c1

Student: ____

1. Which of the following would ***not*** represent a financing activity?
A. Paying dividends to shareholders.
B. An investment of financial capital by the owners.
C. Borrowing money from a bank to finance the purchase of new equipment.
D. Collecting cash from customers.

2. Investing activities:
A. involve day to day events like selling goods and services, which occur when running a business.
B. involve the buying or selling of land, buildings, equipment, and other longer-term investments.
C. only involve financial exchanges.
D. buying the company's office supplies.

3. Public corporations:
A. are businesses owned by two or more people, each of whom is personally liable for the debts of the business.
B. are businesses whose stock is bought and sold on a stock exchange.
C. are businesses whose stock is bought and sold privately.
D. are setup for non-profit purposes.

4. Which of the following would represent an operating activity?
A. Purchasing equipment with money borrowed from creditors.
B. An investment of financial capital by the owners.
C. Buying the company's office supplies.
D. Repaying a loan the company had taken out.

5. The separate entity assumption means:
A. a company's financial statements reflect only the business activities of that company and not that of the shareholders.
B. each separate owner's finances must be revealed in the financial statements.
C. each separate entity that has a claim on a company's assets must be shown in the financial statements
D. all of the above.

6. Which of the following are the ***disadvantages*** of setting a corporation?
A. Legal fees can be high and separate tax returns have to be filed for owners and the business.
B. Owners are legally responsible for the liabilities of the corporation.
C. Owners must be involved in day to day running of the business.
D. The business and owners are considered as separate legal entities.

7. Which of the following is the reason a new start up could have a negative investing cash flow?
A. Company needs cash to buy to purchase new equipment/plant and expand business
B. Company is having problems generating profits
C. Company needs to pay dividends to its shareholders
D. Company has borrowed money from banks/investors and is having problems paying them back

8. Creditors are:
A. people or organizations who owe money to a business.
B. people or organizations to whom a business owes money.
C. shareholders of a business.
D. customers of a business.

9. An entity that is holding assets for another party and has legal authority and duty to make decisions regarding financial matters concerning that party is:
A. Fiduciary
B. Accountant
C. Attorney
D. Manager

10. The three main types of business activities measured by financial statements are:
A. selling goods, selling services, and obtaining financing.
B. operating activities, investing activities, and financing activities.
C. hiring, producing, and advertising.
D. generating revenues, paying expenses, and incurring dividends.

11. Financing that individuals or institutions have provided to a company is
A. always classified as liabilities.
B. classified as liabilities when provided by creditors and shareholders' equity when provided by owners.
C. always classified as shareholders' equity.
D. classified as shareholders' equity when provided by creditors and liabilities when provided by owners.

12. Financial statements are most commonly prepared:
A. semi-monthly.
B. monthly, quarterly and annually.
C. whenever management feels like it.
D. weekly.

13. Which of the following is true?
A. Companies are allowed to choose their fiscal year-end date.
B. Companies must end their fiscal year on March 31, June 30, September 30, or December 31.
C. Companies can select any date except a holiday to end their fiscal year.
D. Companies must end their fiscal year on December 31.

14. Assets:
A. represent the amounts earned by a company.
B. must equal the liabilities of a company.
C. must equal the shareholders' equity of the company.
D. represent the resources controlled by a company.

15. Which of the following are the three basic elements of the balance sheet?
A. assets, liabilities, and retained earnings.
B. assets, liabilities, and contributed capital.
C. assets, liabilities, and revenues.
D. assets, liabilities, and shareholders' equity.

16. The Don't Bite Me pest control company has 10,000 gallons of insecticide supplies on hand that cost $300,000; a bill from the vendor for $100,000 of these supplies has not yet been paid. The company expects to earn $800,000 for its services when it uses the insecticide supplies. The company would report:
A. $300,000 in assets under supplies and no accounts payable.
B. $200,000 in assets under supplies and no accounts payable.
C. $300,000 in assets under supplies and $100,000 in liabilities under accounts payable.
D. $800,000 in assets under supplies and $100,000 in liabilities under accounts payable.

17. The Publish or Perish Printing Company paid a dividend to shareholders. This will be reported on the:
A. audit report.
B. income statement.
C. balance sheet.
D. statement of retained earnings.

18. Which of the following is not true?
A. Assets = Liabilities + Shareholders' Equity
B. Liabilities = Assets - Shareholders' Equity
C. Shareholders' Equity + Liabilities - Assets = 0
D. Liabilities - Shareholders' Equity = Assets

19. Which of the following would affect shareholders' equity?
A. A company borrows $100 million and buys $100 million in equipment.
B. A company pays $100 million to shareholders as a dividend.
C. A company sells $100 million in assets for $100 million cash.
D. A company receives payment for $100 million in accounts receivable.

20. At the end of last year, the company's assets totalled $860,000 and its liabilities totalled $740,000. During the current year, the company's total assets increased by $58,000 and its total liabilities increased by $24,000. At the end of the current year,
A. shareholders' equity was $154,000.
B. shareholders' equity was $120,000.
C. shareholders' equity was $34,000.
D. shareholders' equity was $178,000.

21. A company's balance sheet contained the following information:

Contributed Capital	$12,000	Total Assets	$176,000
Accounts Payable	$64,000	Retained Earnings	$28,000

Assuming Notes Payable is the only other item on the balance sheet:
A. Notes Payable must equal $200,000.
B. Notes Payable must equal $8,000.
C. Notes Payable must equal $72,000.
D. Notes Payable must equal $344,000.

22. During its first year of operations, Widgets Incorporated reported sales revenue of $386,000 but collected only $303,000 from customers. The amount to be reported as accounts receivable at the end of the year is
A. $689,000.
B. $386,000.
C. $303,000.
D. $83,000.

23. If XYZ Company had $12 million in revenue and net income of $3 million then its:
A. expenses must have been $15 million.
B. expenses must have been $9 million.
C. assets must have been $12 million.
D. assets must have been $3 million.

24. The Whackem-Smackem Software Company sold $11 million of computer games in its first year of operations. The company received payments of $7.5 million for these computer games. The company's income statement would report:
A. sales revenue of $7.5 million.
B. accounts receivable of $3.5 million.
C. expenses of $3.5 million.
D. sales revenue of $11 million.

25. Dividends are reported on the:
A. Income statement.
B. Balance sheet.
C. Statement of retained earnings.
D. Income statement and balance sheet.

26. Which of the following would not affect a company's net income?
A. A change in the company's income taxes.
B. Changing the selling price of a company's product.
C. Paying a dividend to shareholders.
D. Advertising a new product.

27. Which of the following would be reported on the income statement for 2005?
A. Supplies that were purchased and used in 2004 but paid for in 2005.
B. Dividends that were paid in 2005.
C. Supplies that were purchased and used in 2005 but paid for in 2004.
D. All of the above.

28. Find the missing data.

CINNAMON AND SPICE, INC.	
Income Statement	
For the Year Ended December 31, 2008	
Revenues	
Sales Revenue	$3,810,200
Total Revenues	?
Expenses	
Wages Expense	1,314,900
Advertising and Promotion Expenses	482,200
Other Selling and Administrative Expenses	?
Interest Expense	225,600
Income Tax Expense	117,700
Other Expenses	253,700
Total Expenses	3,445,600
Net Income	$?

A. Total revenues are $3,810,200, other selling and administrative expenses are $1,051,500, and net income is $364,600.
B. Total revenues are $2,495,300, other selling and administrative expenses are $1,051,500, and net income is ($950,300).
C. Total revenues are $364,600, other selling and administrative expenses are $3,081,000, and net income is $7,255,800.
D. Total revenues are $3,810,200, other selling and administrative expenses are $364,600, and net income is $7,255,800.

29. Which of the following is ***not*** true?

HOOPER'S HOPS	
Statement of Retained Earnings	
For the Year Ended December 31, 2008	
Retained Earnings, January 1, 2008	$167,800
Net Income for 2008	219,100
Dividends for 2008	(36,400)
Retained Earnings, December 31, 2008	$350,500

A. Retained earnings of $350,500 will appear on the balance sheet as of December 31, 2008.
B. The net income in the above statement came from the income statement for the year ended December 31, 2008.
C. Dividends are shown in parenthesis because they are payments made by a company to its shareholders as a return on their investment.
D. Retained earnings are the amount of distributions made to the shareholders since the company started.

30. Which of the following statements is true?
A. The "net change in cash" reported on the statement of cash flows is also reported on the statement of retained earnings.
B. Both the income statement and the statement of cash flows show the results of a company's operating activities.
C. The statement of cash flows is for a period of time while the income statement is at a point in time.
D. The statement of cash flows is at a point of time while the income statement is for a period of time.

