

Exam

Name _____

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

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

Answer: ☒ True ☐ False

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

Answer: ☐ True ☒ False

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

Answer: ☒ True ☐ False

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

Answer: ☐ True ☒ False

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

Answer: ☐ True ☒ False

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

Answer: ☒ True ☐ False

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

Answer: ☒ True ☐ False

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

Answer: ☐ True ☒ False

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

Answer: ☐ True ☒ False

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

Answer: ☐ True ☒ False

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

Answer: ☒ True ☐ False

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

Answer: ☐ True ☒ False

13) Sole proprietorships and partnerships are not subject to income tax in Canada. 13) _____

Answer: ☒ True ☐ False

- 14) External users include creditors, shareholders, suppliers, and lawyers. 14) _____
Answer: ☒ True ☐ False
- 15) Internal users include creditors, shareholders, internal auditors and managers. 15) _____
Answer: ☐ True ☒ False
- 16) Managerial accounting is an area of accounting that provides internal reports to assist the decision-making needs of internal users. 16) _____
Answer: ☒ True ☐ False
- 17) Internal operating functions include research and development, distribution, and human resources. 17) _____
Answer: ☒ True ☐ False
- 18) Internal controls include procedures to protect assets and prevent fraud. 18) _____
Answer: ☐ True ☒ False
- 19) Career opportunities in accounting include auditing, forensic accounting, and tax planning. 19) _____
Answer: ☒ True ☐ False
- 20) Budgeting is the process of developing formal plans for an organization's future activities. 20) _____
Answer: ☒ True ☐ False
- 21) At the request of the Board of Directors, internal auditors perform the audit function to protect shareholder interests. 21) _____
Answer: ☐ True ☒ False
- 22) The purpose of an audit is to add credibility to the financial statements. 22) _____
Answer: ☒ True ☐ False
- 23) Private accountants work for several employers. 23) _____
Answer: ☐ True ☒ False
- 24) The Canadian accounting profession was recently united and grants the Chartered Professional Accountant (CPA) designation. 24) _____
Answer: ☒ True ☐ False
- 25) To perform public accounting tasks, accountant must be licenced by their professional bodies in the province within which they work. 25) _____
Answer: ☒ True ☐ False
- 26) The preferred ethical path is to take a course of action that avoids casting doubt on one's decisions. 26) _____
Answer: ☒ True ☐ False

- 27) Ethics and laws often differ. 27) _____
Answer: True ☒ False
- 28) Ethics and social responsibility are incidental to the primary functions of accounting. 28) _____
Answer: True ☒ False
- 29) Ethical practices are not necessary to build trust and long-term relationships with customers. 29) _____
Answer: True ☒ False
- 30) Social responsibility is concern for the impact of our actions on society as a whole. 30) _____
Answer: ☒ True False
- 31) The underlying concepts that make up acceptable accounting practices are referred to as generally accepted accounting principles (GAAP). 31) _____
Answer: ☒ True False
- 32) Verifiability ensures that information is complete, neutral and free from error. 32) _____
Answer: True ☒ False
- 33) The Accounting Standards Board (AcSB), is the body that developed the International Financial Reporting Standards. 33) _____
Answer: True ☒ False
- 34) The Accounting Standards Board (AcSB), is the body that developed accounting standards for private enterprises (ASPE). 34) _____
Answer: ☒ True False
- 35) International Accounting Standards have been created to improve comparability of accounting information across countries. 35) _____
Answer: ☒ True False
- 36) Private enterprises are all required to report using International Financial Reporting Standards (IFRS). 36) _____
Answer: True ☒ False
- 37) The primary purpose of Generally Accepted Accounting Principles is to ensure the usefulness of financial information. 37) _____
Answer: ☒ True False
- 38) The cost principle states that if no cash is involved in a transaction the cash-equivalent value must be used. 38) _____
Answer: ☒ True False
- 39) The monetary unit principle means that transactions are expressed using units of money as the common denominator. 39) _____
Answer: ☒ True False

- 40) The assumption that a business will continue to operate until it can sell its assets to pay its creditors underlies the going concern principle. 40) _____
Answer: True ☒ False
- 41) According to the cost principle, it is acceptable for managers to use their own estimate of an asset's value when recording the purchase. 41) _____
Answer: True ☒ False
- 42) The business entity principle requires that an owner keep accounting records separate from personal records or records of any other businesses owned. 42) _____
Answer: ☒ True False
- 43) As a rule, revenues should not be recognized in the accounting records until received in cash. 43) _____
Answer: True ☒ False
- 44) The primary qualitative characteristics of financial information are relevance and faithful representation. 44) _____
Answer: ☒ True False
- 45) A company that is currently in the process of liquidating is considered to be a going concern. 45) _____
Answer: True ☒ False
- 46) The conceptual framework summarizes the qualitative characteristics and supportive building blocks that are required to prepare financial information. 46) _____
Answer: ☒ True False
- 47) 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. 47) _____
Answer: ☒ True False
- 48) A balance sheet covers a period of time such as a month or year. 48) _____
Answer: True ☒ False
- 49) The legitimate claims of a business's creditors take precedence over the claims of the business owner or owners. 49) _____
Answer: ☒ True False
- 50) The income statement is a financial statement that shows revenues earned and expenses incurred by a business over a specified period of time. 50) _____
Answer: ☒ True False
- 51) Net income is the excess of expenses over revenues, whereas net loss is the excess of revenues over expenses. 51) _____
Answer: True ☒ False

- 52) The natural business year for businesses is always the same as the calendar year. 52) _____
Answer: True ☒ False
- 53) The balance sheet shows whether or not the firm achieved its primary objective of earning a profit. 53) _____
Answer: True ☒ False
- 54) Expenses are costs incurred or the using up of assets from generating revenue. 54) _____
Answer: ☒ True False
- 55) Liabilities are defined as "the residual interest in the assets of an entity that remains after deducting its equity". 55) _____
Answer: True ☒ False
- 56) A characteristic of assets is their ability to provide current benefits to the business. 56) _____
Answer: True ☒ False
- 57) The statement of cash flows measures the net effect of revenues and expenses for a specified period. 57) _____
Answer: True ☒ False
- 58) A liability expressed by a written promise to make a future payment is usually called an account payable. 58) _____
Answer: True ☒ False
- 59) The balance sheet is also called the statement of financial position because it shows the financial position of the business on a particular date. 59) _____
Answer: ☒ True False
- 60) Revenues are the value of assets exchanged for products or services provided to customers as part of the major operations of the business. 60) _____
Answer: ☒ True False
- 61) The balance sheet can be used in order to assess the creditworthiness of potential customers. 61) _____
Answer: ☒ True False
- 62) Withdrawals represent distributions from a corporation to its owners. 62) _____
Answer: True ☒ False
- 63) Dividends represent distributions of profits to the partners of a business. 63) _____
Answer: True ☒ False
- 64) Equity is increased by owner investments, net income and withdrawals. 64) _____
Answer: True ☒ False

