Chapter 01
Accounting in Business

True / False Questions

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Topic: 01-02 Power of Accounting

2. Accounting information helps people make better decisions about the performance of a business.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Topic: 01-02 Power of Accounting

3. The main objective of accounting is to help people to invest in new products and businesses.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Topic: 01-07 External Information Users

4. Recordkeeping" is another term for "accounting".
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Topic: 01-03 Focus of Accounting

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

6. A partnership requires no special legal requirements to start, other than to register the business name and obtain a business licence.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

11. A corporation is responsible for its actions and any debts incurred. It can enter into its own contracts, and it can buy, own, and sell property.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-04 Forms of Organization

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-12 Taxation

14. External users include lenders such as banks, and other creditors such as suppliers and bondholders.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-07 External Information Users

15. Internal users include creditors, shareholders, internal auditors and managers.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-08 Internal Information Users

16. Managerial accounting provides special-purpose reports customized to meet the information needs of internal users.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-08 Internal Information Users

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-08 Internal Information Users

18. Internal controls include procedures to protect assets and prevent fraud.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-08 Internal Information Users

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-09 Accounting Opportunities

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-11 Managerial Accounting

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-10 Financial Accounting

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-10 Financial Accounting

23. Private accountants work for several employers.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-09 Accounting Opportunities

24. In Canada, Chartered Professional Accountants of Canada is the national organization that has been established to train and monitor its highly qualified professionals.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-13 Professional Certification

25. Internal auditors perform the audit at the request of the board of directors to protect investor interests.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-10 Financial Accounting

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Topic: 01-15 Understanding Ethics

27. Ethics and laws often differ.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Topic: 01-15 Understanding Ethics

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Topic: 01-14 Ethics and Social Responsibility

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Topic: 01-15 Understanding Ethics

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Topic: 01-16 Social Responsibility

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-17 Generally Accepted Accounting Principles (GAAP)

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

39. The currency principle means that transactions are expressed using units of money as the common denominator.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-19 Communicating Through Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

51. Profit is the excess of expenses over revenues, whereas net loss is the excess of revenues over expenses.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

62. Withdrawals represent distributions from a corporation to its owners.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

63. Dividends represent distributions of profits to the partners of a business.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

64. Equity is increased by owner investments, profit and withdrawals.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-22 Transaction Analysis

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

69. A loss arises when revenues are higher than expenses.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

71. Profit on the income statement results in an increase in equity on the balance sheet due to profitable operating activities over a period of time.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

72. The equity in a partnership belongs to one owner.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-04 Forms of Organization

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-21 The Accounting Equation

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.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-23 Summary of Transactions

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-20 Previewing Financial Statements

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

80. Liabilities represent non-owner financing.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

81. Business transactions are exchanges of economic consideration between two parties.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

82. Business events do not affect the accounting equation.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

85. Payment of accounts payable decreases both liabilities and assets.
TRUE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

Multiple Choice Questions

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.

Date	Cash	A/R	Inventory	A/P	Notes Pay	Equity
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
2,600	3,000	2,000

B.

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

C.

Sept 2	Sept 6	Sept 10
300	2,000	600

D.

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

E.

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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 profit for Lockerbie and Role Company?
A. $1,600,000
B. $1,800,000
C. $1,000,000
D. $3,000,000
E. $3,200,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-23 Summary of Transactions

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

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?
A. $1,00
B. $11,000.
C. $12,000
D. $15,000
E. $19,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

92. The following information is available for Isla Company for the month of May. How much is the profit 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. $0
B. $10,000
C. $20,000
D. $30,000
E. $35,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-23 Summary of Transactions

93. Reese's Company reported equity of $22,000 on its December 31, 2019 balance sheet. The following information is available for the year ended December 31, 2020

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

What are the total assets of Reese's Company on December 31, 2020?
A. $14,000
B. $25,000
C. $35,000
D. $47,000
E. $57,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-23 Summary of Transactions

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

96. 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. $1,500
B. $2,500
C. $7,500
D. $3,500
E. $6,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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

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	?
Profit for September	20,000

What is the amount of equity on September 1 and September 30?
A. $86,000; $4,000
B. $86,000; $106,000
C. $74,000; $106,000
D. $74,000; $4,000
E. None of these answers is correct.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

98. An exchange between two parties of economic consideration such as goods, services, money, or rights to collect money is called
A. the accounting equation.
B. bookkeeping.
C. a business transaction.
D. an audit.
E. a gift.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