GIL'S FISHING EQUIPMENT, INC.
Statement of Cash Flows
For the Year Ended December 31, 2008

Cash flows from operating activities	
Cash collected from customers	A
Cash paid to suppliers and employees	B
Cash paid for other operating activities	C
Net cash flow from operating activities	
Cash flows from investing activities	
Cash paid to purchase equipment and other assets	D
Cash received from selling equipment and other assets	E
Net cash flow from investing activities	
Cash flows from financing activities	
Cash paid on notes payable	F
Cash paid for dividends	G
Net cash flow from financing activities	
Net change in cash during the year	
Cash at beginning of year	
Cash at end of year	

31. In the above statement of cash flows which letters represent cash outflows?
A. B, C, D, F and G.
B. A, E and G.
C. B, C, E and F.
D. A, E, F and G.

32. In the above statement of cash flows which letters represent cash inflows?
A. B, C, D, F and G.
B. A, E and G.
C. B, C, E and F.
D. A and E.

33. Assets are listed on the balance sheet in order of:
A. date acquired.
B. liquidity.
C. estimated replacement date.
D. value.

34. In the statement of cash flows, the company's payment of a $1,900 electric bill would be classified as:
A. an operating cash outflow.
B. a financing cash outflow.
C. an investing cash inflow.
D. an operating cash inflow.

35. In Canada, Generally Accepted Accounting Principles (GAAP) are established:
A. by the Canadian Institute of Chartered Accountants.
B. by the Public Company Accounting Oversight Board.
C. by the Financial Accounting Standards Board.
D. by the Society of Management Accounting.

36. The purpose of a statement of retained earnings is to:
A. estimate the current value of a company's assets.
B. report how the profits of a company have been distributed to shareholders or retained in the business.
C. show where the money is flowing into and out of a company.
D. explain the specific revenues and expenses arising during the period.

37. Which of the following is a publicly accountable profit-oriented enterprise?
A. A publicly traded corporation
B. A crown corporation
C. A sole proprietorship
D. A partnership

38. In which of the following business organization the owners could only lose the money they invested in the business?
A. A Crown corporation.
B. A sole proprietorship.
C. A corporation.
D. A partnership.

39. If a company uses $50,000 of its cash to buy an asset then:
A. assets and liabilities will be unchanged.
B. assets will rise $50,000 as will liabilities.
C. assets will rise $50,000 as will shareholders' equity.
D. assets will fall $50,000 and liabilities will rise $50,000.

40. During 2007, a company's assets rise $56,000 and its liabilities rise $38,000. If no dividend is paid and no further capital is contributed, shareholders' equity would:
A. rise $56,000.
B. rise $18,000.
C. fall $38,000.
D. fall $94,000.

41. Which of the following is ***not*** an expense?
A. Wages of employees.
B. Interest incurred on a loan the company had taken out.
C. Dividends.
D. Corporate income tax.

42. Which of the following is ***incorrect*** about the notes to the financial statements:
A. explain what accounting policies were used to prepare the financial statements.
B. provide additional information about what is included in the financial statements.
C. provide additional information about financial matters that are not included in the financial statements.
D. certify to the fact that the statements have been audited.

43. Every financial statement should have "who, what, and when" in its heading. These are:
A. the name of the person preparing the statement, the type of financial statement, and when the financial statement was reported to the Stock Exchange.
B. the name of the person preparing the statement, the name of the company, and the date the statement was prepared.
C. the name of the company, the type of financial statement, and the time period from which the data were taken.
D. the name of the company, the purpose of the statement, and when the financial statement was reported to the Canada Revenue Agency.

44. Notes payable are like accounts payable ***except*** that notes payable:
A. are not interest free.
B. can remain unpaid longer than accounts payable.
C. are documented using formal written debt contracts.
D. Accounts payables are not reported in the balance sheet while notes payables are.

45. On the balance sheet, inventories are reported as:
A. a liability, because goods in inventory are tying up a company's money without earning income.
B. an asset, because goods in inventories are owned by the company.
C. an expense, because goods in inventory have been paid for but not yet sold.
D. a revenue, because goods in inventory will be sold in the future.

46. The WC Company borrowed $26,500 from a bank during 2007.
A. This would be listed as ($26,500) under investing activities on the statement of cash flows.
B. This would be listed as ($26,500) under operating activities on the statement of cash flows.
C. This would be listed as $26,500 under investing activities on the statement of cash flows.
D. This would be listed as $26,500 under financing activities on the statement of cash flows.

47. Which of the following is ***not*** an alternative term used for the income statement?
A. Statement of Income.
B. Statement of Financial Position.
C. Statement of Earnings.
D. Profit and Loss Statement.

48. A investor might look at a company's financial statements to determine if the:
A. company is likely to have the resources to repay its debts.
B. company's stock is likely to fall, signalling a good time to sell.
C. company's stock is likely to rise, signalling a good time to buy.
D. company is likely to pay a good dividend.

49. An creditor might look at a company's financial statements to determine if the company's:
A. earnings are rising or falling.
B. stock is likely to fall, signalling a good time to sell.
C. stock is likely to rise, signalling a good time to buy.
D. company has enough assets to cover its liabilities.

50. What would a financial statement user learn from reading the auditors' report?
A. Whether the financial statements present a fair picture of the company's financial results.
B. Whether the financial statements are prepared in accordance with GAAP.
C. Both of the above.
D. None of the above.

51. In which of the following business organization the business is considered separate from the owner/s:
A. A state-owned entity.
B. A sole proprietorship.
C. A corporation.
D. A partnership.

52. Internal financial statement users include:
A. investors interested in the company.
B. creditors of the company.
C. management of the company.
D. stock exchanges.

53. Investors are often interested in the amount of net income distributed as dividends. In which section of the financial statements would investors look to find this amount?
A. Statement of retained earnings.
B. Balance sheet.
C. Notes to the financial statements.
D. Income statement.

54. A company's quarterly income statements show that in the last three quarters both sales revenue and net income have been growing. Which of the following statements is then true?
A. Creditors are likely to conclude that the risk of lending to the company is falling and be willing to accept a lower interest rate on loans.
B. Investors are likely to conclude that the stock price is likely to rise, making the company more attractive as a potential investment.
C. Investors are likely to conclude that the company will be better able to pay dividends in the future, making it more attractive as a potential investment.
D. All of the above.

55. Investors and creditors look at the balance sheet to see whether the company:
A. is profitable.
B. owns enough assets to pay what it owes to creditors.
C. has had a positive cash flow from operations.
D. is paying sufficient dividends to shareholders.

56. Generally Accepted Accounting Principles (GAAP) in Canada were established by:
A. an Italian monk in 1494.
B. the Canadian Parliament.
C. the CICA.
D. IFRS.

57. To determine whether Generally Accepted Accounting Principles were followed in the preparation of financial statements, an examination of:
A. tax documents would be examined by the Revenue Canada Agency.
B. the annual report would be examined by the Toronto Stock Exchange.
C. the financial statements and related documents would be examined by an independent auditor.
D. the financial statements and related documents would be examined by the CICA.

58. Which of the following statements is ***false***?
A. When choosing between a company that pays steady dividends and one that retains its earnings to support future growth, investors will always choose the company that pays steady dividends.
B. Companies can develop reputations for honest financial reporting even when conveying bad news.
C. Trends in a company's net income from year to year can provide clues about its future earnings, which can help investors to decide whether to buy stock in the company.
D. Information in the notes to the financial statements can influence a user's interpretation of balance sheet and income statement information.

59. Which of the following is ***not*** required to use IFRS?
A. Private enterprise
B. Publically traded company
C. Crown corporation
D. All businesses are required to use IFRS

60. Which of the following are the two fundamental **characteristics** financial information must possess to be judged useful to decision makers?
A. Relevance and faithful representation
B. Truthful and clarity
C. Complete and relevant
D. Elaborate and faithful representation

61. When is the financial information ***relevant***?
A. If it makes a difference in decision making.
B. Meets the requirement of Toronto Stock Exchange.
C. If it fully depicts the economic substance of business activities.
D. If it allows management the discretion when to release it to investors and general public.

