Realty's statement of changes in equity for the year ended December 31, 2016.

Inuvic Realty Corp.
Income Statement
For the Year Ended December 31, 2015

Revenue:		
Revenues		
Operating Expenses:		
Advertising expense	$ -	
Wages expense	0	
Maintenance expense	21000	
Net Income		

Difficulty: Moderate
Larson - Chapter 01 #233
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Type: Application

234. Describe the relationship between sales (or revenues), expenses, and profit.

Sales, or revenues, are the amounts earned from selling products and services. Expenses are the costs incurred to generate sales or revenues. Sales (revenues) less expenses equals profits (net income).

Difficulty: Easy
Larson - Chapter 01 #234
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

235. Accounting is a(n) __________________ that identifies, measures, records, and communicates relevant information that faithfully represents an organization's economic activities.

<u>Information system</u>

Difficulty: Hard
Larson - Chapter 01 #235
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Type: Knowledge

236. The primary objective of accounting is ______________________.

<u>To help people make better decisions.</u>

Difficulty: Easy
Larson - Chapter 01 #236
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Type: Knowledge

237. A(n) ____________________ is a business owned by one person.

<u>Sole proprietorship</u>

Difficulty: Easy
Larson - Chapter 01 #237
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

238. When a corporation issues only one class of shares they are called _________ shares.

<u>Common</u>

Difficulty: Easy
Larson - Chapter 01 #238
Learning Objective: 01-02 Describe forms of business organization.
Type: Knowledge

239. ______________ of accounting information are not directly involved in running the organization.

External users

Difficulty: Moderate
Larson - Chapter 01 #239
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

240. ______________ is the area of accounting aimed at serving external users.

Financial accounting

Difficulty: Moderate
Larson - Chapter 01 #240
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

241. Persons using accounting information who are directly involved in the running of the organization are called ____________________.

Internal users

Difficulty: Easy
Larson - Chapter 01 #241
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

242. _________ are beliefs that separate right from wrong.

Ethics

Difficulty: Easy
Larson - Chapter 01 #242
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Type: Knowledge

243. An audit is _______________ of an organization's accounting systems and records.

A check or review

Difficulty: Easy
Larson - Chapter 01 #243
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

244. _____________ is increased by owner's investments and revenues. It is decreased by withdrawals and expenses.

Equity

Difficulty: Easy
Larson - Chapter 01 #244
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

245. Profit is also called _____________.

Net income

Difficulty: Easy
Larson - Chapter 01 #245
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

246. A(n) ___________ occurs when expenses are greater than revenues.

Loss

Difficulty: Easy
Larson - Chapter 01 #246
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

247. A 12-month period that ends when a company's sales activities are at their lowest point is called the _________________.

Natural business year

Difficulty: Easy
Larson - Chapter 01 #247
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

248. Assets removed from the business by the business owner are called ____________.

Withdrawals

Difficulty: Easy
Larson - Chapter 01 #248
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

249. A(n) ______________ reports revenues earned and expenses incurred by a business over a period of time.

Income statement

Difficulty: Easy
Larson - Chapter 01 #249
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

250. ____________ are the value of assets exchanged for products and services provided to customers as part of the main operations of a business.

Revenues

Difficulty: Easy
Larson - Chapter 01 #250
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

251. The ________________ reports changes in equity over the reporting period.

<u>Statement of changes in equity</u>

Difficulty: Easy
Larson - Chapter 01 #251
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

252. A common characteristic of __________ is their ability to provide future benefits to a business.

<u>Assets</u>

Difficulty: Easy
Larson - Chapter 01 #252
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

253. A primary purpose of ________________ is to make information in financial statements relevant and faithfully represented.

<u>GAAP</u>

Difficulty: Easy
Larson - Chapter 01 #253
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

254. In accounting, the principle that requires that assets, services, and liabilities be recorded initially at the cash or cash-equivalent value of what was given up or of the item received is called ______________________________.

<u>The cost principle</u>

Difficulty: Easy
Larson - Chapter 01 #254
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

255. The ___________________ principle means that every organization is accounted for separately from its owner's personal activities.

<u>Business entity</u>

Difficulty: Easy
Larson - Chapter 01 #255
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Knowledge

256. The accounting equation is __________________________________.

<u>Assets = Liabilities + Equity</u>

Difficulty: Easy
Larson - Chapter 01 #256

Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

257. The accounting equation is Assets = ___________ + Equity.

Liabilities

Difficulty: Easy
Larson - Chapter 01 #257
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

258. The owner of a business buys a building for $200,000 and immediately contributes the building to the business as his investment. If the business assumes responsibility for paying a $120,000 bank loan that was obtained for the purpose of buying the building, equity should be increased by $_________ in recognition of the investment.