99. Under which one of the following situations can a company recognize revenue under Generally Accepted Accounting Principles?
A. A customer signs a contract to purchase goods to be delivered in two weeks.
B. A company completes production of a customer order to be delivered in two weeks.
C. A company ships the goods for which it received a deposit two weeks ago.
D. A company receives a cash deposit from a customer to deliver goods in two weeks.
E. A company purchased raw materials to complete production of a customer order.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

100. The rules adopted by the accounting profession as guides in measuring, recording, and reporting the financial affairs and activities of a business are
A. both broad and specific principles
B. known as generally accepted accounting principles
C. abbreviated as GAAP
D. intended to make information in financial statements relevant and faithfully represented.
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

101. Which of the following business transactions would increase the equity of ABC Limited?
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 new machine for $45,000 on account.
D. ABC billed a customer $14,800 for consulting services provided during the month.
E. ABC purchased a building for $100,000 on account.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

102. Something of value, such as products, services and money, is called a(n)
A. business transaction
B. business event
C. accounting equation
D. economic consideration
E. source document

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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?
A. Accounts receivable, $2,000 increase, liabilities, $2,000 decrease.
B. Accounts receivable, $2,000 increase, liabilities, $2,000 increase.
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, cash, $2,000 decrease.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

104. Which of the following items does not appear on the balance sheet?
A. Cash
B. Notes payable
C. Accounts receivable
D. Withdrawals
E. Accounts payable

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-20 Previewing Financial Statements

105. Social responsibility
A. is a code that helps accountants when dealing with confidential information
B. is a concern for the impact of our actions on society as a whole
C. allows Canada Revenue Agency to regulate businesses
D. requires that all businesses conduct social audits
E. requires analysts to report information favourable to their companies

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Topic: 01-16 Social Responsibility

106. Ethical behaviour requires
A. accountants to keep business information confidential
B. auditors to invest in businesses they audit
C. analysts to report information favourable to their companies
D. purchasing agents to favour certain suppliers
E. the government to regulate businesses

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Topic: 01-15 Understanding Ethics

107. Generally accepted accounting principles are
A. not used in the real world
B. are required to make financial statement information relevant and faithfully represented
C. are only used for internal reporting
D. are only used by auditors
E. are only used for reporting to Canada Revenue Agency

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-17 Generally Accepted Accounting Principles (GAAP)

108. The accounting equation can be stated as
A. Assets = non-owner equity + equity
B. Liabilities = assets - equity
C. Assets = liabilities + equity
D. Equity = assets - liabilities
E. All of these

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

109. Today, Cedar Park Company paid $600 of its accounts payable in cash. What is the effect on the accounting equation?
A. Assets, $600 increase; liabilities, no effect; equity, $600 increase.
B. Assets, $600 decrease; liabilities, $600 decrease; equity, no effect.
C. Assets, $600 decrease; liabilities, $400 increase; equity, $200 decrease.
D. Assets, no effect; liabilities, $600 decrease; equity, $400 increase.
E. There is no effect.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

110. The area of accounting aimed at serving the decision-making needs of internal users is
A. financial accounting
B. managerial accounting
C. auditing
D. internal control
E. marketing

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-08 Internal Information Users

111. The financial statement that describes where a company's cash came from and where it went during the period is the
A. statement of financial position
B. statement of cash flows
C. balance sheet
D. income statement
E. statement of changes in equity

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

112. The financial statement that shows the beginning balance of equity, the changes in equity that resulted from new investments by the owner, Profit (or net loss), withdrawals, and the ending balance of equity is the
A. statement of financial position
B. statement of cash flows
C. balance sheet
D. income statement
E. statement of changes in equity

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

113. Which of the following is an example of a source document?
A. Invoice
B. Cheque
C. Bank statemen
D. Employee earnings records
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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
A. currency
B. historical cost principle
C. business entity principle
D. going concern principle
E. revenue recognition principle

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

115. 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. balance sheet
B. accounting equation
C. business equation
D. liability equation
E. profit

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

116. Revenues are
A. profits
B. the amount a business earns after subtracting all expenses from sales
C. business events
D. net assets
E. the value of assets exchanged for goods or services provided to the customer

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

117. Exchanges between the entity and some other person or organization are
A. internal transactions
B. external transactions
C. business papers
D. source documents
E. investments

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-08 Internal Information Users