62. When is the financial information a ***faithful representation***?
A. If it fully depicts the economic substance of business activities
B. If it allows management to be faithful to its shareholders
C. Meets the requirements of the stock exchanges
D. If it makes a difference in decision making

63. Which one of the following is ***not*** an accounting assumption?
A. Separate entity
B. Time period
C. Integrity
D. Unit of measure

64. Which of the following is a principle of accounting?
A. Matching
B. Separate entity
C. Integrity
D. Time period

65. Which of the following are ***assumptions*** of accounting?
A. Unit of measure, separate entity, going concern, time period
B. Cost, revenue recognition, matching, full disclosure
C. Cost-benefit, materiality, industry practices
D. Unit of measure, cost-benefit, materiality, industry practices

66. Which of the following are the ***principles*** of accounting?
A. Unit of measure, cost-benefit, materiality, industry practices
B. Unit of measure, separate entity, going concern, time period
C. Cost, revenue recognition, matching, full disclosure
D. Cost-benefit, materiality, industry practices

67. Which of the following are ***elements*** to be measure and reported?
A. Assets, liabilities, shareholders equity, revenues, expenses, dividends
B. Unit of measure, separate entity, going concern, time period
C. Cost, revenue recognition, matching, full disclosure
D. Cost-benefit, materiality, industry practices

68. To make sure that managers have followed GAAP rules in producing financial statements, all public companies must:
A. Hire independent auditors to scrutinize their financial records.
B. Hire independent detectives to scrutinize the background of all their accountants.
C. let the government regulators scrutinize their financial records.
D. let their shareholders check their financial records.

69. Auditors while examining the financial records must follow:
A. International Financial Reporting Standards
B. Canadian Auditing standards
C. Canadian Accounting standards for auditing
D. International Auditing standards

70. The effects of net income and its distribution on the financial position of the company is reported in:
A. Balance sheet
B. Income statement
C. Statement of retained earnings
D. Statement of cash flows

71. Which of the following enhance the usefulness of financial information with reference to financial statements?
A. Comparability to prior periods and other companies, verifiability, timeliness, and understandability.
B. Integrity, relevance, faithfulness and comparability to prior periods and other companies
C. Clarity, integrity, relevance and faithfulness
D. Verifiability, relevance and faithfulness

72. The CICA:
A. has primary responsibility for setting the underlying rules of accounting in Canada.
B. is an entity that regulates issuance of securities in Ontario.
C. an independent body to develop and establish standards and guidance than govern financial accounting and reporting in Canada.
D. is an examination of a company's financial statements by an independent auditor.

73. The AcSB:
A. has primary responsibility for setting the underlying rules of accounting in Canada.
B. is an entity that regulates issuance of securities in Ontario.
C. an independent body to develop and establish standards and guidance than govern financial accounting and reporting in Canada.
D. is an examination of a company's financial statements by an independent auditor.

74. A company is involved in ***financing*** activities when these:
A. activities are directly related to running the core business to earn profits.
B. activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and tools), purchasing investments, and lending to others.
C. activities involve borrowing from banks, repaying bank loans, receiving contributions from shareholders, or paying dividends to shareholders
D. All of the above

75. A company is involved in ***operating*** activities when these:
A. activities are directly related to running the core business to earn profits.
B. activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and tools), purchasing investments, and lending to others.
C. activities involve borrowing from banks, repaying bank loans, receiving contributions from shareholders, or paying dividends to shareholders
D. All of the above

76. A company is involved in ***investing*** activities when these:
A. activities are directly related to running the core business to earn profits.
B. activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and tools), purchasing investments, and lending to others.
C. activities involve borrowing from banks, repaying bank loans, receiving contributions from shareholders, or paying dividends to shareholders
D. All of the above

77. Building a new warehouse is an operating activity.
True False

78. The payment of dividends is a financing activity.
True False

79. Daily activities involved in running a business such as buying supplies and paying wages are operating activities.
True False

80. Financing activities include borrowing and obtaining money by issuing shares of ownership (called stock certificates).
True False

81. Shareholders are creditors of a company.
True False

82. All corporations acquire financing by issuing shares of ownership (called stock certificates) for sale on public stock exchanges.
True False

83. You paid $10,000 to buy 1% of the stock in a corporation that has now gone bankrupt. The company owes $10 million dollars to creditors. As a result of the bankruptcy, you will lose $100,000.
True False

84. The shareholders' equity in a company is the difference between assets and liabilities.
True False

85. A company owes $200,000 on a bank loan. If this loan is documented using a formal written debt contract, it will be reported as a liability called Notes Payable.
True False

86. The accounting decisions that were made when preparing a company's financial statements are explained in the auditor's report.
True False

87. Under the unit of measure concept, a Canadian company would report these data in Canadian dollars.
True False

ANONYMOUS, INC. BALANCE SHEET SEPTEMBER 30, 2007	
Assets	
Cash	$1,568,000
Accounts Receivable	310,500
Inventories	208,200
Property, Plant, and Equipment	391,600
Other Assets	869,400
Total Assets	$3,347,700
Liabilities	
Accounts Payable	$1,439,200
Notes Payable	?
Total Liabilities	?
Shareholders' Equity	
Contributed Capital	1,263,600
Retained Earnings	207,100
Total Shareholders' Equity	1,470,700
Total Liabilities and Shareholders' Equity	$3,347,700

88. Notes Payable would equal $437,800 and Total Liabilities would equal $1,877,000 on the balance sheet.
True False

89. The $207,100 shown on the balance sheet has been distributed to shareholders as dividends.
True False

90. Anonymous, Inc. is owed $310,500 from customers who have purchased goods or services from the company, but have not yet paid for them.
True False

91. The total net income from the income statement is ***always*** included in the Statement of Retained Earnings.
True False

92. The income statement shows the assets and liabilities of the company at a point in time.
True False

93. The income statement primarily shows whether a business made a profit from selling goods or providing services after subtracting the costs of doing business.
True False

94. Net income is the amount the company earned after expenses and dividends are subtracted from revenue.
True False

95. Expenses are shown on the income statement only in the time period in which they are paid.
True False

96. In the Statement of Cash Flows, cash inflows are positive numbers while cash outflows are negative.
True False

97. Cash at the end of the year is the sum of cash at the beginning of the year and the net change in cash during the year.
True False

98. Cash flow from investing activities includes money received from a company's shareholders.
True False

99. The balance sheets at the beginning and end of a time period are linked by the income statement, the statement of cash flows, and the statement of retained earnings for the time period.
True False

100. Shareholders in a corporation are personally liable for the company's obligations.
True False

101. Notes to the financial statements (also known as footnotes) immediately follow the four individual financial statements, and include descriptions of accounting decisions made when preparing the financial statements.
True False

102. Just like footnotes in some articles and books, notes to the financial statements (also known as footnotes) report extra information that is not relevant to the financial statements.
True False

103. Investors analyze the income statement to identify trends in a company's net income, which can provide clues about the company's future earnings.
True False

104. When a company goes bankrupt, assets are divided equally between creditors and investors.
True False

105. Statement of retained earnings is prepared is prepared before the income statement.
True False

106. Questionable ethical practices can make it harder for a company to attract lenders and investors in the future.
True False

The table shows financial data for Purrfect Pets, Inc. as of June 30, 2011.

Revenues	$279, 400
Accounts Receivable	419,200
Retained Earnings	117,900
Inventories	58,400
Other Assets	69,400
Accounts Payable	349,200
Property, Plant, and Equipment	118,500
Cash	732,600
Contributed Capital	662,100
Notes Payable	268,900
Rent expense	56,900
Interest expense	4,500

107. Prepare a balance sheet using the above data

108. Fill in the missing items in the balance sheet.

PURRFECT PETS, INC.
BALANCE SHEET
SEPTEMBER 30, 2011

Assets	
Cash	$743,800
Accounts Receivable	?
Inventories	54,900
Property, Plant, and Equipment	119,300
Other Assets	71,400
Total Assets	$?
Liabilities	
Accounts Payable	$342,500
Notes Payable	?
Total Liabilities	607,600
Shareholders' Equity	
Contributed Capital	662,100
Retained Earnings	?
Total Equity	789,400
Total Liabilities and Shareholders' Equity	$?

109. Calculate the net income for Green Thumb, Inc. Then, assuming the company had retained earnings of $162,000 as of January 1, 2011, and paid out $46,000 in dividends during the year, prepare its statement of retained earnings.

GREEN THUMB, INC.
Income Statement
For the Year Ended December 31, 2011

Revenues	
Sales Revenue	$1,865,300
Total Revenues	1,865,300
Expenses	
Wages Expense	724,800
Advertising and Promotion Expenses	262,500
Other Selling and Administrative Expenses	350,800
Interest Expense	43,900
Income Tax Expense	56,500
Other Expenses	122,400
Total Expenses	1,560,900
Net Income	$?

