

Horngren's Accounting, Vol. 1, Cdn. Ed., 11e (Miller-Nobles)
Chapter 1 Accounting and the Business Environment

Objective 1-1

1) Financial statements provide information about business activities to decision makers.

Answer: TRUE

Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

2) Investors provide money to a business to assist with operations.

Answer: TRUE

Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

3) Not-for-profit organizations need accounting information, as do profit-oriented organizations.

Answer: TRUE

Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

4) The Canadian designation CPA stands for Certified Public Accountant.

Answer: FALSE

Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

5) Rules of professional conduct for accountants apply to accountants working in public practice but not for accountants employed by companies.

Answer: FALSE

Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

6) Some rules of conduct apply to accountants in public practice and not to those employed in industry.

Answer: TRUE

Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

7) Audits are conducted by accountants internal to the organization so that the users of the financial information can have confidence in the accuracy of the financial reporting.

Answer: FALSE

Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

8) Which of the following users of accounting information seek to assess the organization's ability to make scheduled payments?

A) creditors

B) taxing authorities

C) government regulatory agencies

D) employees

Answer: A

Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

9) The primary objective of financial reporting is to provide information:

A) to the federal government.

B) about the profitability of the business.

C) regarding the cash flows of the business.

D) useful for making investment decisions and for assessing management's stewardship.

Answer: D

Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

- 10) Which of the following statements best describes managerial accounting?
- A) Managerial accounting focuses on information for internal decision making.
 - B) Managerial accounting focuses on outside investors and lenders.
 - C) Managerial accounting provides information for the public.
 - D) Managerial accounting provides information for taxing authorities.

Answer: A

Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

- 11) Which of the following is *not* addressed by rules of professional conduct?

- A) competence
- B) confidentiality
- C) number of clients
- D) compliance with professional standards

Answer: C

Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

- 12) The provincial securities commissions oversee operations of:

- A) all publicly accountable enterprises.
- B) banks and other federally constituted financial institutions.
- C) large investors from foreign countries.
- D) companies with publicly traded stock.

Answer: D

Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

13) Audits conducted by external accountants express an opinion:

- A) that evaluates the effectiveness of management.
- B) that taxing authorities use to ensure that the correct amount of tax owing has been calculated.
- C) that gives investors confidence their investment is not at risk.
- D) on whether or not the financial statements fairly reflect the economic events that occurred during the accounting period.

Answer: D

Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

14) Rules of professional conduct for accountants should:

- A) be considered a minimum standard of performance.
- B) not be seen as strict when the client requests certain requirements.
- C) be the same as those for lawyers or engineers.
- D) clearly spell out right from wrong in every situation.

Answer: A

Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

15) Describe the three forms of organizations and how they differ.

Answer: A proprietorship has a single owner whereas a partnership has two or more individuals together as co-owners. In both of these forms of organization, the owners are individually liable for the debts of the business. A corporation is a business owned by shareholders, who may or may not have a part in the day-to-day operations of the business. The shareholders of a corporation are not legally liable for the debts of the business, and it is easier to transfer the ownership of a corporation than a proprietorship or partnership.

Type: ES

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Understand

16) Why is it in the interest of a corporation for management to behave ethically?

Answer: Since the financial health of a company is important to many different groups of users, these users must be confident that they can rely on the financial information they are given when they are making decisions. If the various stakeholders lose confidence then they will end their relationship with the company: shareholders may sell their investments or vote to replace the Board; lenders may stop lending or raise interest rates charged; regulators may impose fines or delist the company's stock from the exchange; employees may leave their positions.

Type: ES

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Understand

17) The members of the Chartered Professional Accountants in Canada are all governed by rules of professional conduct created by the CPA organization. Describe two of the rules of professional conduct presented in the text book.

Answer: These rules concern the confidentiality of information the accountant is privy to, maintenance of the reputation of the profession, the need to perform accountancy work with integrity and due care, competence, refusal to be associated with false or misleading information, and compliance by the accountant with professional standards. Other rules are applicable only to those members in public practice, and deal with things like the need for independence, and how to advertise, seek clients, and conduct a practice.

Type: ES

CPA Competency: 1.1.1 Evaluates financial reporting issues

Objective: 1-1 Define accounting, and describe the users of accounting information

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

Objective 1-2

1) A proprietorship can have two owners, so long as they are husband and wife.

Answer: FALSE

Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-2 Compare and contrast the forms of business organizations

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

2) In a corporation, the shareholders have liability for the actions of the corporation that extends beyond their investment.

Answer: FALSE

Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-2 Compare and contrast the forms of business organizations

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

3) All of the following are forms of business organizations *except*:

- A) proprietorship.
- B) partnership.
- C) corporation.
- D) governmental unit.