118. A business activity that does not involve an exchange of economic consideration between two parties is called a(n)
A. withdrawal
B. account receivable
C. business transaction
D. business event
E. equity transaction

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

119. Which of the following statements is correct regarding sales invoices?
A. A sales invoice is a type of source document.
B. Sellers use them for recording sales.
C. Buyers use them for recording purchases.
D. They are required for information to be objective.
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

120. A business
A. is one or more individuals selling products or services for profit
B. can only have one legal form of organization
C. can have adequate financial records without a formal accounting system
D. has to issue shares before it opens
E. is one or more individuals selling products or services for profit and has to issue shares before it open

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-04 Forms of Organization

121. Source documents
A. do not provide objective evidence about transaction
B. are a source of accounting information.
C. can only be in electronic form
D. are only used for audit purposes
E. are acceptable as a substitute for financial statements

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

122. In Canada, the national organization that has been established to train and monitor its highly qualified professionals to navigate through today's complex and dynamic business climate while demonstrating a commitment to its core values is called
A. general Accountant.
B. management Accountant.
C. certified Management Accountants.
D. chartered Professional Accountants.
E. all of the choices are correct.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-13 Professional Certification

123. Source documents include all of the following *except*:
A. sales invoice
B. financial statements.
C. cheques
D. purchase orders
E. bank statements

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

124. Accounting is an information and measurement system that
A. identifies economic activities
B. records economic activities
C. communicates economic information
D. identifies and records economic activities
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Topic: 01-02 Power of Accounting

125. An individual or organization entitled to receive payments from a business is known to the business as a
A. debtor
B. shareholder
C. controller
D. creditor
E. bookkeeper

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

126. An individual or organization that owes an amount to a business is known to the business as a
A. debtor
B. shareholder
C. controller
D. creditor
E. bookkeeper

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

127. Career opportunities in accounting include
A. budgeting
B. auditing
C. cost accounting
D. management consulting
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-09 Accounting Opportunities

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

129. External users of accounting information include
A. shareholders
B. customers
C. creditors
D. the press
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-07 External Information Users

130. A primary operating objective of a business is to increase the equity of its owner or owners by
A. acquiring assets
B. incurring liabilities
C. earning a profit
D. incurring expenses
E. increasing retained earnings

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-22 Transaction Analysis

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
A. profit
B. shares
C. equity
D. revenue
E. net loss

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

132. Profit is another name for
A. the income statement
B. income
C. equity
D. a business transaction
E. assets

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

133. A payment from a proprietorship or partnership to its owner or owners is called a(n)
A. dividend
B. withdrawal
C. expense
D. equity
E. cheque

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-22 Transaction Analysis

134. Information that is representationally faithful is
A. complete
B. neutral
C. free from Error
D. All of these
E. None of these answers is correct.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

135. The accounting principle that requires that transactions are to be expressed using units of money in the currency of the country in which the company primarily operates as the common denominator is the
A. business entity principle
B. currency
C. going concern principle
D. historical cost principle
E. revenue recognition principle

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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
A. currency principle
B. business entity principle
C. going concern principle
D. revenue recognition principle
E. historical cost principle

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

137. The accounting principle that requires financial statements to be prepared on 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. historical cost principle
B. business entity principle
C. going concern principle.
D. currency principle
E. revenue recognition principle

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

138. The measurement method that requires all transactions to be recorded based on actual amount of cash received or paid, or cash-equivalent amount given in exchange, is the
A. current cost method
B. historical cost principle
C. fair value method
D. value in use method
E. fulfilment method

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

139. A corporation
A. is a legal entity separate and distinct from its owners
B. is regulated by Canada revenue agency
C. has shareholders who have unlimited liability for the acts of the corporation
D. can only have two owners
E. is not a legal entity

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

140. A partnership
A. is also called a sole proprietorship
B. has unlimited liability.
C. has to have a written agreement in order to be legal
D. is a legal organization separate from its owners
E. is a non-business organization

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

141. Ethics
A. are beliefs that separate right from wrong
B. and law often coincide
C. help to prevent conflicts of interest
D. are very important considerations for accountants
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Topic: 01-15 Understanding Ethics

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
A. Decreased $12,000
B. Decreased $4,000
C. Increased $12,000
D. Increased $4,000
E. Increased $6,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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
A. Increased $14,000
B. Decreased $14,000
C. Increased $4,000
D. Decreased $4,00
E. Decreased $6,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