- 65) Although, in a sole proprietorship, owner investments are not recorded as revenue, any withdrawals are recorded as expenses. 65) _____
Answer: True ☒ False
- 66) An owner's cash investment in a business creates an asset (cash), a liability (note payable), and equity (owner investments). 66) _____
Answer: True ☒ False
- 67) The first section of the income statement reports cash from operating activities. 67) _____
Answer: True ☒ False
- 68) Individuals and organizations who own the right to receive payments from a business are called its debtors. 68) _____
Answer: True ☒ False
- 69) A loss arises when revenues are higher than expenses. 69) _____
Answer: True ☒ False
- 70) A characteristic of liabilities is their capacity to reduce future assets. 70) _____
Answer: ☒ True False
- 71) Net income is equal to the change in equity due to operating activities over a period of time. 71) _____
Answer: ☒ True False
- 72) The equity in a partnership belongs to one owner. 72) _____
Answer: True ☒ False
- 73) Chuck Taylor invested \$8,000 in cash in FastForward. This amount would be reported in the statement of cash flows under financing. 73) _____
Answer: ☒ True False
- 74) 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. 74) _____
Answer: True ☒ False
- 75) Equity is increased when cash is received from customers in payment of a previously recorded accounts receivable. 75) _____
Answer: True ☒ False
- 76) Transactions that impact only assets do not require the accounting equation to stay in balance. 76) _____
Answer: True ☒ False
- 77) The financing side of the accounting equation describes where the assets came from. 77) _____
Answer: ☒ True False

- 78) The accounting equation is the link between a company's assets, liabilities and equity. 78) _____
Answer: ☐ True ☒ False
- 79) The accounting equation can be restated as assets - equity = liabilities. 79) _____
Answer: ☒ True ☐ False
- 80) Liabilities represent non-owner financing. 80) _____
Answer: ☒ True ☐ False
- 81) Business transactions are exchanges of economic consideration between two parties. 81) _____
Answer: ☒ True ☐ False
- 82) Business events do not affect the accounting equation. 82) _____
Answer: ☒ True ☐ False
- 83) The purchase of supplies for cash impacts both the investing and financing sides of the accounting equation. 83) _____
Answer: ☐ True ☒ False
- 84) Items such as sales slips, invoices, cheques, purchase orders, and employee earnings records are also called source documents. 84) _____
Answer: ☒ True ☐ False
- 85) Payment of accounts payable decreases both liabilities and assets. 85) _____
Answer: ☒ True ☐ False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 86) 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. 86) _____

<u>Date</u>	<u>Cash</u>	<u>A/R</u>	<u>Inventory</u>	<u>A/P</u>	<u>Notes Pay</u>	<u>Equity</u>
Sep 2	4,000	2,100	1,000	?	500	4,000
Sep 6	-1,000	-0-	4,000	?	-0-	-0-
Sep 10	500	300	-300	-0-	-0-	?

A)
Sept 2 Sept 6 Sept 10
 1,500 1,000 400

B)
Sept 2 Sept 6 Sept 10
 2,600 3,000 500

C)
Sept 2 Sept 6 Sept 10
 2,600 3,000 2,000

D)
Sept 2 Sept 6 Sept 10
 1,000 4,000 200

E)
Sept 2 Sept 6 Sept 10
 300 2,000 600

Answer: B

- 87) 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? 87) _____
- A) \$3,200,000.
 B) \$3,000,000.
 C) \$1,000,000.
 D) \$1,800,000.
 E) \$1,600,000.

Answer: E

- 88) If assets are \$144,000 and liabilities are \$37,000, then equity equals: 88) _____
- A) \$107,000. B) \$37,000. C) \$74,000. D) \$144,000. E) \$181,000.

Answer: A

- 89) The assets of a business total \$20,000; the liabilities, \$8,000. The claims of the owners are: 89) _____
A) \$28,000. B) \$8,000. C) \$12,000. D) \$20,000. E) \$0.

Answer: C

- 90) 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? 90) _____
A) \$19,000. B) \$1,000. C) \$15,000. D) \$12,000. E) \$11,000.

Answer: E

- 91) If assets are \$175,000 and equity is \$47,000, then liabilities equal: 91) _____
A) \$175,000. B) \$128,000. C) \$47,000. D) \$222,000. E) \$204,000.

Answer: B

- 92) The following information is available for Isla Company for last May. How much is the net income for the month? 92) _____

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

- A) \$30,000. B) \$0 C) \$10,000. D) \$20,000. E) \$35,000.

Answer: D

- 93) 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: 93) _____

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

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

- A) \$47,000. B) \$25,000. C) \$14,000. D) \$35,000. E) \$57,000.

Answer: A

- 94) 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: 94) _____

- A) \$54,000. B) \$20,000. C) \$45,000. D) \$34,000. E) \$36,000.

Answer: D

- 95) If equity is \$30,000 and liabilities are \$73,000, then assets equal: 95) _____
A) \$103,000. B) \$30,000. C) \$60,000. D) \$40,000. E) \$73,000.

Answer: A

96) From the following information taken from the records of Peach Company at December 31 of this year, calculate equity. 96) _____

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

- A) \$7,500. B) \$1,500. C) \$3,500. D) \$6,000. E) \$2,500.

Answer: A

97) Willie's Attic has the following account balances for the dates given: 97) _____

Cash, Sept 1	\$40,000
Cash, Sept 30	60,000
Accounts receivable, Sept 1	10,000
Accounts receivable, Sept 30	14,000
Capital, Sept 1	?
Capital, Sept 30	?
Supplies, Sept 1	30,000
Supplies, Sept 30	24,000
Accounts payable, Sept 1	6,000
Accounts payable, Sept 30	?
Net income for September	20,000

What would equity be on September 1 and September 30?

- A) \$74,000; \$4,000.
B) \$86,000; \$106,000.
C) \$74,000; \$106,000.
D) \$86,000; \$4,000.
E) None of these answers is correct.

Answer: E

98) An exchange between two parties of economic consideration such as goods, services, money, or rights to collect money is called: 98) _____

- A) An audit.
B) The accounting equation.
C) Bookkeeping.
D) A business transaction.
E) A gift.