110. The Lady Luck Casino, Inc., had $312,000 in cash at the beginning of the year (January 1, 2008). Using the data in the chart, prepare a statement of cash flows.

Cash paid for other operating activities	$1,291,000
Cash paid for dividends	16,900
Cash received from selling equipment and other assets	16,300
Cash paid on notes payable	412,000
Cash paid to suppliers and employees	1,258,900
Cash collected from customers	3,840,700
Cash paid to purchase equipment and other assets	140,200

111. Use the following 2007 data to prepare an income statement for Kvass, Inc.

Other Selling and Administrative Expenses	$1,050,300
Other Expenses	247,600
Sales Revenue	4,885,300
Advertising and Promotion Expenses	552,500
Wages Expense	2,524,400
Income Tax Expense	166,500
Interest Expense	113,900
Account Payable	
Account Receivable	
Interest Payable	

112. Match the category of business activity to the specific business action.

A. Operating activity.
B. Investing activity.
C. Financing activity.

_____ 1. The purchase of a new line of assembly equipment.
_____ 2. Company payment of a dividend.
_____ 3. The purchase of office supplies.
_____ 4. The purchase of advertising time by the company.
_____ 5. The building of a new factory.
_____ 6. Company payment on a bank loan.

113. Match the characteristic of the company with the description of the type of company.

A. Partnership.
B. Publicly traded corporation.
C. Privately traded corporation.

______ 1. Issues shares of stock that are traded on a stock exchange such as the TSX.
______ 2. Owners are personally liable for the debts of the company.
______ 3. Shares of stock must be purchased directly from current owners.
______ 4. Can raise more financial capital by selling stock to the greatest number of investors.

114. Match the lettered terms to the blanks below to complete the relevant formula for each financial statement.

A. Cash at beginning of year
B. Net cash flow from operating activities
C. Balance of retained earnings from previous year
D. Net cash flow from investing activities
E. Liabilities
F. Net cash flow from financing activities
G. Balance of retained earnings at end of year
H. Net income
I. Revenue
J. Assets
K. Shareholders' equity
L. Expenses
M. Cash at end of year
N. Dividends paid

A letter may be used more than once. Use the blank on the left side of the equals sign for the "bottom line" number that is reported at the end of each financial statement. Rearrange the formula if necessary.

Balance Sheet	______=	______+	______		
Income Statement	______=	______–	______		
Statement of Retained Earnings	______=	______+	______–	______	
Statement of Cash Flows	______=	______+	______+	______+	______

115. Each item in the statement of retained earnings can appear on another financial statement. Match the letter of the financial statement with the item in the statement of retained earnings.

A. Balance sheet at end of 2011
B. Statement of cash flows for 2011
C. Income statement for 2010
D. Balance sheet at end of 2010
E. Income statement for 2011

_____ Retained earnings, January 1, 2011
_____ Net income for 2011
_____ Dividends for 2011
_____ Retained earnings, December 31, 2011

116. Match the term and the explanation. (There are more explanations than terms.)

_____ investors
_____ audit
_____ balance sheet
_____ operating activity
_____ unit of measure concept
_____ retained earnings
_____ investing activity
_____ income statement

A. An exchange of money between a company and its investors or creditors.
B. An example of an internal user of financial statements.
C. The idea that a company reports sales only after a payment has been received.
D. Share of a company's earnings given to owners as dividends.
E. A financial statement showing a company's assets, liabilities and shareholders' equity.
F. When a company acquires money from investors.
G. A financial statement that summarizes a company's past and current cash situation.
H. An external user of financial statements.
I. The idea that the financial statements of a company include the results of only that company's business activities.
J. Day to day events involved in the production and sales of a company's goods or services.
K. A financial statement that shows a company's revenues and expenses.
L. Borrowing money from lenders.
M. The total amount of profits that are held by the company since its inception.
N. Companies should report financial data in the relevant currency.
O. A procedure by which independent evaluators assess the accounting procedures and financial reports of a company.
P. Purchase or sale of long-term assets, like property and equipment used in production process.

c1 Key

1. *(p. 11)* Which of the following would ***not*** represent a financing activity?
A. Paying dividends to shareholders.
B. An investment of financial capital by the owners.
C. Borrowing money from a bank to finance the purchase of new equipment.
D. Collecting cash from customers.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #1

2. *(p. 11)* Investing activities:
A. involve day to day events like selling goods and services, which occur when running a business.
B. involve the buying or selling of land, buildings, equipment, and other longer-term investments.
C. only involve financial exchanges.
D. buying the company's office supplies.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #2

3. *(p. 3)* Public corporations:
A. are businesses owned by two or more people, each of whom is personally liable for the debts of the business.
B. are businesses whose stock is bought and sold on a stock exchange.
C. are businesses whose stock is bought and sold privately.
D. are setup for non-profit purposes.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 01 #3

4. *(p. 11)* Which of the following would represent an operating activity?
A. Purchasing equipment with money borrowed from creditors.
B. An investment of financial capital by the owners.
C. Buying the company's office supplies.
D. Repaying a loan the company had taken out.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #4

5. *(p. 6)* The separate entity assumption means:
A. a company's financial statements reflect only the business activities of that company and not that of the shareholders.
B. each separate owner's finances must be revealed in the financial statements.
C. each separate entity that has a claim on a company's assets must be shown in the financial statements
D. all of the above.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #5

6. *(p. 3)* Which of the following are the ***disadvantages*** of setting a corporation?
A. Legal fees can be high and separate tax returns have to be filed for owners and the business.
B. Owners are legally responsible for the liabilities of the corporation.
C. Owners must be involved in day to day running of the business.
D. The business and owners are considered as separate legal entities.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 01 #6

7. *(p. 12)* Which of the following is the reason a new start up could have a negative investing cash flow?
A. Company needs cash to buy to purchase new equipment/plant and expand business
B. Company is having problems generating profits
C. Company needs to pay dividends to its shareholders
D. Company has borrowed money from banks/investors and is having problems paying them back

BT: Analysis
BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #7

8. *(p. 5)* Creditors are:
A. people or organizations who owe money to a business.
B. people or organizations to whom a business owes money.
C. shareholders of a business.
D. customers of a business.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 01 #8

9. *(p. 16)* An entity that is holding assets for another party and has legal authority and duty to make decisions regarding financial matters concerning that party is:
A. Fiduciary
B. Accountant
C. Attorney
D. Manager

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #9

10. *(p. 11)* The three main types of business activities measured by financial statements are:
A. selling goods, selling services, and obtaining financing.
B. operating activities, investing activities, and financing activities.
C. hiring, producing, and advertising.
D. generating revenues, paying expenses, and incurring dividends.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #10

11. *(p. 11)* Financing that individuals or institutions have provided to a company is
A. always classified as liabilities.
B. classified as liabilities when provided by creditors and shareholders' equity when provided by owners.
C. always classified as shareholders' equity.
D. classified as shareholders' equity when provided by creditors and liabilities when provided by owners.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #11

12. *(p. 7)* Financial statements are most commonly prepared:
A. semi-monthly.
B. monthly, quarterly and annually.
C. whenever management feels like it.
D. weekly.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #12

13. *(p. 7)* Which of the following is true?
A. Companies are allowed to choose their fiscal year-end date.
B. Companies must end their fiscal year on March 31, June 30, September 30, or December 31.
C. Companies can select any date except a holiday to end their fiscal year.
D. Companies must end their fiscal year on December 31.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #13

14. *(p. 6)* Assets:
A. represent the amounts earned by a company.
B. must equal the liabilities of a company.
C. must equal the shareholders' equity of the company.
D. represent the resources controlled by a company.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #14

15. *(p. 10)* Which of the following are the three basic elements of the balance sheet?
A. assets, liabilities, and retained earnings.
B. assets, liabilities, and contributed capital.
C. assets, liabilities, and revenues.
D. assets, liabilities, and shareholders' equity.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #15

16. *(p. 10)* The Don't Bite Me pest control company has 10,000 gallons of insecticide supplies on hand that cost $300,000; a bill from the vendor for $100,000 of these supplies has not yet been paid. The company expects to earn $800,000 for its services when it uses the insecticide supplies. The company would report:
A. $300,000 in assets under supplies and no accounts payable.
B. $200,000 in assets under supplies and no accounts payable.
C. $300,000 in assets under supplies and $100,000 in liabilities under accounts payable.
D. $800,000 in assets under supplies and $100,000 in liabilities under accounts payable.

BT: Application
Difficulty: Hard
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #16

17. *(p. 9)* The Publish or Perish Printing Company paid a dividend to shareholders. This will be reported on the:
A. audit report.
B. income statement.
C. balance sheet.
D. statement of retained earnings.