$80,000

Difficulty: Moderate
Larson - Chapter 01 #258
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

259. During the accounting period, the assets of a business increased $12,315 and the liabilities decreased $18,590; consequently, equity in the business must have _____________ (increased, decreased) by $_______________.

Increased $30,905 (12,315 + 18,590)

Difficulty: Moderate
Larson - Chapter 01 #259
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Application

260. Source documents identify and describe _______________ and provide objective evidence and amounts for recording.

Transactions and events

Difficulty: Moderate
Larson - Chapter 01 #260
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

261. Match the following terms with the appropriate definition.

1. Involves considering the impact of and being accountable for the effects that actions might have on society.	Accounting	**2**
2. Persons using accounting information who are directly involved in managing and operating an organization.	Bookkeeping	**4**
3. Codes of conduct by which actions are judged as right or wrong, fair or unfair, honest or dishonest.	External users	**6**
4. The part of accounting that involves recording economic transactio	Internal users	**2**

ns and events, either electronically or manually.		
5. Persons using accounting information who are directly involved in managing and operating an organization.	Ethics	**3**
6. Persons using accounting information who are not directly involved in the running of the organization.	Social responsibility	**1**

Difficulty: Moderate
Larson - Chapter 01 #261
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Learning Objective: 01-02 Describe forms of business organization.
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Type: Knowledge

262. Match the following terms with the appropriate definitions.

1. The area of accounting aimed at serving the decision-making needs of internal users.	Managerial accounting	**1**
2. The process of developing formal plans for future activities, which often serve as a basis for evaluating actual performance.	Audit	**5**
3. The area of accounting aimed at serving external users.	Budgeting	**2**
4. The chief accounting officer of an organization.	Financial accounting	**3**
5. A check of an organization's accounting systems and records.	Controller	**4**

Difficulty: Moderate
Larson - Chapter 01 #262
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Learning Objective: 01-02 Describe forms of business organization.
Learning Objective: 01-03 Identify users and uses of; and opportunities in; accounting.
Type: Knowledge

263. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

1. Statement of changes in equity	Properties or resources owned by a business.	**3**
2. Going-concern principle	The rule that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue.	**2**
3. Assets	A financial statement that reports the changes in equity over the reporting period; beginning equity is adjusted for increases such as owner	**1**

	investment or net income and for decreases such as owner withdrawals or a net loss.	
4. Cost principle	Another name for equity.	**8**
5. Liabilities	Debts or obligations of a business.	**5**
6. Withdrawal	The accounting principle that requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange.	**4**
7. Statement of financial position	A payment of cash or other assets from a proprietorship or partnership to its owner or owners.	**6**
8. Net assets	Value of assets exchanged for products	**9**

9. Revenues	or services provided to customers as part of the main operations of the business. Another name for the balance sheet.	**7**

Difficulty: Moderate
Larson - Chapter 01 #263
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Type: Knowledge

264. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

1. Business entity principle	A financial statement that describes where a company's cash came from (receipts) and where it went during the period (payments); the cash flows are arranged by an organization's major activities.	**9**
2. Expenses	An economic event that changes the financial position of an organization; often takes the form of an exchange of economic consideration between two parties.	**5**
3. Accounting equation	The expression of transactions and	**8**

	events in money units.	
4. Liabilities	The principle that requires every business to be accounted for separately from its owner or owners.	**1**
5. Business transaction	The principle that provides guidance on when revenue should be reflected on the income statement.	**6**
6. Revenue recognition principle	A description of the relationship between a company's assets, liabilities, and equity.	**3**
7. Statement of changes in equity	A financial statement that reports the changes in equity over the reporting period; beginning equity is	**7**

	adjusted for increases such as owner investment or net income and for decreases such as owner withdrawals or a net loss.	
8. Monetary unit principle	The using up of assets as a result of the main operations of a business.	**2**
9. Statement of cash flows	Debts owed by a business or organization.	**4**

Difficulty: Moderate
Larson - Chapter 01 #264
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Type: Knowledge

265. Match each of the following situations to the applicable accounting principle(s).

1. Marva Stevens, a sole proprietor, pays for her daughter's preschool out of busine.ss funds.	Revenue recognition	**4**
2. Mayan Imports receives a shipment from Mexico. The invoice is stated in pesos.	Cost	**3**
3. A building is for sale at $480,000. An appraisal is given for $450,000.	Business entity	**1**
4. An insurance company receives insurance premiums for six months' worth of coverage.	Monetary unit	**2**

Difficulty: Hard
Larson - Chapter 01 #265
Learning Objective: 01-05 Identify; explain; and apply accounting principles.
Type: Application

Chapter 1 Summary