Answer: D

- 99) Under which one of the following situations can a company recognize revenue under Generally Accepted Accounting Principles? 99) _____
- A) A company purchased raw materials to complete production of a customer order.
 - B) A company completes production of a customer order to be delivered in two weeks.
 - C) A customer signs a contract to purchase goods to be delivered in two weeks.
 - D) A company receives a cash deposit from a customer to deliver goods in two weeks.
 - E) A company ships the goods for which it received a deposit two weeks ago.
- Answer: E
- 100) The rules adopted by the accounting profession as guides in measuring, recording, and reporting the financial affairs and activities of a business are: 100) _____
- A) Known as generally accepted accounting principles.
 - B) Abbreviated as GAAP.
 - C) Intended to make information in financial statements relevant and faithfully represented.
 - D) Both broad and specific principles.
 - E) All of these answers are correct.
- Answer: E
- 101) Which of the following business transactions would increase the equity of ABC Limited? 101) _____
- A) ABC received a \$1,200 cash payment on account from a customer.
 - B) ABC Limited's owner withdrew \$900 cash to cover personal living expenses.
 - C) ABC purchased a building for \$100,000 on account.
 - D) ABC purchased a new machine for \$45,000 on account.
 - E) ABC billed a customer \$14,800 for consulting services provided during the month.
- Answer: E
- 102) Something of value, such as products, services and money, is called a(n): 102) _____
- A) Accounting equation.
 - B) Business transaction.
 - C) Source document.
 - D) Economic consideration.
 - E) Business event.
- Answer: D
- 103) 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? 103) _____
- A) Accounts receivable, \$2,000 increase, liabilities, \$2,000 decrease.
 - B) Accounts receivable, \$2,000 increase, cash, \$2,000 decrease.
 - C) Accounts receivable, \$2,000 increase, cash, \$2,000 increase.
 - D) Accounts receivable, \$2,000 increase, equity, \$2,000 increase.
 - E) Accounts receivable, \$2,000 increase, liabilities, \$2,000 increase.
- Answer: D

- 104) Which of the following items does not appear on the balance sheet? 104) _____
- A) Cash.
 - B) Accounts payable.
 - C) Notes payable.
 - D) Accounts receivable.
 - E) Withdrawals.
- Answer: E
- 105) Social responsibility: 105) _____
- A) Allows Canada Revenue Agency to regulate businesses.
 - B) Requires analysts to report information favourable to their companies.
 - C) Requires that all businesses conduct social audits.
 - D) Is a concern for the impact of our actions on society as a whole.
 - E) Is a code that helps accountants when dealing with confidential information.
- Answer: D
- 106) Ethical behaviour requires: 106) _____
- A) Purchasing agents to favour certain suppliers.
 - B) Auditors to invest in businesses they audit.
 - C) Accountants to keep business information confidential.
 - D) The government to regulate businesses.
 - E) Analysts to report information favourable to their companies.
- Answer: C
- 107) Generally accepted accounting principles are: 107) _____
- A) Required to make financial statement information relevant and faithfully represented.
 - B) Only used by auditors.
 - C) Only used for internal reporting.
 - D) Not used in the real world.
 - E) Only used for reporting to Canada Revenue Agency.
- Answer: A
- 108) The accounting equation can be stated as: 108) _____
- A) $\text{Assets} = \text{liabilities} + \text{equity}$.
 - B) $\text{Equity} = \text{assets} - \text{liabilities}$.
 - C) $\text{Liabilities} = \text{assets} - \text{equity}$.
 - D) $\text{Assets} = \text{non-owner equity} + \text{equity}$.
 - E) All of these answers are correct.
- Answer: E

- 109) Today, Cedar Park Company paid \$600 of its accounts payable in cash. What is the effect on the accounting equation? 109) _____
- A) Assets, no effect; liabilities, \$600 decrease; equity, \$400 increase.
 - B) Assets, \$600 increase; liabilities, no effect; equity, \$600 increase.
 - C) Assets, \$600 decrease; liabilities, \$400 increase; equity, \$200 decrease.
 - D) Assets, \$600 decrease; liabilities, \$600 decrease; equity, no effect.
 - E) No effect.
- Answer: D
- 110) The area of accounting aimed at serving the decision-making needs of internal users is: 110) _____
- A) Internal control.
 - B) Auditing.
 - C) Managerial accounting.
 - D) Financial accounting.
 - E) Marketing.
- Answer: C
- 111) The financial statement that describes where a company's cash came from and where it went during the period is the: 111) _____
- A) Statement of cash flows.
 - B) Statement of changes in equity.
 - C) Income statement.
 - D) Statement of financial position.
 - E) Balance sheet.
- Answer: A
- 112) 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: 112) _____
- A) Statement of changes in equity.
 - B) Statement of financial position.
 - C) Statement of cash flows.
 - D) Income statement.
 - E) Balance sheet.
- Answer: A
- 113) Which of the following is an example of a source document? 113) _____
- A) Employee earnings records.
 - B) Cheque.
 - C) Invoice.
 - D) Bank statement.
 - E) All of these answers are correct.
- Answer: E

- 114) 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: 114) _____
- A) Cost principle.
 - B) Revenue recognition principle.
 - C) Business entity principle.
 - D) Going concern principle.
 - E) Monetary unit principle.
- Answer: C
- 115) The description of the relationship between a company's assets, liabilities, and equity, which is expressed as $\text{Assets} = \text{Liabilities} + \text{Equity}$, is known as the: 115) _____
- A) Accounting equation.
 - B) Business equation.
 - C) Balance sheet.
 - D) Net income.
 - E) Liability equation.
- Answer: A
- 116) Revenues are: 116) _____
- A) The amount a business earns after subtracting all expenses from sales.
 - B) The value of assets exchanged for goods or services provided to the customer.
 - C) Business events.
 - D) Profits.
 - E) Net assets.
- Answer: B
- 117) Exchanges between the entity and some other person or organization are: 117) _____
- A) Internal transactions.
 - B) External transactions.
 - C) Investments.
 - D) Source documents.
 - E) Business papers.
- Answer: B
- 118) A business activity that does not involve an exchange of economic consideration between two parties is called a(n): 118) _____
- A) Business transaction.
 - B) Business event.
 - C) Account receivable.
 - D) Equity transaction.
 - E) Withdrawal.
- Answer: B

- 119) Which of the following statements is correct regarding sales invoices? 119) _____
- A) Sellers use them for recording sales.
 - B) A sales invoice is a type of source document.
 - C) Buyers use them for recording purchases.
 - D) They are required for information to be objective.
 - E) All of these answers are correct.
- Answer: E
- 120) A business: 120) _____
- A) Can only have one legal form of organization.
 - B) Is one or more individuals selling products or services for profit.
 - C) Can have adequate financial records without a formal accounting system.
 - D) Is one or more individuals selling products or services for profit and has to issue shares before it opens.
 - E) Has to issue shares before it opens.
- Answer: B
- 121) Source documents: 121) _____
- A) Are a source of accounting information.
 - B) Do not provide objective evidence about transactions.
 - C) Can only be in electronic form.
 - D) Are acceptable as a substitute for financial statements.
 - E) Are only used for audit purposes.
- Answer: A
- 122) Professional accountants can be: 122) _____
- A) Certified Management Accountants.
 - B) Chartered Accountants.
 - C) Certified General Accountants.
 - D) Certified General Accountants or Chartered Accountants.
 - E) Any of the above.
- Answer: E
- 123) Source documents include all of the following *except*: 123) _____
- A) Financial statements.
 - B) Cheques.
 - C) Bank statements.
 - D) Sales invoices.
 - E) Purchase orders.
- Answer: A

- 124) Accounting is an information and measurement system that: 124) _____
- A) Records economic activities.
 - B) Communicates economic information.
 - C) Identifies and records economic activities.
 - D) Identifies economic activities.
 - E) All of these answers are correct.