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #17

18. *(p. 11)* Which of the following is not true?
A. Assets = Liabilities + Shareholders' Equity
B. Liabilities = Assets - Shareholders' Equity
C. Shareholders' Equity + Liabilities - Assets = 0
D. Liabilities - Shareholders' Equity = Assets

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #18

19. *(p. 10)* Which of the following would affect shareholders' equity?
A. A company borrows $100 million and buys $100 million in equipment.
B. A company pays $100 million to shareholders as a dividend.
C. A company sells $100 million in assets for $100 million cash.
D. A company receives payment for $100 million in accounts receivable.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #19

20. *(p. 10)* At the end of last year, the company's assets totalled $860,000 and its liabilities totalled $740,000. During the current year, the company's total assets increased by $58,000 and its total liabilities increased by $24,000. At the end of the current year,
A. shareholders' equity was $154,000.
B. shareholders' equity was $120,000.
C. shareholders' equity was $34,000.
D. shareholders' equity was $178,000.

End of last year: $860,000 = $740,000 - SE, SE = 120,000.
This year increase in SE: 58,000 - 24,000 = 34,000
SE = 120,000 + 34,000 = 154,000

BT: Application
Difficulty: Hard
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #20

21. *(p. 10)* A company's balance sheet contained the following information:

Contributed Capital	$12,000	Total Assets	$176,000
Accounts Payable	$64,000	Retained Earnings	$28,000

Assuming Notes Payable is the only other item on the balance sheet:
A. Notes Payable must equal $200,000.
B. Notes Payable must equal $8,000.
C. Notes Payable must equal $72,000.
D. Notes Payable must equal $344,000.

Total Assets ($176,000) = Total Liabilities ($64,000 + Notes Payable) + Total Stockholders' Equity ($12,000 + $28,000).

BT: Application
Difficulty: Hard
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #21

22. *(p. 10)* During its first year of operations, Widgets Incorporated reported sales revenue of $386,000 but collected only $303,000 from customers. The amount to be reported as accounts receivable at the end of the year is
A. $689,000.
B. $386,000.
C. $303,000.
D. $83,000.

Total Sales - collections = A/c Rec
386,000 - 303,000 = 83,000

BT: Application
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #22

23. *(p. 8)* If XYZ Company had $12 million in revenue and net income of $3 million then its:
A. expenses must have been $15 million.
B. expenses must have been $9 million.
C. assets must have been $12 million.
D. assets must have been $3 million.

BT: Application
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #23

24. *(p. 8)* The Whackem-Smackem Software Company sold $11 million of computer games in its first year of operations. The company received payments of $7.5 million for these computer games. The company's income statement would report:
A. sales revenue of $7.5 million.
B. accounts receivable of $3.5 million.
C. expenses of $3.5 million.
D. sales revenue of $11 million.

BT: Application
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #24

25. *(p. 9)* Dividends are reported on the:
A. Income statement.
B. Balance sheet.
C. Statement of retained earnings.
D. Income statement and balance sheet.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #25

26. *(p. 8)* Which of the following would not affect a company's net income?
A. A change in the company's income taxes.
B. Changing the selling price of a company's product.
C. Paying a dividend to shareholders.
D. Advertising a new product.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #26

27. *(p. 8)* Which of the following would be reported on the income statement for 2005?
A. Supplies that were purchased and used in 2004 but paid for in 2005.
B. Dividends that were paid in 2005.
C. Supplies that were purchased and used in 2005 but paid for in 2004.
D. All of the above.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #27

28. *(p. 8)* Find the missing data.

CINNAMON AND SPICE, INC.
Income Statement
For the Year Ended December 31, 2008

Revenues	
Sales Revenue	$3,810,200
Total Revenues	?
Expenses	
Wages Expense	1,314,900
Advertising and Promotion Expenses	482,200
Other Selling and Administrative Expenses	?
Interest Expense	225,600
Income Tax Expense	117,700
Other Expenses	253,700
Total Expenses	3,445,600
Net Income	$?

A. Total revenues are $3,810,200, other selling and administrative expenses are $1,051,500, and net income is $364,600.
B. Total revenues are $2,495,300, other selling and administrative expenses are $1,051,500, and net income is ($950,300).
C. Total revenues are $364,600, other selling and administrative expenses are $3,081,000, and net income is $7,255,800.
D. Total revenues are $3,810,200, other selling and administrative expenses are $364,600, and net income is $7,255,800.

BT: Analysis
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #28

29. *(p. 10)* Which of the following is ***not*** true?

HOOPER'S HOPS
Statement of Retained Earnings
For the Year Ended December 31, 2008

Retained Earnings, January 1, 2008	$167,800
Net Income for 2008	219,100
Dividends for 2008	(36,400)
Retained Earnings, December 31, 2008	$350,500

A. Retained earnings of $350,500 will appear on the balance sheet as of December 31, 2008.
B. The net income in the above statement came from the income statement for the year ended December 31, 2008.
C. Dividends are shown in parenthesis because they are payments made by a company to its shareholders as a return on their investment.
D. Retained earnings are the amount of distributions made to the shareholders since the company started.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #29

30. *(p. 7)* Which of the following statements is true?
A. The "net change in cash" reported on the statement of cash flows is also reported on the statement of retained earnings.
B. Both the income statement and the statement of cash flows show the results of a company's operating activities.
C. The statement of cash flows is for a period of time while the income statement is at a point in time.
D. The statement of cash flows is at a point of time while the income statement is for a period of time.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #30

GIL'S FISHING EQUIPMENT, INC.
Statement of Cash Flows
For the Year Ended December 31, 2008

Cash flows from operating activities	
Cash collected from customers	A
Cash paid to suppliers and employees	B
Cash paid for other operating activities	C
Net cash flow from operating activities	
Cash flows from investing activities	
Cash paid to purchase equipment and other assets	D
Cash received from selling equipment and other assets	E
Net cash flow from investing activities	
Cash flows from financing activities	
Cash paid on notes payable	F
Cash paid for dividends	G
Net cash flow from financing activities	
Net change in cash during the year	
Cash at beginning of year	
Cash at end of year	

Phillips - Chapter 01

31. *(p. 12)* In the above statement of cash flows which letters represent cash outflows?
A. B, C, D, F and G.
B. A, E and G.
C. B, C, E and F.
D. A, E, F and G.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #31

32. *(p. 12)* In the above statement of cash flows which letters represent cash inflows?
A. B, C, D, F and G.
B. A, E and G.
C. B, C, E and F.
D. A and E.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #32

33. *(p. 10)* Assets are listed on the balance sheet in order of:
A. date acquired.
B. liquidity.
C. estimated replacement date.
D. value.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #33

34. *(p. 12)* In the statement of cash flows, the company's payment of a $1,900 electric bill would be classified as:
A. an operating cash outflow.
B. a financing cash outflow.
C. an investing cash inflow.
D. an operating cash inflow.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #34

35. *(p. 15)* In Canada, Generally Accepted Accounting Principles (GAAP) are established:
A. by the Canadian Institute of Chartered Accountants.
B. by the Public Company Accounting Oversight Board.
C. by the Financial Accounting Standards Board.
D. by the Society of Management Accounting.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #35

36. *(p. 10)* The purpose of a statement of retained earnings is to:
A. estimate the current value of a company's assets.
B. report how the profits of a company have been distributed to shareholders or retained in the business.
C. show where the money is flowing into and out of a company.
D. explain the specific revenues and expenses arising during the period.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #36

37. *(p. 2/15)* Which of the following is a publicly accountable profit-oriented enterprise?
A. A publicly traded corporation
B. A crown corporation
C. A sole proprietorship
D. A partnership

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 1; 4
Phillips - Chapter 01 #37

38. *(p. 2)* In which of the following business organization the owners could only lose the money they invested in the business?
A. A Crown corporation.
B. A sole proprietorship.
C. A corporation.
D. A partnership.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 01 #38

39. *(p. 10)* If a company uses $50,000 of its cash to buy an asset then:
A. assets and liabilities will be unchanged.
B. assets will rise $50,000 as will liabilities.
C. assets will rise $50,000 as will shareholders' equity.
D. assets will fall $50,000 and liabilities will rise $50,000.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #39

40. *(p. 10)* During 2007, a company's assets rise $56,000 and its liabilities rise $38,000. If no dividend is paid and no further capital is contributed, shareholders' equity would:
A. rise $56,000.
B. rise $18,000.
C. fall $38,000.
D. fall $94,000.