144. The organization established to try to achieve global agreement on the use of a common set of accounting principles is called
A. Accounting Standards Board
B. Abbreviated as IFRS
C. International Accounting Standards Board
D. Generally accepted accounting principles
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

145. An audit
A. is required for every business
B. is an independent review of an organization's accounting systems and records
C. is performed to add credibility to the financial statements
D. is only performed for companies with computerized accounting system
E. is an independent review of an organization's accounting systems and records and is performed to add credibility to the financial statements.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-10 Financial Accounting

146. Accounting information is considered to be relevant when it
A. can be depended on to represent the economic conditions and events that it is intended to represent
B. is capable of making a difference in a decision
C. is understandable by reasonably informed users of accounting information
D. is verifiable and neutral
E. is free from bias

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-02 Power of Accounting

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?
A. Assets, $5,000 increase, equity, $5,000 increase.
B. Assets, $5,000 increase, equity, $5,000 decrease.
C. Liabilities, $5,000 increase, equity, $5,000 decrease.
D. Assets, $5,000 decrease, equity, $5,000 decrease.
E. Assets, no effect; liabilities, no effect

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

148. Properties or economic resources owned by a business, also described as probable future economic benefits, are called
A. assets
B. revenues
C. liabilities
D. equity
E. expenses

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

149. The value of assets exchanged for goods or services provided to customers as part of the main operations of a business are called
A. assets
B. revenues
C. liabilities
D. equity
E. expenses

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

150. Assets created by selling products or services on credit are
A. accounts payable
B. accounts receivable.
C. liabilities
D. expenses
E. equity

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

151. The internal functions of a business include
A. research and development
B. purchasing
C. marketing
D. servicing
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-08 Internal Information Users

152. The business entity principle
A. requires that sole proprietors have unlimited liability
B. requires that partnership income be taxed at the partnership level
C. means that business records should be kept separate from the owner's personal records
D. requires that partnerships have written agreements
E. requires that corporations have shareholders

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

153. The question of when revenue should be recognized on the income statement (according to GAAP) is answered by the
A. revenue recognition principle
B. going concern principle
C. currency principle
D. business entity principle
E. historical cost principle

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

154. Equity is also known a
A. profit
B. expenses
C. net assets
D. revenue
E. net loss

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

155. The excess of expenses over revenues for a period depict
A. net assets
B. equity
C. loss
D. profit
E. a liability

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

156. Revenue is recognized in most businesses
A. when the customer's order is received.
B. only if the transaction creates an account receivable
C. only if paid in cash
D. upon completion of the sale or when services have been performed and the business obtains the right to collect the sales price
E. when cash from a sale is received

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

157. Businesses can take the following form(s)
A. sole proprietorship
B. not-for-profit
C. partnership
D. sole proprietorship and partnership
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

158. The recording of financial transactions either manually or electronically is called
A. accounting
B. bookkeeping
C. preparing financial statements
D. auditing
E. systems design

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Topic: 01-03 Focus of Accounting

159. Internal controls are procedures set up to
A. protect assets
B. ensure accounting reports are free from error, neutral and complete
C. promote efficiency
D. ensure company policies are followed
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-08 Internal Information Users

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
A. historical cost principle
B. going concern principle
C. revenue recognition principle
D. business entity principle
E. currency principle

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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 revenue as the amount of cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services is called the
A. going concern principle
B. historical cost principle
C. revenue recognition principle
D. currency principle
E. business entity principle

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

162. An obligation of a business that represents the claims of others against the assets of the business is called a(n)
A. asset
B. expense
C. revenue
D. equity
E. liability

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

163. Costs incurred or the using up of assets as a result of the main operations of a business are called
A. liabilities
B. equity
C. revenues
D. expenses
E. net losses

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

164. Payments of cash by a corporation to its shareholders are called
A. dividends
B. cheques
C. shareholder's equity
D. withdrawals
E. expenses

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

165. An exchange of economic consideration between two parties that causes a change in assets, liabilities or equity is called
A. business transaction
B. liabilities.
C. source documents
D. external transactions
E. prepaid expenses

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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?
A. Balance sheet
B. Statement of changes in equity
C. Statement of cash flow
D. Income statement.
E. Statement of financial position

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

167. A financial statement providing information that helps users understand a company's financial status at a specific date, is called a(n)
A. balance sheet
B. income statement
C. statement of cash flows
D. statement of changes in equity
E. bank statement