Answer: D

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-2 Compare and contrast the forms of business organizations

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

4) Which of the following forms of business organizations protect the personal assets of the owners from creditors of the business?

- A) proprietorship
- B) partnership
- C) corporation
- D) corporation and partnership

Answer: C

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-2 Compare and contrast the forms of business organizations

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

5) Which of the following types of organizations have the entity legally separate from its owners?

- A) corporation
- B) proprietorship
- C) partnership
- D) sole proprietorship

Answer: A

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-2 Compare and contrast the forms of business organizations

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

6) Which of the following sets of characteristics best describes those of a corporation?

- A) limited liability, definite life, shareholders are legally separate
- B) limited liability, indefinite life, shareholders are legally separate
- C) unlimited liability, definite life, shareholders are not legally separate
- D) unlimited liability, indefinite life, shareholders are not legally separate

Answer: B

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-2 Compare and contrast the forms of business organizations

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

7) Partnerships and proprietorships:

- A) are separate legal entities from their owners, are for small businesses, and for financial reporting purposes do not keep the business affairs separate from those of the owners.
- B) are separate legal entities from their owners, are for small to large businesses, and for financial reporting purposes keep the business affairs separate from those of the owners.
- C) are not separate legal entities from their owners, are for small to large businesses, and for financial reporting purposes do not keep the business affairs separate from those of the owners.
- D) are not separate legal entities from their owners, are for small to large businesses, and for financial reporting purposes keep the business affairs separate from those of the owners.

Answer: D

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-2 Compare and contrast the forms of business organizations

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

8) Which of the following is a feature of limited-liability partnerships?

- A) They are restricted to a limited number of partners who are liable for the business.
- B) Liability is limited to 150% of each partners investment in the business.
- C) Partner liability is unlimited but the liability of partner families is limited.
- D) Each partner is liable for his or her own actions.

Answer: D

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-2 Compare and contrast the forms of business organizations

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

9) Describe the three forms of business ownership and include how the owners' liability is affected by each form.

Answer: **Proprietorship** A proprietorship has a single owner, called the proprietor, who often manages the business. Proprietorships tend to be small retail stores, restaurants, and service businesses, but also can be very large. From an accounting viewpoint, each proprietorship is distinct from its owner. Thus, the accounting records of the proprietorship do not include the proprietor's personal accounting records. However, from a legal perspective, the business is the proprietor, so if the business cannot pay its debts, lenders can take the proprietor's personal assets (cash and belongings) to pay the proprietorship's debt.

Partnership A partnership joins two or more individuals together as co-owners. Accounting treats the partnership as a separate organization distinct from the personal affairs of each partner. But again, from a legal perspective, a partnership is the partners in a manner similar to a proprietorship. If the partnership cannot pay its debts, lenders can take each partner's personal assets to pay the partnership's debts.

Corporation A corporation is a business owned by shareholders. These are the people or other corporations who own shares of ownership in the business. From a legal perspective, a corporation is formed when the federal government or a provincial government approves its articles of incorporation. Unlike a proprietorship or a partnership, once a corporation is formed, it is a legal entity separate and distinct from its owners. The corporation operates as an "artificial person" that exists apart from its owners and that conducts business in its own name. The corporation has many of the rights that a person has. For example, a corporation may buy, own, and sell property. The corporation may enter into contracts and sue and be sued. Since corporations are entities separate from their owners, they will prepare financial reports separate from their owners.

Corporations differ significantly from proprietorships and partnerships in term of owners' liability. If a proprietorship or partnership cannot pay its debts, lenders can take the owners' personal assets to satisfy the business's obligations. But if a corporation goes bankrupt, lenders cannot take the personal assets of the shareholders.

Type: ES

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-2 Compare and contrast the forms of business organizations

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

Objective 1-3

1) An organization, for accounting purposes, stands apart from other organizations and individuals as a separate accounting entity.

Answer: TRUE

Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

2) The reliability characteristic means that accounting information is free from error and bias, i.e., objective.

Answer: TRUE

Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

3) The going-concern assumption states an entity will remain in operation for only the next accounting period.

Answer: FALSE

Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

4) Financial statement users having easier access to information is a reason for the development of Accounting Standards for Private Enterprises (ASPE).

Answer: TRUE

Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

5) The Accounting Standards Board is responsible for authorizing:

A) the Canadian Institute of Chartered Accountants.

B) the IFRS and ASPE accounting standards used in Canada.

C) the code of professional conduct for accountants.

D) the Securities and Exchange Commission.