Answer: E

- 125) An individual or organization entitled to receive payments from a business is known to the business as a: 125) _____
- A) Creditor.
 - B) Debtor.
 - C) Controller.
 - D) Shareholder.
 - E) Bookkeeper.

Answer: A

- 126) An individual or organization that owes an amount to a business is known to the business as a: 126) _____
- A) Controller.
 - B) Bookkeeper.
 - C) Creditor.
 - D) Shareholder.
 - E) Debtor.

Answer: E

- 127) Career opportunities in accounting include: 127) _____
- A) Auditing.
 - B) Cost accounting.
 - C) Management consulting.
 - D) Budgeting.
 - E) All of these answers are correct.

Answer: E

- 128) Which of the following accounting principles would require that all goods and services purchased be recorded at cost? 128) _____
- A) Revenue recognition principle.
 - B) Going concern principle.
 - C) Cost principle.
 - D) Business entity principle.
 - E) Monetary unit principle.

Answer: C

- 129) External users of accounting information include: 129) _____
A) Creditors.
B) The press.
C) Customers.
D) Shareholders.
E) All of these answers are correct.
Answer: E
- 130) A primary operating objective of a business is to increase the equity of its owner or owners by: 130) _____
A) Acquiring assets.
B) Incurring expenses.
C) Incurring liabilities.
D) Increasing retained earnings.
E) Earning a profit.
Answer: E
- 131) 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: 131) _____
A) Net loss.
B) Net income.
C) Shares.
D) Equity.
E) Revenue.
Answer: D
- 132) Profit is another name for: 132) _____
A) A business transaction.
B) Equity.
C) Net income.
D) Assets.
E) The income statement.
Answer: C
- 133) A payment from a proprietorship or partnership to its owner or owners is called a(n): 133) _____
A) Expense.
B) Withdrawal.
C) Cheque.
D) Equity.
E) Dividend.
Answer: B

- 134) Information that is representationally faithful is: 134) _____
A) Neutral
B) Complete
C) Free from Error.
D) All of these answers are correct.
E) None of these answers is correct.
Answer: D
- 135) The accounting principle that requires that transactions are expressed using units of money as the common denominator is the: 135) _____
A) Monetary unit principle.
B) Going concern principle.
C) Cost principle.
D) Business entity principle.
E) Revenue recognition principle.
Answer: A
- 136) 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: 136) _____
A) Monetary unit principle.
B) Going concern principle.
C) Business entity principle.
D) Cost principle.
E) Revenue recognition principle.
Answer: E
- 137) 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: 137) _____
A) Revenue recognition principle.
B) Cost principle.
C) Going concern principle.
D) Monetary unit principle.
E) Business entity principle.
Answer: C
- 138) 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: 138) _____
A) Accounting equation.
B) Cost principle.
C) Going concern principle.
D) Business entity principle.
E) Revenue recognition principle.
Answer: B

- 139) A corporation: 139) _____
A) Is regulated by Canada Revenue Agency.
B) Has shareholders who have unlimited liability for the acts of the corporation.
C) Can only have two owners.
D) Is not a legal entity.
E) Is a legal entity separate and distinct from its owners.
Answer: E
- 140) A partnership: 140) _____
A) Is a legal organization separate from its owners.
B) Is a non-business organization.
C) Has unlimited liability.
D) Has to have a written agreement in order to be legal.
E) Is also called a sole proprietorship.
Answer: C
- 141) Ethics: 141) _____
A) And law often coincide.
B) Are very important considerations for accountants.
C) Help to prevent conflicts of interest.
D) Are beliefs that separate right from wrong.
E) All of these answers are correct.
Answer: E
- 142) 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: 142) _____
A) Decreased \$4,000.
B) Increased \$6,000.
C) Decreased \$12,000.
D) Increased \$4,000.
E) Increased \$12,000.
Answer: D
- 143) 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: 143) _____
A) Decreased \$6,000.
B) Increased \$14,000.
C) Decreased \$14,000.
D) Increased \$4,000.
E) Decreased \$4,000.
Answer: D

- 144) The organization established to try to achieve global agreement on the use of a common set of accounting principles is called: 144) _____
- A) Abbreviated as IFRS.
 - B) International Accounting Standards Board.
 - C) Accounting Standards Board.
 - D) Generally accepted accounting principles.
 - E) All of these answers are correct.
- Answer: B
- 145) An audit: 145) _____
- A) Is only performed for companies with computerized accounting systems.
 - B) Is required for every business.
 - C) Is an independent review of an organization's accounting systems and records.
 - D) Is performed to add credibility to the financial statements.
 - E) Is an independent review of an organization's accounting systems and records and is performed to add credibility to the financial statements.
- Answer: E
- 146) Accounting information is considered to be relevant when it: 146) _____
- A) Is capable of making a difference in a decision.
 - B) Is understandable by reasonably informed users of accounting information.
 - C) Can be depended on to represent the economic conditions and events that it is intended to represent.
 - D) Is verifiable and neutral.
 - E) Is free from bias.
- Answer: A
- 147) 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? 147) _____
- A) Assets, no effect, liabilities, no effect.
 - B) Assets, \$5,000 increase, equity, \$5,000 decrease.
 - C) Assets, \$5,000 increase, equity, \$5,000 increase.
 - D) Assets, \$5,000 decrease, equity, \$5,000 decrease.
 - E) Liabilities, \$5,000 increase, equity, \$5,000 decrease.
- Answer: A
- 148) Properties or economic resources owned by a business, also described as probable future economic benefits, are called: 148) _____
- A) Expenses.
 - B) Revenues.
 - C) Assets.
 - D) Liabilities.
 - E) Equity.
- Answer: C