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

168. Cash investments by owners are listed on which of the following statement(s)?
A. Balance sheet
B. Income statement
C. Statement of changes in equity
D. Statement of cash flows
E. Both a statement of changes in equity and statement of cash flows

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

169. Profit appears on which of the following statement(s)?
A. Balance sheet
B. Income statement
C. Statement of changes in equity
D. Statement of cash flows
E. Both an income statement and statement of changes in equity

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

170. Salaries paid with cash appear on which of the following statement(s)?
A. Balance sheet
B. Income statement
C. Statement of changes in equity
D. Statement of cash flow.
E. Both an income statement and statement of cash flows

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

171. Fees earned by a business in exchange for services provided by the business appear on which of the following statements?
A. Balance sheet
B. Income statement
C. Statement of changes in equity
D. Statement of cash flows
E. Statement of financial position

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

172. The balance sheet equation is
A. revenues minus expenses equals profit
B. debits equal credits
C. the bookkeeping phase of accounting
D. another name for the accounting equation
E. assets minus liabilities

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

173. According to generally accepted accounting principles, a company's balance sheet should show the company's assets at
A. the cash equivalent value of what was given up or the asset received, whichever is more clearly evident
B. the market value of the asset received in all cases
C. the cash outlay only, even if part of the consideration given was something other than cash
D. the best estimate of a certified internal auditor
E. current replacement cost

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

174. Profit is
A. assets minus liabilities
B. the excess of revenues over expenses
C. the excess of expenses over revenues
D. a revenue
E. the same as equity

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

175. If financial information is relevant, this means that
A. decision makers can depend on it
B. it can affect the types of decisions made by users
C. the information is prepared using the same accounting procedures from one accounting period to the next
D. users are able to compare different companies, if all the companies use similar accounting practices
E. the financial statements have not been prepared according to GAAP

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

176. Financial information that is verifiable means that
A. information is clear and concise
B. knowledgeable users agree that the financial information is faithfully represented
C. the information is useful to users with reasonable knowledge of accounting as well as business and economic activities
D. users are able to compare different companies, if all the companies use similar accounting practices
E. the financial statements have not been prepared according to GAAP

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

177. A statement of financial position is another name for
A. the income statement
B. the balance sheet
C. the statement of cash flows
D. the statement of changes in equity
E. the accounting equation

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

178. A statement of profit and loss is another name for
A. the income statement
B. the balance sheet
C. the statement of cash flows
D. the statement of changes in equity
E. the accounting equation

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

179. A balance sheet lists
A. the types and amounts of the revenues and expenses of a business
B. only the information about what happened to equity during a specific time period
C. the types and amounts of assets, liabilities, and equity of a business at a specific date
D. the inflows and outflows of cash during a specific time period
E. the assets and liabilities of a business but not the equity

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

180. Which of the following statements is true about assets?
A. They are the properties or economic resources owned by the business.
B. They are available to provide future benefits to the business.
C. They can be intangible rights.
D. Ownership is shared between creditors and owners.
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

181. The primary objective of GAAP is to provide accounting information that is
A. usefulness for decision making
B. free from bias
C. timeliness
D. comparability
E. neutral

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

182. The adoption of international accounting standards is an application of which of the following quality enhancing characteristics of financial information
A. verifiability
B. understandability
C. timeliness
D. comparability
E. completeness

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

183. The primary objective of financial accounting is
A. to help organizations keep track of financing activities
B. to provide external reports to help users analyze an organization's activities
C. to help an organization define its ideas, goals, and action
D. to help an organization to keep track of its buying and selling of resources
E. to prepare budgets

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-07 External Information Users

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

185. Which of the following is not reported on the income statement?
A. revenues earned by a business
B. expenses incurred by a business
C. withdrawals
D. profit
E. All of these

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

Short Answer Questions

186. 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.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 Describe the purpose and importance of accounting.
Topic: 01-01 What Is Accounting?