BT: Application
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #40

41. *(p. 8)* Which of the following is ***not*** an expense?
A. Wages of employees.
B. Interest incurred on a loan the company had taken out.
C. Dividends.
D. Corporate income tax.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #41

42. *(p. 12)* Which of the following is ***incorrect*** about the notes to the financial statements:
A. explain what accounting policies were used to prepare the financial statements.
B. provide additional information about what is included in the financial statements.
C. provide additional information about financial matters that are not included in the financial statements.
D. certify to the fact that the statements have been audited.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #42

43. *(p. 8)* Every financial statement should have "who, what, and when" in its heading. These are:
A. the name of the person preparing the statement, the type of financial statement, and when the financial statement was reported to the Stock Exchange.
B. the name of the person preparing the statement, the name of the company, and the date the statement was prepared.
C. the name of the company, the type of financial statement, and the time period from which the data were taken.
D. the name of the company, the purpose of the statement, and when the financial statement was reported to the Canada Revenue Agency.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #43

44. *(p. 10)* Notes payable are like accounts payable ***except*** that notes payable:
A. are not interest free.
B. can remain unpaid longer than accounts payable.
C. are documented using formal written debt contracts.
D. Accounts payables are not reported in the balance sheet while notes payables are.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #44

45. *(p. 10)* On the balance sheet, inventories are reported as:
A. a liability, because goods in inventory are tying up a company's money without earning income.
B. an asset, because goods in inventories are owned by the company.
C. an expense, because goods in inventory have been paid for but not yet sold.
D. a revenue, because goods in inventory will be sold in the future.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #45

46. *(p. 11)* The WC Company borrowed $26,500 from a bank during 2007.
A. This would be listed as ($26,500) under investing activities on the statement of cash flows.
B. This would be listed as ($26,500) under operating activities on the statement of cash flows.
C. This would be listed as $26,500 under investing activities on the statement of cash flows.
D. This would be listed as $26,500 under financing activities on the statement of cash flows.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #46

47. *(p. 8)* Which of the following is ***not*** an alternative term used for the income statement?
A. Statement of Income.
B. Statement of Financial Position.
C. Statement of Earnings.
D. Profit and Loss Statement.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #47

48. *(p. 15)* A investor might look at a company's financial statements to determine if the:
A. company is likely to have the resources to repay its debts.
B. company's stock is likely to fall, signalling a good time to sell.
C. company's stock is likely to rise, signalling a good time to buy.
D. company is likely to pay a good dividend.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 01 #48

49. *(p. 15)* An creditor might look at a company's financial statements to determine if the company's:
A. earnings are rising or falling.
B. stock is likely to fall, signalling a good time to sell.
C. stock is likely to rise, signalling a good time to buy.
D. company has enough assets to cover its liabilities.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 01 #49

50. *(p. 15)* What would a financial statement user learn from reading the auditors' report?
A. Whether the financial statements present a fair picture of the company's financial results.
B. Whether the financial statements are prepared in accordance with GAAP.
C. Both of the above.
D. None of the above.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 01 #50

51. *(p. 2)* In which of the following business organization the business is considered separate from the owner/s:
A. A state-owned entity.
B. A sole proprietorship.
C. A corporation.
D. A partnership.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 01 #51

52. *(p. 4)* Internal financial statement users include:
A. investors interested in the company.
B. creditors of the company.
C. management of the company.
D. stock exchanges.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 01 #52

53. *(p. 10)* Investors are often interested in the amount of net income distributed as dividends. In which section of the financial statements would investors look to find this amount?
A. Statement of retained earnings.
B. Balance sheet.
C. Notes to the financial statements.
D. Income statement.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #53

54. *(p. 15)* A company's quarterly income statements show that in the last three quarters both sales revenue and net income have been growing. Which of the following statements is then true?
A. Creditors are likely to conclude that the risk of lending to the company is falling and be willing to accept a lower interest rate on loans.
B. Investors are likely to conclude that the stock price is likely to rise, making the company more attractive as a potential investment.
C. Investors are likely to conclude that the company will be better able to pay dividends in the future, making it more attractive as a potential investment.
D. All of the above.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 01 #54

55. *(p. 6 & 15)* Investors and creditors look at the balance sheet to see whether the company:
A. is profitable.
B. owns enough assets to pay what it owes to creditors.
C. has had a positive cash flow from operations.
D. is paying sufficient dividends to shareholders.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2; 3
Phillips - Chapter 01 #55

56. *(p. 15)* Generally Accepted Accounting Principles (GAAP) in Canada were established by:
A. an Italian monk in 1494.
B. the Canadian Parliament.
C. the CICA.
D. IFRS.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #56

57. *(p. 15)* To determine whether Generally Accepted Accounting Principles were followed in the preparation of financial statements, an examination of:
A. tax documents would be examined by the Revenue Canada Agency.
B. the annual report would be examined by the Toronto Stock Exchange.
C. the financial statements and related documents would be examined by an independent auditor.
D. the financial statements and related documents would be examined by the CICA.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #57

58. *(p. 15)* Which of the following statements is ***false***?
A. When choosing between a company that pays steady dividends and one that retains its earnings to support future growth, investors will always choose the company that pays steady dividends.
B. Companies can develop reputations for honest financial reporting even when conveying bad news.
C. Trends in a company's net income from year to year can provide clues about its future earnings, which can help investors to decide whether to buy stock in the company.
D. Information in the notes to the financial statements can influence a user's interpretation of balance sheet and income statement information.

BT: Comprehension
BT: Synthesis
Difficulty: Hard
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 01 #58

59. *(p. 15)* Which of the following is ***not*** required to use IFRS?
A. Private enterprise
B. Publically traded company
C. Crown corporation
D. All businesses are required to use IFRS

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #59

60. *(p. 16)* Which of the following are the two fundamental **characteristics** financial information must possess to be judged useful to decision makers?
A. Relevance and faithful representation
B. Truthful and clarity
C. Complete and relevant
D. Elaborate and faithful representation

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #60

61. *(p. 16)* When is the financial information ***relevant***?

A. If it makes a difference in decision making.
B. Meets the requirement of Toronto Stock Exchange.
C. If it fully depicts the economic substance of business activities.
D. If it allows management the discretion when to release it to investors and general public.

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #61

62. *(p. 16)* When is the financial information a ***faithful representation***?

A. If it fully depicts the economic substance of business activities
B. If it allows management to be faithful to its shareholders
C. Meets the requirements of the stock exchanges
D. If it makes a difference in decision making

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #62

63. *(p. 17)* Which one of the following is ***not*** an accounting assumption?

A. Separate entity
B. Time period
C. Integrity
D. Unit of measure

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #63

64. *(p. 17)* Which of the following is a principle of accounting?

A. Matching
B. Separate entity
C. Integrity
D. Time period

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #64

65. *(p. 17)* Which of the following are ***assumptions*** of accounting?
A. Unit of measure, separate entity, going concern, time period
B. Cost, revenue recognition, matching, full disclosure
C. Cost-benefit, materiality, industry practices
D. Unit of measure, cost-benefit, materiality, industry practices

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #65

66. *(p. 17)* Which of the following are the ***principles*** of accounting?
A. Unit of measure, cost-benefit, materiality, industry practices
B. Unit of measure, separate entity, going concern, time period
C. Cost, revenue recognition, matching, full disclosure
D. Cost-benefit, materiality, industry practices

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #66

67. *(p. 17)* Which of the following are ***elements*** to be measure and reported?
A. Assets, liabilities, shareholders equity, revenues, expenses, dividends
B. Unit of measure, separate entity, going concern, time period
C. Cost, revenue recognition, matching, full disclosure
D. Cost-benefit, materiality, industry practices

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #67

68. *(p. 17)* To make sure that managers have followed GAAP rules in producing financial statements, all public companies must:
A. Hire independent auditors to scrutinize their financial records.
B. Hire independent detectives to scrutinize the background of all their accountants.
C. let the government regulators scrutinize their financial records.
D. let their shareholders check their financial records.

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #68

69. *(p. 17)* Auditors while examining the financial records must follow:
A. International Financial Reporting Standards
<u>B.</u> Canadian Auditing standards
C. Canadian Accounting standards for auditing
D. International Auditing standards

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #69

70. *(p. 9)* The effects of net income and its distribution on the financial position of the company is reported in:
A. Balance sheet
B. Income statement
<u>C.</u> Statement of retained earnings
D. Statement of cash flows

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #70

71. *(p. 16)* Which of the following enhance the usefulness of financial information with reference to financial statements?
<u>A.</u> Comparability to prior periods and other companies, verifiability, timeliness, and understandability.
B. Integrity, relevance, faithfulness and comparability to prior periods and other companies
C. Clarity, integrity, relevance and faithfulness
D. Verifiability, relevance and faithfulness

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #71

72. *(p. 15)* The CICA:
<u>A.</u> has primary responsibility for setting the underlying rules of accounting in Canada.
B. is an entity that regulates issuance of securities in Ontario.
C. an independent body to develop and establish standards and guidance than govern financial accounting and reporting in Canada.
D. is an examination of a company's financial statements by an independent auditor.