- 149) The value of assets exchanged for goods or services provided to customers as part of the main operations of a business are called: 149) _____
- A) Equity.
 - B) Revenues.
 - C) Assets.
 - D) Liabilities.
 - E) Expenses.
- Answer: B
- 150) Assets created by selling products or services on credit are: 150) _____
- A) Expenses.
 - B) Accounts receivable.
 - C) Accounts payable.
 - D) Equity.
 - E) Liabilities.
- Answer: B
- 151) The internal functions of a business include: 151) _____
- A) Research and development.
 - B) Purchasing.
 - C) Servicing.
 - D) Marketing.
 - E) All of these answers are correct.
- Answer: E
- 152) The business entity principle: 152) _____
- A) Means that business records should be kept separate from the owner's personal records.
 - B) Requires that corporations have shareholders.
 - C) Requires that sole proprietors have unlimited liability.
 - D) Requires that partnership income be taxed at the partnership level.
 - E) Requires that partnerships have written agreements.
- Answer: A
- 153) The question of when revenue should be recognized on the income statement (according to GAAP) is answered by the: 153) _____
- A) Business entity principle.
 - B) Going concern principle.
 - C) Revenue recognition principle.
 - D) Monetary unit principle.
 - E) Cost principle.
- Answer: C

- 154) Equity is also known as: 154) _____
A) Expenses.
B) Revenue.
C) Net assets.
D) Net loss.
E) Net income.
Answer: C
- 155) The excess of expenses over revenues for a period is: 155) _____
A) Net loss.
B) Equity.
C) A liability.
D) Net assets.
E) Net income.
Answer: A
- 156) Revenue is recognized in most businesses: 156) _____
A) Upon completion of the sale or when services have been performed and the business obtains the right to collect the sales price.
B) When the customer's order is received.
C) Only if paid in cash.
D) When cash from a sale is received.
E) Only if the transaction creates an account receivable.
Answer: A
- 157) Businesses can take the following form(s): 157) _____
A) Sole proprietorship.
B) Partnership.
C) Sole proprietorship and partnership.
D) Not-for-profit.
E) All of these answers are correct.
Answer: C
- 158) The recording of financial transactions either manually or electronically is called: 158) _____
A) Preparing financial statements.
B) Accounting.
C) Systems design.
D) Bookkeeping.
E) Auditing.
Answer: D

- 159) Internal controls are procedures set up to: 159) _____
A) Protect assets.
B) Ensure company policies are followed.
C) Ensure accounting reports are free from error, neutral and complete.
D) Promote efficiency.
E) All of these answers are correct.
Answer: E
- 160) 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: 160) _____
A) Cost principle.
B) Going concern principle.
C) Revenue recognition principle.
D) Monetary unit principle.
E) Business entity principle.
Answer: B
- 161) 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: 161) _____
A) Revenue recognition principle.
B) Business entity principle.
C) Cost principle.
D) Going concern principle.
E) Monetary unit principle.
Answer: A
- 162) An obligation of a business that represents the claims of others against the assets of the business is called a(n): 162) _____
A) Expense. B) Equity. C) Liability. D) Revenue. E) Asset.
Answer: C
- 163) Costs incurred or the using up of assets as a result of the main operations of a business are called: 163) _____
A) Liabilities.
B) Equity.
C) Net losses
D) Revenues.
E) Expenses.
Answer: E

- 164) Payments of cash by a corporation to its shareholders are called: 164) _____
A) Dividends.
B) Shareholders equity.
C) Withdrawals.
D) Cheques.
E) Expenses.
Answer: A
- 165) Economic events that affect an entity's accounting equation, but that are not transactions between the entity and outside parties are called: 165) _____
A) Internal transactions.
B) External transactions.
C) Source documents.
D) Liabilities.
E) Prepaid expenses.
Answer: A
- 166) Which financial statement shows whether the business earned a profit or loss, and also lists the types and amounts of the revenues and expenses? 166) _____
A) Balance sheet.
B) Statement of cash flows.
C) Income statement.
D) Statement of changes in equity.
E) Statement of financial position.
Answer: C
- 167) A financial statement providing information that helps users understand a company's financial status at a specific date, is called a(n): 167) _____
A) Balance sheet.
B) Statement of changes in equity.
C) Bank statement.
D) Income statement.
E) Statement of cash flows.
Answer: A
- 168) Cash investments by owners are listed on which of the following statement(s)? 168) _____
A) Income statement.
B) Statement of cash flows.
C) Balance sheet.
D) Statement of changes in equity.
E) Both a statement of changes in equity and statement of cash flows.
Answer: E

- 169) Net income appears on which of the following statement(s)? 169) _____
- A) Balance sheet.
 - B) Statement of cash flows.
 - C) Statement of changes in equity.
 - D) Income statement.
 - E) Both an income statement and statement of changes in equity.
- Answer: E
- 170) Salaries paid with cash appear on which of the following statement(s)? 170) _____
- A) Statement of cash flows.
 - B) Income statement.
 - C) Statement of changes in equity.
 - D) Balance sheet.
 - E) Both an income statement and statement of cash flows.
- Answer: E
- 171) Fees earned by a business in exchange for services provided by the business appear on which of the following statements? 171) _____
- A) Statement of changes in equity.
 - B) Statement of cash flows.
 - C) Balance sheet.
 - D) Income statement.
 - E) Statement of financial position.
- Answer: D
- 172) The balance sheet equation is: 172) _____
- A) Debits equal credits.
 - B) Another name for the accounting equation.
 - C) Assets minus liabilities.
 - D) The bookkeeping phase of accounting.
 - E) Revenues minus expenses equals net income.
- Answer: B
- 173) According to generally accepted accounting principles, a company's balance sheet should show the company's assets at: 173) _____
- A) Current replacement cost.
 - B) The cash equivalent value of what was given up or the asset received, whichever is more clearly evident.
 - C) The market value of the asset received in all cases.
 - D) The best estimate of a certified internal auditor.
 - E) The cash outlay only, even if part of the consideration given was something other than cash.
- Answer: B

- 174) Net income is: 174) _____
- A) The excess of revenues over expenses.
 - B) The same as equity.
 - C) Assets minus liabilities.
 - D) A revenue.
 - E) The excess of expenses over revenues.
- Answer: A
- 175) If financial information is relevant, this means that: 175) _____
- A) The information is prepared using the same accounting procedures from one accounting period to the next.
 - B) Decision makers can depend on it.
 - C) The financial statements have not been prepared according to GAAP.
 - D) Users are able to compare different companies, if all the companies use similar accounting practices.
 - E) It can affect the types of decisions made by users.
- Answer: E
- 176) Financial information that is verifiable means that: 176) _____
- A) Information is clear and concise.
 - B) The information is useful to users with reasonable knowledge of accounting as well as business and economic activities.
 - C) Users are able to compare different companies, if all the companies use similar accounting practices.
 - D) Knowledgeable users agree that the financial information is faithfully represented.
 - E) The financial statements have not been prepared according to GAAP.
- Answer: D
- 177) A statement of financial position is another name for: 177) _____
- A) The balance sheet.
 - B) The statement of cash flows.
 - C) The accounting equation.
 - D) The statement of changes in equity.
 - E) The income statement.
- Answer: A
- 178) A statement of profit and loss is another name for: 178) _____
- A) The income statement.
 - B) The accounting equation.
 - C) The statement of cash flows.
 - D) The statement of changes in equity.
 - E) The balance sheet.
- Answer: A