187. Identify the three forms of business organizations.

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

188. Identify three advantages to setting up a corporation as an owner's legal business structure.

Separate legal status means that the shareholders are not personally liable for corporate acts and debts.
It can enter into its own contracts, and it can buy, own, and sell property.
Shareholders are legally distinct from the business and their loss is limited to whatever resources they have invested.
Can raise resources from shareholders who are not active in managing the business

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

189. 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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Describe forms of business organization.
Topic: 01-05 Business Organizations

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.(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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-07 External Information Users

191. 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.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-07 External Information Users
Topic: 01-08 Internal Information Users

192. 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.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Topic: 01-14 Ethics and Social Responsibility

193. 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.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-10 Financial Accounting

194. 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. n external auditor performs an audit of the company's records at the request of the Board of Directors to protect shareholder interests.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 Identify users and uses of, and opportunities in, accounting.
Topic: 01-07 External Information Users
Topic: 01-08 Internal Information Users

195. 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) Service revenue ____ (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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

196. 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) Profit _____ (3) Ahmad Khan, Capital _____ (4) Advertising Expense _____ (5) Cash paid to employees _____ (6) Withdrawals _____ (7) Fees earned _____ (8) Cash paid for supplies

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

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

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-05 Business Organizations

198. 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.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

199. 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).

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

200. 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.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements

201. Describe the revenue recognition principle.

Revenue should be recorded at the time that it is earned (generally triggered when the service is performed, or the product has been delivered), regardless of whether cash or another asset has been exchanged.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-20 Previewing Financial Statements

202. Describe three measurement methods based on current values.

Current cost. Current cost indicates the amount of cash required to acquire that asset or received to take on an equivalent liability today.
Fair value. The asset or liability is reported at the amount of cash that would be received by selling the asset or paying off the liability in the normal course of business
Value in use (assets)/fulfillment value (liabilities). Assets are reported at the present value of future expected cash flows, after discounting to reflect the time value of money in terms of expected interest/inflation.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-20 Previewing Financial Statements

203. Why should assets be recorded at historical cost?

Historical cost is the most commonly adopted method to record accounting transactions. It requires that all transactions be recorded based on the actual cash amount received or paid. In the absence of cash, the cash equivalent amount of the exchange is recorded.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

204. 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.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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 if the company employs the measurement method of historical cost?

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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?

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
To

pic: 01-18 GAAP for Public vs. Private Enterprises

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.

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.

1)	Business entity principle. April should refund the $350 to the business, or, 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)	Currency 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)

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Hard
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

208. 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.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-21 The Accounting Equation

209. Lionel's Laundry has assets of $90,000 and liabilities of $20,000. Calculate the amount of equity.

$70,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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

$250,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

211. Sheila's Attic has $660,000 in assets and equity of $250,000. What is the amount of its liabilities?

$410,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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?

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

213. 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) Journal entry
(d) Invoice	(h) Electric power bill

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

214. 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.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

215. At the beginning of this year, Tong Company had $160,000 in liabilities and $200,000 in assets. 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 + Equity

Beginning	$200,000	=$160,000	+$40,000
Change	+160,000	=(20,000)	+180,000
Ending	$360,000	=$140,000	+$220,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

216. If the liabilities of a business increased $60,000 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
+$42,000 = $60,000 + (-$18,000)

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

217. On May 1, Fiona Nash formed a computer consulting business. In order to start the business, she invested $10,000 in equipment. Enter the appropriate amounts into the accounting equation format.

Assets = Liabilities + Equity
$10,000 = 0 + $10,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

218. 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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

219. 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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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.

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

221. 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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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.

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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?

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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

Sept 1	Invested $15,000 of his personal savings into a bank account opened in the name of the accounting practice.
Sept 2	Purchased office equipment for $12,500, 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, $11,200.
Sept 4	Completed accounting work for a client and immediately collected $1,500 in cash for the work done.
Sept 8	Purchased office supplies for cash, $150.
Sept 15	Completed accounting services for a client on credit, $2,300.
Sept 20	Received $2,300 from the above client for the work completed on September 15.
Sept 30	Paid utilities expense for month of $1,300.
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**	**Equity**
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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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.

(a)	R.H. Long invested $100,000 in a sole proprietorship.	+A	+E
(b)	$10,000 of services were rendered to customers on account.	________	________
(c)	Equipment was purchased for $50,000 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.	________	________

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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

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

Except for Profit, 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 Profit for this year.