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #72

73. *(p. 15)* The AcSB:
A. has primary responsibility for setting the underlying rules of accounting in Canada.
B. is an entity that regulates issuance of securities in Ontario.
C. an independent body to develop and establish standards and guidance than govern financial accounting and reporting in Canada.
D. is an examination of a company's financial statements by an independent auditor.

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #73

74. *(p. 11)* A company is involved in ***financing*** activities when these:
A. activities are directly related to running the core business to earn profits.
B. activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and tools), purchasing investments, and lending to others.
C. activities involve borrowing from banks, repaying bank loans, receiving contributions from shareholders, or paying dividends to shareholders
D. All of the above

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #74

75. *(p. 11)* A company is involved in ***operating*** activities when these:
A. activities are directly related to running the core business to earn profits.
B. activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and tools), purchasing investments, and lending to others.
C. activities involve borrowing from banks, repaying bank loans, receiving contributions from shareholders, or paying dividends to shareholders
D. All of the above

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #75

76. *(p. 11)* A company is involved in ***investing*** activities when these:
A. activities are directly related to running the core business to earn profits.
B. activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and tools), purchasing investments, and lending to others.
C. activities involve borrowing from banks, repaying bank loans, receiving contributions from shareholders, or paying dividends to shareholders
D. All of the above

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #76

77. *(p. 11)* Building a new warehouse is an operating activity.
FALSE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #77

78. *(p. 11)* The payment of dividends is a financing activity.
TRUE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #78

79. *(p. 11)* Daily activities involved in running a business such as buying supplies and paying wages are operating activities.
TRUE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #79

80. *(p. 11)* Financing activities include borrowing and obtaining money by issuing shares of ownership (called stock certificates).
TRUE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #80

81. *(p. 5)* Shareholders are creditors of a company.
FALSE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 01 #81

82. *(p. 2)* All corporations acquire financing by issuing shares of ownership (called stock certificates) for sale on public stock exchanges.
FALSE

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 01 #82

83. *(p. 3)* You paid $10,000 to buy 1% of the stock in a corporation that has now gone bankrupt. The company owes $10 million dollars to creditors. As a result of the bankruptcy, you will lose $100,000.
FALSE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 01 #83

84. *(p. 5)* The shareholders' equity in a company is the difference between assets and liabilities.
TRUE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #84

85. *(p. 6)* A company owes $200,000 on a bank loan. If this loan is documented using a formal written debt contract, it will be reported as a liability called Notes Payable.
TRUE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #85

86. *(p. 17)* The accounting decisions that were made when preparing a company's financial statements are explained in the auditor's report.
FALSE

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #86

87. *(p. 8)* Under the unit of measure concept, a Canadian company would report these data in Canadian dollars.
TRUE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #87

ANONYMOUS, INC. BALANCE SHEET SEPTEMBER 30, 2007	
Assets	
Cash	$1,568,000
Accounts Receivable	310,500
Inventories	208,200
Property, Plant, and Equipment	391,600
Other Assets	869,400
Total Assets	$3,347,700
Liabilities	
Accounts Payable	$1,439,200
Notes Payable	?
Total Liabilities	?
Shareholders' Equity	
Contributed Capital	1,263,600
Retained Earnings	207,100
Total Shareholders' Equity	1,470,700
Total Liabilities and Shareholders' Equity	$3,347,700

Phillips - Chapter 01

88. *(p. 10)* Notes Payable would equal $437,800 and Total Liabilities would equal $1,877,000 on the balance sheet.
TRUE

BT: Analysis
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #88

89. *(p. 10)* The $207,100 shown on the balance sheet has been distributed to shareholders as dividends.
FALSE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #89

90. *(p. 10)* Anonymous, Inc. is owed $310,500 from customers who have purchased goods or services from the company, but have not yet paid for them.
TRUE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #90

91. *(p. 9)* The total net income from the income statement is ***always*** included in the Statement of Retained Earnings.
FALSE

BT: Analysis
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #91

92. *(p. 8)* The income statement shows the assets and liabilities of the company at a point in time.
FALSE

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #92

93. *(p. 8)* The income statement primarily shows whether a business made a profit from selling goods or providing services after subtracting the costs of doing business.
TRUE

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #93

94. *(p. 8)* Net income is the amount the company earned after expenses and dividends are subtracted from revenue.
FALSE

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #94

95. *(p. 8)* Expenses are shown on the income statement only in the time period in which they are paid.
FALSE

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #95

96. *(p. 12)* In the Statement of Cash Flows, cash inflows are positive numbers while cash outflows are negative.
TRUE

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #96

97. *(p. 11)* Cash at the end of the year is the sum of cash at the beginning of the year and the net change in cash during the year.
TRUE

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #97

98. *(p. 11)* Cash flow from investing activities includes money received from a company's shareholders.
FALSE

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #98

99. *(p. 9)* The balance sheets at the beginning and end of a time period are linked by the income statement, the statement of cash flows, and the statement of retained earnings for the time period.
TRUE

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #99

100. *(p. 3)* Shareholders in a corporation are personally liable for the company's obligations.
<u>FALSE</u>

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 01 #100

101. *(p. 12)* Notes to the financial statements (also known as footnotes) immediately follow the four individual financial statements, and include descriptions of accounting decisions made when preparing the financial statements.
<u>TRUE</u>

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #101

102. *(p. 12)* Just like footnotes in some articles and books, notes to the financial statements (also known as footnotes) report extra information that is not relevant to the financial statements.
<u>FALSE</u>

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #102

103. *(p. 8)* Investors analyze the income statement to identify trends in a company's net income, which can provide clues about the company's future earnings.
<u>TRUE</u>

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #103

104. *(p. 15)* When a company goes bankrupt, assets are divided equally between creditors and investors.
<u>FALSE</u>

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 01 #104

105. *(p. 7)* Statement of retained earnings is prepared is prepared before the income statement.
FALSE

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 01 #105

106. *(p. 17)* Questionable ethical practices can make it harder for a company to attract lenders and investors in the future.
TRUE

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 01 #106

The table shows financial data for Purrfect Pets, Inc. as of June 30, 2011.

Revenues	$279, 400
Accounts Receivable	419,200
Retained Earnings	117,900
Inventories	58,400
Other Assets	69,400
Accounts Payable	349,200
Property, Plant, and Equipment	118,500
Cash	732,600
Contributed Capital	662,100
Notes Payable	268,900
Rent expense	56,900
Interest expense	4,500

Phillips - Chapter 01

107. *(p. 9-10)* Prepare a balance sheet using the above data

PURRFECT PETS, INC.
BALANCE SHEET
JUNE 30, 2011

Assets	
Cash	$732,600
Accounts Receivable	419,200
Inventories	58,400
Property, Plant, and Equipment	118,500
Other Assets	69,400
Total Assets	$1,398,100
Liabilities	
Accounts Payable	$349,200
Notes Payable	268,900
Total Liabilities	618,100
Shareholders' Equity	
Contributed Capital	662,100
Retained Earnings	117,900
Total Equity	780,000
Total Liabilities and Shareholders' Equity	$1,398,100

BT: Analysis
BT: Synthesis
Difficulty: Medium
Gradable: manual
Learning Objective: 2
Phillips - Chapter 01 #107

108. *(p. 10)* Fill in the missing items in the balance sheet.

PURRFECT PETS, INC.
BALANCE SHEET
SEPTEMBER 30, 2011

Assets	
Cash	$743,800
Accounts Receivable	?
Inventories	54,900
Property, Plant, and Equipment	119,300
Other Assets	71,400
Total Assets	$?
Liabilities	
Accounts Payable	$342,500
Notes Payable	?
Total Liabilities	607,600
Shareholders' Equity	
Contributed Capital	662,100
Retained Earnings	?
Total Equity	789,400
Total Liabilities and Shareholders' Equity	$?