- 179) A balance sheet lists: 179) _____
- A) Only the information about what happened to equity during a specific time period.
 - B) The types and amounts of the revenues and expenses of a business.
 - C) The assets and liabilities of a business but not the equity.
 - D) The types and amounts of assets, liabilities, and equity of a business at a specific date.
 - E) The inflows and outflows of cash during a specific time period.
- Answer: D
- 180) Which of the following statements is true about assets? 180) _____
- A) They can be intangible rights.
 - B) Ownership is shared between creditors and owners.
 - C) They are available to provide future benefits to the business.
 - D) They are the properties or economic resources owned by the business.
 - E) All of these answers are correct.
- Answer: E
- 181) The primary objective of GAAP is to provide accounting information that is: 181) _____
- A) Comparability.
 - B) Timeliness.
 - C) Neutral.
 - D) Freedom from bias.
 - E) Usefulness for decision making.
- Answer: E
- 182) The adoption of international accounting standards is an application of which of the following quality enhancing characteristics of financial information: 182) _____
- A) Timeliness.
 - B) Completeness.
 - C) Verifiability.
 - D) Understandability.
 - E) Comparability.
- Answer: E
- 183) The primary objective of financial accounting is: 183) _____
- A) To help organizations keep track of financing activities.
 - B) To prepare budgets.
 - C) To help an organization to keep track of its buying and selling of resources.
 - D) To help an organization define its ideas, goals, and actions.
 - E) To provide external reports to help users analyze an organization's activities.
- Answer: E

- 184) Blue Company collected \$2,000 cash for work completed. The effects on the accounting equation are: 184) _____
- A) Total assets, total liabilities, and equity are unchanged.
 - B) Total assets increase and equity increases.
 - C) Both total assets and total liabilities decrease.
 - D) Both total assets and equity are unchanged.
 - E) Total assets decrease and equity increases.

Answer: B

- 185) Which of the following is not reported on the income statement? 185) _____
- A) Net income.
 - B) Withdrawals.
 - C) Revenues earned by a business.
 - D) Expenses incurred by a business.
 - E) All of these answers are correct.

Answer: B

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 186) Describe the purpose and importance of accounting. 186) _____

Answer: 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.

- 187) Identify the three forms of business organizations. 187) _____

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

- 188) Describe non-business organizations. 188) _____

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

- 189) Identify the form of business organization(s) to which the following characteristics apply. 189) _____

- (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.			

Answer:

	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

190) 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. 190) _____

- (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.

Answer: (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

191) Describe the main user groups, their members, and their uses of accounting information. 191) _____

Answer: 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.

192) Explain why ethics and social responsibility are an integral part of accounting. 192) _____

Answer: 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.

193) Identify several opportunities in accounting and its related fields. 193) _____

Answer: 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.

194) Explain the difference between the functions of an internal auditor and an external auditor. 194) _____

Answer: 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.

195) Select the appropriate financial statement for each of the following accounts. 195) _____

- (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

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

196) Select the appropriate financial statement for each of the following items. 196) _____

- (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

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

197) List the three main differences between the sole proprietorship and the corporate form of business. 197) _____

Answer:

<u>Difference</u>	<u>Type of Business Organization</u>	
	<u>Sole Proprietorship</u>	<u>Corporation</u>
Equity section on the balance sheet is called:	equity	shareholder's equity
Distribution to owners are called:	withdrawals	dividends
When managers are also owners, their salaries are:	not an expense	an expense

198) What is the statement of financial position? What is its purpose? 198) _____

Answer: 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.

199) What distinguishes liabilities from equity? 199) _____

Answer: 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).

200) List the three types of activities reported on the statement of cash flows. 200) _____

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

201) Describe the three important guidelines for revenue recognition. 201) _____

Answer: 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.

202) How does the cost principle support ethical behaviour? 202) _____

Answer: 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.

203) Why should assets be recorded at historical cost? 203) _____

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

204) How does the going concern principle affect reporting asset values of a business? 204) _____

Answer: 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.

205) 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? 205) _____

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

206) 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? 206) _____

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

207) 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. 207) _____

- (1) April wrote a cheque for \$350 to Wee Care Day Care Centre. The amount paid for day care for Justin Lapierre, April's son.
- (2) April plans a Going Out of Business Sale for May, since she will be closing her business for a month-long vacation in June. She plans to reopen July 1 and will continue operating April's Attic indefinitely.
- (3) April received a shipment of pine furniture from Maine, U.S.A. The invoice was stated in U.S. dollars.
- (4) Martinique Gresham paid \$1,000 for a dining table. The amount was recorded as revenue. The table will be delivered to Ms. Gresham in six weeks.

Answer:

- (1) Business entity principle. April should refund the \$350 to the business the business should record this as a withdrawal. In the future, she should use a personal cheque to pay for day care.
- (2) Going-concern principle. April's Furniture Emporium is not going out of business. The business is just closing for vacation. She should hold an inventory reduction sale or other appropriate sale.
- (3) Monetary unit principle. The invoice should be recorded in Canadian dollars.
- (4) Revenue recognition principle. Since the table has not been delivered, revenue should not be recognized. The \$1,000 should be placed in an account such as Deposits Received from Customers. (Unearned Revenue)

208) Explain the accounting equation, also called the balance sheet equation. 208) _____

Answer: The accounting equation is stated as $\text{assets} = \text{liabilities} + \text{equity}$. 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.

209) Lionel's Laundry has assets of \$180,000 and liabilities of \$120,000. Calculate the amount of equity. 209) _____

Answer: \$60,000

210) Caps Lock has liabilities of \$150,000 and \$100,000 in equity. What is the value of its assets? 210) _____

Answer: \$250,000

211) Sheila's Attic has \$650,000 in assets and equity of \$250,000. What is the amount of its liabilities? 211) _____

Answer: \$400,000

212) 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? 212) _____

Answer: Assets would have increased \$44,000.

$$\begin{aligned}\text{Assets} &= \text{Liabilities} + \text{Equity} \\ +\$44,000 &= +\$65,000 + (-\$21,000)\end{aligned}$$

213) Select from the following list items that are likely to serve as source documents. 213) _____

- | | |
|-------------------------|-------------------------|
| (a) Credit card | (e) Balance sheet |
| (b) Credit card receipt | (f) Bank statement |
| (c) Purchase order | (g) Journal entry |
| (d) Invoice | (h) Electric power bill |

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

214) Explain the difference between a business transaction and a business event. 214) _____

Answer: 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.