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

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

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

228. 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.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-22 Transaction Analysis

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:

Tide Company Balance Sheet September 1, 2020			
Assets			
Cash	$50,000		
		Equity	
		P. Bryant, capital	50,000
Total Assets	$50,000	Total Liabilities and Equity	$50,000

Tide Company Balance Sheet September 5, 2020			
Assets		**Liabilities**	
Cash	$40,000		
Land	5,000	Notes payable	25,000
Building	10,000	Total Liabilities	25,000
Trucks	10,000	Equity	
		P. Bryant, capital	40,000
Total Assets	$65,000	Total Liabilities and Equity	$65,000

Tide Company Balance Sheet September 9, 2020			
Assets		**Liabilities**	
Cash	$40,000	Accounts Payable	$3,000
Office Supplies	3,000	Notes payable	25,000
Land	5,000	Total Liabilities	28,000
Building	10,000		
Trucks	10,000	Equity	
		P. Bryant, capital	40,000
Total Assets	$68,000	Total Liabilities and Equity	$68,000

Tide Company Balance Sheet September 11, 2020			
Assets		**Liabilities**	
Cash	$36,000	Accounts Payable	$3,000
Office Supplies	3,000	Notes payable	15,000
Land	5,000	Total Liabilities	18,000
Building	10,000		
Trucks	10,000	Equity	
Office Furniture	4,000	P. Bryant, capital	50,000
Total Assets	$68,000	Total Liabilities and Equity	$68,000

Tide Company Balance Sheet September 15, 2020			
Assets		**Liabilities**	
Cash	$26,000	Accounts Payable	$3,000
Office Supplies	3,000	Notes payable	5,000
Land	5,000	Total Liabilities	8,000
Building	10,000		
Trucks	10,000	Equity	
Office Furniture	4,000	P. Bryant, capital	50,000
Total Assets	$58,000	Total Liabilities and Equity	$58,000

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 company.
	5	Land, building and trucks were purchased for $10,000 cash plus a $25,000 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.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-27 Balance Sheet

230. Prepare a balance sheet in good form for the Logitech Trucking Company from the following alphabetical list of the accounts at September 30, 2020:

Logitech Trucking Company

Accounts receivable	5,000
Accounts payable	8,000
Building	10,000
Cash	3,000
Notes payable	20,000
Office equipment	3,000
P. Dersch, capital	?
Trucks	45,000

Logitech Trucking Company Balance Sheet September 30, 2020			
Assets		**Liabilities**	
Cash	$3,000	Accounts payable	$8,000
Accounts receivable	5,000	Notes payable	20,000
Office equipment	3,000	Total Liabilities	28,000
Building	10,000	Equity	
Trucks	45,000	P. Dersch, capital	38,000
Total Assets	$66,000	Total Liabilities and Equity	$66,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-27 Balance Sheet

231. Prepare a balance sheet in good form at December 31, 2020 for Draydon Insurance Co. from the following items:

Prepaid insurance	$2,000
Commissions earned	37,500
Accounts payable	1,800
Accounts receivable	100
John Ace, capital	21,200
Office equipment	5,000
Advertising expense	1,100
Cash	3,100
Land	15,000
Note payable	22,000
Office supplies	300
Salaries expense	6,500
Salaries payable	600
Building	50,000

Draydon Insurance Co. **Balance Sheet** **December 31, 2020**			
Assets		**Liabilities**	
Cash	$3,100	Accounts payable	$1,800
Accounts receivable	100	Salaries payable	600
Office supplies	300	Note payable	22,000
Prepaid insurance	2,000		
Office equipment	5,000	Total Liabilities	24,400
Land	15,000	Equity	
Building	50,000	John Ace, capital	51,100
			-
Total Assets	$75,000	Total Liabilities and Equity	$75,500

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-27 Balance Sheet

232. At January 1, 2020, the records of Anna Turcza's law practice showed equity at $37,200. Profit for 2020 was $18,200, and Anna withdrew $3,000 in cash during the year. Prepare the statement of changes in equity for 2020.

Anna Turcza, Law Statement of Changes in Equity For the Year Ended December 31, 2020	
Anna Turcza, capital, Jan 1	$37,200
Add:	
Profit	18,200
Total	$55,400
Less: Withdrawals by owner	3,000
Anna Turcza, capital, Dec 31	$52,400

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-26 Statement of Changes in Equity

On November 1, 2020, 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	$500	Office furniture	$5,025
Accounts receivable	1,250	Jill Luckovich, Withdrawals	100
Cash	2,300	Rent expense	2,200
Fees earned	4,400	Salaries expense	1,000
Notes payable	500	Telephone expense	250
Jill Luckovich, Capital	6,725		

233. 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, 2020**			
Revenue:			
	Fees earned		$4,400
Operating Expenses:			
	Rent expense	$2,200	
	Salaries expense	1,000	
	Telephone expense	250	$3,450
Profit			$950

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-26 Statement of Changes in Equity