PURRFECT PETS, INC.
BALANCE SHEET
SEPTEMBER 30, 2007

Assets	
Cash	$743,800
Accounts Receivable	407,600
Inventories	54,900
Property, Plant, and Equipment	119,300
Other Assets	71,400
Total Assets	**$1,397,000**
Liabilities	
Accounts Payable	$342,500
Notes Payable	**265,100**
Total Liabilities	607,600
Shareholders' Equity	
Contributed Capital	662,100
Retained Earnings	127,300
Total Equity	789,400
Total Liabilities and Shareholders' Equity	**$1,397,000**

BT: Application
Difficulty: Hard
Gradable: manual
Learning Objective: 2
Phillips - Chapter 01 #108

109. *(p. 8)* Calculate the net income for Green Thumb, Inc. Then, assuming the company had retained earnings of $162,000 as of January 1, 2011, and paid out $46,000 in dividends during the year, prepare its statement of retained earnings.

GREEN THUMB, INC.
Income Statement
For the Year Ended December 31, 2011

Revenues	
Sales Revenue	$1,865,300
Total Revenues	1,865,300
Expenses	
Wages Expense	724,800
Advertising and Promotion Expenses	262,500
Other Selling and Administrative Expenses	350,800
Interest Expense	43,900
Income Tax Expense	56,500
Other Expenses	122,400
Total Expenses	1,560,900
Net Income	$?

Net income is $304,400 (or $1,865,300 - $1,560,900).

GREEN THUMB, INC.
Statement of Retained Earnings
For the Year Ended December 31, 2008

Retained Earnings, January 1, 2008	$162,000
Net Income for 2008	304,400
Dividends for 2008	(46,000)
Retained Earnings, December 31, 2008	$420,400

BT: Comprehension
Difficulty: Medium
Gradable: manual
Learning Objective: 2
Phillips - Chapter 01 #109

110. *(p. 12)* The Lady Luck Casino, Inc., had $312,000 in cash at the beginning of the year (January 1, 2008). Using the data in the chart, prepare a statement of cash flows.

Cash paid for other operating activities	$1,291,000
Cash paid for dividends	16,900
Cash received from selling equipment and other assets	16,300
Cash paid on notes payable	412,000
Cash paid to suppliers and employees	1,258,900
Cash collected from customers	3,840,700
Cash paid to purchase equipment and other assets	140,200

LADY LUCK CASINO, INC.
Statement of Cash Flows
For the Year Ended December 31, 2008

Cash flows from operating activities	
Cash collected from customers	$3,840,700
Cash paid to suppliers and employees	(1,258,900)
Cash paid for other operating activities	(1,291,000)
Net cash flow from operating activities	1,290,800
Cash flows from investing activities	
Cash paid to purchase equipment and other assets	(140,200)
Cash received from selling equipment and other assets	16,300
Net cash flow from investing activities	(123,900)
Cash flows from financing activities	
Cash paid on notes payable	(412,000)
Cash paid for dividends	(16,900)
Net cash flow from financing activities	(428,900)
Net change in cash during the year	738,000
Cash at beginning of year	312,000
Cash at end of year	$1,050,000

BT: Analyze
BT: Application
Difficulty: Hard
Gradable: manual
Learning Objective: 2
Phillips - Chapter 01 #110

111. *(p. 8)* Use the following 2007 data to prepare an income statement for Kvass, Inc.

Other Selling and Administrative Expenses	$1,050,300
Other Expenses	247,600
Sales Revenue	4,885,300
Advertising and Promotion Expenses	552,500
Wages Expense	2,524,400
Income Tax Expense	166,500
Interest Expense	113,900
Account Payable	
Account Receivable	
Interest Payable	

KVASS, INC.
Income Statement
For the Year Ended December 31, 2007

Revenues	
Sales Revenue	$4,885,300
Total Revenues	4,885,300
Expenses	
Wages Expense	2,524,400
Advertising and Promotion Expenses	552,500
Other Selling and Administrative Expenses	1,050,300
Interest Expense	113,900
Income Tax Expense	166,500
Other Expenses	247,600
Total Expenses	4,655,200
Net Income	$230,100

BT: Analysis
Difficulty: Hard
Gradable: manual
Learning Objective: 2
Phillips - Chapter 01 #111

112. *(p. 11)* Match the category of business activity to the specific business action.

A. Operating activity.
B. Investing activity.
C. Financing activity.

______ 1. The purchase of a new line of assembly equipment.
______ 2. Company payment of a dividend.
______ 3. The purchase of office supplies.
______ 4. The purchase of advertising time by the company.
______ 5. The building of a new factory.
______ 6. Company payment on a bank loan.

B, C, A, A, B, C

BT: Comprehension
Difficulty: Medium
Gradable: manual
Learning Objective: 2
Phillips - Chapter 01 #112

113. *(p. 2)* Match the characteristic of the company with the description of the type of company.

A. Partnership.
B. Publicly traded corporation.
C. Privately traded corporation.

______ 1. Issues shares of stock that are traded on a stock exchange such as the TSX.
______ 2. Owners are personally liable for the debts of the company.
______ 3. Shares of stock must be purchased directly from current owners.
______ 4. Can raise more financial capital by selling stock to the greatest number of investors.

B, A, C, B

BT: Knowledge
Difficulty: Medium
Gradable: manual
Learning Objective: 1
Phillips - Chapter 01 #113

114. *(p. 5)* Match the lettered terms to the blanks below to complete the relevant formula for each financial statement.

A. Cash at beginning of year
B. Net cash flow from operating activities
C. Balance of retained earnings from previous year
D. Net cash flow from investing activities
E. Liabilities
F. Net cash flow from financing activities
G. Balance of retained earnings at end of year
H. Net income
I. Revenue
J. Assets
K. Shareholders' equity
L. Expenses
M. Cash at end of year
N. Dividends paid

A letter may be used more than once. Use the blank on the left side of the equals sign for the "bottom line" number that is reported at the end of each financial statement. Rearrange the formula if necessary.

Balance Sheet	______=	______+	______		
Income Statement	______=	______–	______		
Statement of Retained Earnings	______=	______+	______–	______	
Statement of Cash Flows	______=	______+	______+	______+	______

J = E + K; H = I - L; G = C + H - N; M = B + D + F + A

BT: Application
Difficulty: Medium
Gradable: manual
Learning Objective: 2
Phillips - Chapter 01 #114

115. *(p. 5)* Each item in the statement of retained earnings can appear on another financial statement. Match the letter of the financial statement with the item in the statement of retained earnings.

A. Balance sheet at end of 2011
B. Statement of cash flows for 2011
C. Income statement for 2010
D. Balance sheet at end of 2010
E. Income statement for 2011

____ Retained earnings, January 1, 2011
____ Net income for 2011
____ Dividends for 2011
____ Retained earnings, December 31, 2011

D, E, B, A

BT: Application
Difficulty: Medium
Gradable: manual
Learning Objective: 2
Phillips - Chapter 01 #115

116. *(p. 5, 15)* Match the term and the explanation. (There are more explanations than terms.)

______ investors
______ audit
______ balance sheet
______ operating activity
______ unit of measure concept
______ retained earnings
______ investing activity
______ income statement

A. An exchange of money between a company and its investors or creditors.
B. An example of an internal user of financial statements.
C. The idea that a company reports sales only after a payment has been received.
D. Share of a company's earnings given to owners as dividends.
E. A financial statement showing a company's assets, liabilities and shareholders' equity.
F. When a company acquires money from investors.
G. A financial statement that summarizes a company's past and current cash situation.
H. An external user of financial statements.
I. The idea that the financial statements of a company include the results of only that company's business activities.
J. Day to day events involved in the production and sales of a company's goods or services.
K. A financial statement that shows a company's revenues and expenses.
L. Borrowing money from lenders.
M. The total amount of profits that are held by the company since its inception.
N. Companies should report financial data in the relevant currency.
O. A procedure by which independent evaluators assess the accounting procedures and financial reports of a company.
P. Purchase or sale of long-term assets, like property and equipment used in production process.

H, O, E, J, N, M, P, K

BT: Comprehension
BT: Knowledge
Difficulty: Medium
Gradable: manual
Learning Objective: 1; 4
Phillips - Chapter 01 #116

c1 Summary

Category	*# of Questions*
BT: Analysis	6
BT: Analyze	1
BT: Application	11
BT: Comprehension	53
BT: Knowledge	48
BT: Synthesis	2
Difficulty: Easy	60
Difficulty: Hard	7
Difficulty: Medium	49
Gradable: automatic	106
Gradable: manual	10
Learning Objective: 1	11
Learning Objective: 1; 4	2
Learning Objective: 2	76
Learning Objective: 2; 3	1
Learning Objective: 3	6
Learning Objective: 4	20
Phillips - Chapter 01	119