215) 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. 215) _____

Answer: Beginning equity = \$40,000

Ending equity = \$220,000

	Assets	=	Liabilities	+	Equity
Beginning	\$200,000	=	\$160,000	+	\$ 40,000
Change	<u>+160,000</u>	=	<u>(20,000)</u>	+	<u>180,000</u>
Ending	\$360,000	=	\$140,000	+	\$220,000

- 216) 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? 216) _____
- Answer: Assets would have increased \$40,000.

$$\begin{array}{rclcl} \text{Assets} & = & \text{Liabilities} & + & \text{Equity} \\ +\$40,000 & = & \$58,000 & + & (-\$18,000) \end{array}$$

- 217) 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. 217) _____
- Answer: Assets = Liabilities + Equity
+\$20,000 = 0 + \$20,000

- 218) Blu Lightning Co. spent \$6,000 in cash for a computer. Enter the appropriate amounts into the accounting equation format. 218) _____
- Answer: Assets = Liabilities + Equity
+ 6,000 = 0 + 0
-6,000

- 219) Blu Lightning Co. bought supplies and testing equipment for \$3,000 on credit. Enter the appropriate amounts into the accounting equation format. 219) _____
- Answer: Assets = Liabilities + Equity
+\$3,000 = +\$3,000 + 0

- 220) 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. 220) _____
- Answer: Assets = Liabilities + Equity
+\$5,000 = 0 + +\$5,000

- 221) Blu Lightning Co. paid its employees \$2,000 in cash for two weeks' wages. Enter the appropriate amounts into the accounting equation format. 221) _____
- Answer: Assets = Liabilities + Equity
-\$2,000 = 0 + -\$2,000

- 222) 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. 222) _____
- Answer: Assets = Liabilities + Equity
+\$5,000 = 0 + 0
-\$5,000 = 0 + 0

223) 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? 223) _____

Answer: Assets would decrease \$2,000, liabilities would decrease \$2,000, and equity would not change.

Assets = Liabilities + Equity

-\$2,000 = -\$2,000 + \$0

224) Dallas Parsons, CA, began an accounting practice and completed these transactions during September 2015: 224) _____

Sept 1 Invested \$25,000 of his personal savings into a bank account opened in the name of the accounting practice.

Sept 2 Purchased office equipment for \$2,500, paying \$800 cash and agreeing to pay the balance in one year.

Sept 3 Rented office space and paid cash for two months in advance, \$1,200.

Sept 4 Completed accounting work for a client and immediately collected \$500 in cash for the work done.

Sept 8 Purchased office supplies for cash, \$50.

Sept 15 Completed accounting services for a client on credit, \$2,500.

Sept 20 Received \$2,500 from the above client for the work completed on September 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

Answer:

<u>Date</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
September 1	I	N	I
September 2	I,D	I	N
September 3	I,D	N	N
September 4	I	N	I
September 8	I,D	N	N
September 15	I	N	I
September 20	I,D	N	N
September 30	D	N	D
September 30	D	N	D
September 30	D	N	D

225) 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. 225) _____

(a) R.H. Long invested \$100,000 in a sole proprietorship.	<u>+A</u>	<u>+E</u>
(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 rental premium for a 12-month policy was paid in cash in advance.	_____	_____
(f) Paid the office secretary's salary.	_____	_____
(g) The amount owed on the building was paid.	_____	_____

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

226) Bandu Company's accounts with the increases or decreases that occurred during this year are as follows: 226) _____

	<u>Increase</u>	<u>Decrease</u>
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.

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

$$\begin{array}{rcl} \text{Assets} & = & \text{Liabilities} + \text{Equity} \\ +19,000 & + & 5,000 + 14,000 \end{array}$$

$$\text{Change in assets: } 6,000 - 2,000 + 15,000 = 19,000$$

$$\text{Change in liabilities: } 13,000 - 8,000 = 5,000$$

$$\text{Change in equity: } 4,000 - 12,000 + X = 14,000 \quad X = 22,000$$

227) Blu Disc paid its landlord \$3,000 in cash for three months' rent in advance. Enter 227) _____
the appropriate amounts into the accounting equation format.

Answer:

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

228) Describe source documents and their purpose. 228) _____

Answer: 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.

229) 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: 229) _____

Tide Company Balance Sheet September 1, 2015			
Assets		Equity	
Cash	<u>\$ 50,000</u>	P.Bryant, Capital	<u>\$ 50,000</u>
Total Assets	<u><u>\$ 50,000</u></u>	Total Liabilities and Equity	<u><u>\$ 50,000</u></u>

Tide Company Balance Sheet September 5, 2015			
Assets		Liabilities	
Cash	\$ 40,000	Notes Payable	\$ 15,000
Land	5,000		
Building	<u>20,000</u>	Equity	
		P.Bryant, Capital	<u>50,000</u>
Total Assets	<u><u>\$ 65,000</u></u>	Total Liabilities and Equity	<u><u>\$ 65,000</u></u>

Tide Company
Balance Sheet
September 9, 2015

Assets		Liabilities	
Cash	\$ 40,000	Accounts Payable	\$ 3,000
Office Supplies	3,000	Notes Payable	<u>15,000</u>
Land	5,000	Total Liabilities	\$ 18,000
Building	<u>20,000</u>	Equity	
		P.Bryant, Capital	<u>50,000</u>
Total Assets	<u>\$ 68,000</u>	Total Liabilities and Equity	<u>\$ 68,000</u>

Tide Company
Balance Sheet
September 11, 2015

Assets		Liabilities	
Cash	\$ 36,000	Accounts Payable	\$ 3,000
Office Supplies	3,000	Notes Payable	<u>15,000</u>
Land	5,000	Total Liabilities	\$ 18,000
Building	20,000	Equity	
Office Furniture	<u>4,000</u>	P.Bryant, Capital	<u>50,000</u>
Total Assets	<u>\$ 68,000</u>	Total Liabilities and Equity	<u>\$ 68,000</u>

Tide Company
Balance Sheet
September 15, 2015

Assets		Liabilities	
Cash	\$ 26,000	Accounts Payable	\$ 3,000
Office Supplies	3,000	Notes Payable	<u>5,000</u>
Land	5,000	Total Liabilities	\$ 8,000
Building	20,000	Equity	
Office Furniture	<u>4,000</u>	P.Bryant, Capital	<u>50,000</u>
Total Assets	<u>\$ 58,000</u>	Total Liabilities and Equity	<u>\$ 58,000</u>

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

Sept 1
5
9
11
15

Answer:

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

230) Prepare a balance sheet in good form for the Logitech Trucking Company from the following alphabetical list of the accounts at September 30, 2015: 230) _____