234. 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, 2020**	
Jill Luckovich, Capital, Nov 1	$6,725
Add:	
Profit	950
Total	$7,675
Less: Withdrawals by owner	100
Jill Luckovich, Capital, Nov 30	$7,575

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-26 Statement of Changes in Equity

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

Jill Luckovich Interior Design Co. Balance Sheet November 30, 2020			
Assets		**Liabilities**	
Cash	$2,300	Accounts payable	$500
Accounts receivable	1,250	Notes payable	500
Office furniture	$5,025	Total Liabilities	1,000
		Equity	
		Jill Luckovich, Capital	7,575
Total Assets	$8,575	Total Liabilities and Equity	$8,575

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-27 Balance Sheet

The records of Cohen's Toy Repair Co. at December 31, 2020 showed the following account balances:

Accounts payable	$10,000	Office furniture	$11,000
Accounts receivable	2,250	Cohen, Withdrawals	1,000
Cash	7,000	Advertising expense	5,000
Revenues	32,000	Wages expense	10,200
Notes payable	700	Maintenance expense	11,250
Cohen, Capital	5,000		

236. From the information given in reference, prepare an income statement for 2020.

Cohen's Toy Repair Co. Income Statement For the Year Ended December 31, 2020			
Revenue:			
	Revenues		$32,000
Operating Expenses:			
	Advertising expense	$5,000	
	Wage expense	10,200	
	Maintenance expense	11,250	$26,450
Profit			$5,550

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-25 Income Statement

237. From the information given in reference, prepare a statement of changes in equity for 2020.

Cohen's Toy Repair Co. Statement of Changes in Equity For the Year Ended December 31, 2020	
Cohen, Capital, Dec 1	$5,000
Add:	
Profit	5,550
Total	$10,550
Less: Withdrawals by owner	1,000
Cohen, Capital, Dec 31	$9,550

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-26 Statement of Changes in Equity

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

Cohen's Toy Repair Co. Balance Sheet December 31, 2020			
Assets		**Liabilities**	
Cash	$7,000	Accounts payable	$10,000
Accounts receivable	2,250	Notes payable	700
Office furniture	$11,000	Total Liabilities	10,700
		Equity	
		Cohen, Capital	9,550
Total Assets	$20,250	Total Liabilities and Equity	$20,250

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-27 Balance Sheet

Charlie Inuvic started a real estate business on January 1, 2020. Data for Inuvic Realty, a sole proprietorship, at December 31, 2020, the company's year-end, is below:

Accounts payable	$5,000	Office furniture	$6,000
Accounts receivable	1,250	Inuvic, withdrawals	500
Cash	5,000	Advertising expense	7,000
Realty revenue	35,000	Wages expense	11,200
Notes payable	300	Maintenance expense	12,350
Inuvic, Capital	3,000		

Inuvic Realty Income Statement For the Year Ended December 31, 2020			
Revenue:			
	Realty Revenue		$35,000
Operating Expenses:			
	Advertising expense	$7,000	
	Wages expense	11,200	
	Maintenance expense	12,350	$30,550
Profit			$4,450

239. Prepare an income statement for the year ended December 31, 2020

Inuvic Realty Income Statement For the Year Ended December 31, 2020			
Revenue:			
	Realty Revenue		$35,000
Operating Expenses:			
	Advertising expense	$7,000	
	Wages expense	11,200	
	Maintenance expense	12,350	$30,550
Profit			$4,450

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-25 Income Statement

240. Calculate the balance of the account "Charlie Inuvic, Capital", at December 31, 2020

Inuvic Realty Statement of Changes in Equity For the Year Ended December 31, 2020	
Inuvic, Capital, Dec 1	$3,000
Add:	
Profit	4,450
Total	$7,450
Less: Withdrawals by owner	500
Inuvic, Capital, Dec 31	$6,950

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-08 Prepare financial statements reflecting business transactions.
Topic: 01-26 Statement of Changes in Equity

You are the accountant for Klemmer Corporation. At the company's year end, December 31, 2020, 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 2020, 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.

Accounts receivable - Asset; Sales Revenue - Revenue

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-07 Analyze business transactions by applying the accounting equation.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

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

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-05 Identify, explain, and apply accounting principles.
Topic: 01-18 GAAP for Public vs. Private Enterprises

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

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.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-04 Identify and explain why ethics and social responsibility are crucial to accounting.
Topic: 01-15 Understanding Ethics

244. 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 (profit).

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Identify and explain the content and reporting aims of financial statements.
Topic: 01-20 Previewing Financial Statements