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

Answer:

Logitech Trucking Company Balance Sheet September 30, 2015			
Assets		Liabilities	
Cash	\$ 5,000	Accounts payable	\$ 12,000
Accounts receivable	4,000	Notes payable	40,000
Office equipment	6,000	Total Liabilities	52,000
Building	29,000	Equity	
Trucks	50,000	P. Dersch, capital	42,000
Total Assets	<u>\$ 94,000</u>	Total Liabilities and Equity	<u>\$ 94,000</u>

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

231) _____

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

Answer:

Draydon Insurance Co.					
Balance Sheet					
December 31, 2015					
Assets			Liabilities		
Cash	\$	4,100	Accounts payable	\$	2,800
Accounts receivable		1,100	Salaries payable		700
Office supplies		400	Note payable		<u>72,000</u>
Prepaid insurance		1,500			
Office equipment		6,000	Total Liabilities		75,500
Land		20,000			
Building		100,000	Equity		
			John Ace, capital		<u>57,600</u>
Total Assets	\$	<u>133,100</u>	Total Liabilities and Equity	\$	<u>133,100</u>

- 232) 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. 232) _____

Answer:

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	<u>\$ 63,400</u>
Less: Withdrawals by owner	3,000
Anna Turcza, capital, Dec 31	<u>\$ 60,400</u>

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	\$3,000
Accounts receivable	2,250	Jill Luckovich, Withdrawals	350
Cash	2,875	Rent expense	2,500
Fees earned	6,400	Salaries expense	2,200
Notes payable	700	Telephone expense	1,250
Jill Luckovich, Capital	6,725		

- 233) From the information given in reference, prepare an income statement for November. 233) _____

Answer:

Jill Luckovich Interior Design Co.	
Income Statement	
For the Month Ended November 30, 2015	
Revenue:	
Fees earned	\$6,400
Operating Expenses:	
Rent expense	\$2,500
Salaries expense	2,200
Telephone expense	<u>1,250</u>
Net Income	<u>\$5,950</u>
	<u>\$450</u>

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

234) _____

Answer:

Jill LuckovichInterior Design Co.

Statement of Changes in Equity

For the Month Ended November 30, 2015

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

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

235) _____

Answer:

Jill LuckovichInterior Design Co.

Balance Sheet

November 30, 2015

Assets		Liabilities	
Cash	\$2,875	Accounts payable	\$
Accounts receivable	2,250	Notes payable	<u> </u>
Office furniture	<u>\$3,000</u>	Total Liabilities	1,
		Equity	
		Jill Luckovich, Capital	<u>6,</u>
Total Assets	<u>\$8,125</u>	Total Liabilities & Equity	<u>\$8,</u>

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

Accounts payable	\$16,000	Office furniture	\$14,000
Accounts receivable	7,250	Cohen, withdrawals	2,000
Cash	7,875	Advertising expense	10,500
Revenues	43,200	Wages expense	12,200
Notes payable	900	Maintenance expense	13,000
Cohen, Capital	6,725		

236) From the information given in reference, prepare an income statement for 2015. 236) _____

Answer:

Cohen's Toy Repair Co.			
Income Statement			
For the Year Ended December 31, 2015			
Revenue:			
	Revenues		\$43,200
Operating Expenses:			
	Advertising expense	\$10,500	
	Wages expense	12,200	
	Maintenance expense	<u>13,000</u>	<u>\$35,700</u>
	Net Income		<u>\$7,500</u>

237) From the information given in reference, prepare a statement of changes in equity for 2015. 237) _____

Answer:

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	<u>7,500</u>
	Total	\$14,225
	Less: Withdrawals by owner	<u>2,000</u>
	Cohen, Capital, Dec. 31	<u>\$12,225</u>

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

238) _____

Answer:

Cohen's Toy Repair Co. Balance Sheet December 31, 2015			
Assets		Liabilities	
Cash	\$7,875	Accounts payable	\$16,
Accounts receivable	7,250	Notes payable	—
Office furniture	<u>\$14,000</u>	Total Liabilities	16,
		Equity	
		Cohen, Capital	<u>12,</u>
Total Assets	<u>\$29,125</u>	Total Liabilities & Equity	<u>\$29,</u>

Charlie Inuvic started a real estate business on January 1, 2016. Data for Inuvic Realty, a sole proprietorship, at December 31, 2016, the company's year-end, is below:

Accounts Payable	\$16,000	Office Furniture	30,000
Accounts Receivable	25,000	Charlie Inuvic, Withdrawals	23,000
Cash	65,000	Advertising Expense	8,000
Rent Revenue	20,000	Maintenance Expense	13,000
Sales Revenue	90,000	Charlie Inuvic, Capital	?
Notes Payable	13,000		

239) Prepare an income statement for the year ended December 31, 2016

239) _____

Answer:

Inuvic Realty Income Statement For the tear ended December 31, 2016		
Revenues:		
Sales Revenue	\$90,000	
Rent Revenue	<u>20,000</u>	
Total Revenues		\$110,000
Operating Expenses:		
Advertising Expenses	\$8,000	
Maintenance Expenses	<u>13,000</u>	
Total Operating Expenses		<u>21,000</u>
Net Income		<u>\$89,000</u>

240) Calculate the balance of the account "Charlie Inuvic, Capital", at December 31, 2016 240) _____

Answer: Charlie Inuvic, Capital, December 31, 2016 = opening balance at Jan 1, 2016 + new investment by owner + net income - owner withdrawals

$$= 0 + 0 + 89,000 - 23,000 = \$66,000$$

You are the accountant for Klemmer Corporation. At the company's year end, December 31, 2016, you discover there is an amount of \$30,000 that has been earned by Klemmer but not yet billed to its customers by the year end. Laura Klemmer, the owner, tells you not to bill the customers as it is company policy not to bill customers until February, 2017, well after the Christmas holidays. Klemmer has sales staff that are paid a bonus at year end on sales revenue billed.

241) What account(s) is (are) affected by not recording the transaction? Identify the account(s) as an asset, liability, revenue or expense. 241) _____

Answer: Accounts receivable - Asset; Sales Revenue - Revenue

242) What accounting principle has been violated by not billing customers for the year ended December 31, 2016? Explain. 242) _____

Answer: Revenue recognition principle was violated. Revenue was earned but not yet recognized as sales revenue in the accounting records.

243) Are there any ethical issues involved in not billing the customers? Explain. 243) _____

Answer: Financial information not presented on the financial statements is misleading in that it does not accurately state the company's financial position at year end. Specifically, sales revenue on the income statement is understated which also understates the bonus payment due to sales staff. Accountants need to include revenue earned by a company whether cash is collected or not.

244) Describe the relationship between sales (or revenues), expenses, and profit. 244) _____

Answer: 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).