Answer: B

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

6) GAAP stands for:

- A) generally accepted auditing practices.
- B) generally accrued auditing procedures.
- C) generally accepted accounting principles.
- D) generally accrued accounting principles.

Answer: C

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

7) According to GAAP, to be useful, accounting information must be all of the following *except*:

- A) relevant.
- B) comparable.
- C) subjective.
- D) reliable.

Answer: C

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

8) Which of the following statements is *false*?

- A) Reliable data are verifiable.
- B) Reliable data may be supported by objective evidence.
- C) Owner opinions are one source of objective evidence.
- D) An independent appraisal is usually considered reliable.

Answer: C

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

9) The principle that states that assets acquired by the business should be recorded at their exchange price is the:

- A) subjectivity principle.
- B) cost principle of measurement.
- C) revenue-recognition principle.
- D) matching principle.

Answer: B

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

10) What is the qualitative characteristic that states that accounting records and statements are based on the most accurate and useful data available?

- A) Reliability
- B) Relevance
- C) Comparability
- D) Understandability

Answer: A

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

11) The relevant measure of value of the assets of a company that is going out of business is:

- A) their current market value.
- B) their book value.
- C) their historical cost.
- D) the higher of their historical cost or current market value.

Answer: A

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

12) Which of the following statements is *true*?

- A) The value of a dollar changes over time.
- B) German accountants record transactions in dollars.
- C) The stable-monetary-unit concept requires adjustments to the accounting records for the effects of inflation.
- D) High inflation rates indicate a dollar's purchasing power is stable.

Answer: A

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

13) Which of the following statements is correct?

- A) Businesses classified as publicly accountable enterprises must use IFRS and other businesses must use ASPE.
- B) Businesses classified as publicly accountable enterprises may use IFRS or ASPE depending on their size.
- C) Businesses not classified as publicly accountable enterprises may not use IFRS.
- D) Businesses classified as publicly accountable enterprises must use IFRS and other businesses may use IFRS or ASPE.

Answer: D

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

14) List and define three generally accepted accounting concepts/principles discussed in Chapter 1.

Answer:

- Economic-Entity Assumption — An accounting entity is an organization or a section of an organization that stands apart from other organizations and individuals as a separate economic unit. From an accounting perspective, sharp boundaries are drawn around each entity so as not to confuse its affairs with those of other entities.
- Reliability characteristic — Accounting records and statements are based on the most reliable data available so that they will be as accurate and as useful as possible.
- Cost principle of measurement — States that acquired assets and services should be recorded at their actual cost. The cost of an asset should be maintained in the accounting records for as long as the business holds the asset.
- Going-Concern Assumption — Holds that the entity will remain in operation for the foreseeable future.
- Stable-Monetary-Unit Assumption — Assumes that the dollar's purchasing power is relatively stable and thus ignores the effect of inflation in the accounting records.

Type: ES

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

Objective 1-4

1) The accounting equation can be stated as assets + liabilities = owner's equity.

Answer: FALSE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

2) Assets are economic resources of a business expected to be of benefit in the future.

Answer: TRUE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

3) Owner's equity is often referred to as net assets and represents the residual amount of business assets that can be claimed by the owner.

Answer: TRUE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

4) An owner investment would increase the assets and decrease the liabilities of the firm.

Answer: FALSE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

5) The purchase of supplies on account would have an effect on the owner's equity of the firm.

Answer: FALSE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

6) One way of increasing the equity of a business is to increase a liability.

Answer: FALSE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

7) The recording of an owner withdrawal has the same effect on owner's equity as the recording of an owner investment.

Answer: FALSE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

8) When a revenue is recorded, the asset account cash is always increased along with owner's equity.

Answer: FALSE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

9) Increases in owner's equity result from revenues and owner investments while decreases result from expenses and owner withdrawals.

Answer: TRUE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

10) The accounting equation can be stated as:

A) $\text{Assets} = \text{Liabilities} - \text{Owner's Equity}$.

B) $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$.

C) $\text{Liabilities} = \text{Assets} + \text{Owner's Equity}$.

D) $\text{Owner's Equity} = \text{Assets} + \text{Liabilities}$.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

11) Liabilities are:

A) insider claims to the business's assets.

B) outsider claims to the business's assets.

C) economic resources of a business.

D) increases in owner's equity earned by delivering goods or services.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

12) Owner's equity is an:

- A) insider claim to the business's assets.
- B) outsider claim to the business's assets.
- C) obligation to pay cash today.
- D) obligation to pay cash in the future.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

13) All of the following are assets *except*:

- A) land.
- B) cash.
- C) Accounts Receivable.
- D) owner withdrawals.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

14) All of the following describe a liability *except*:

- A) investments by owners.
- B) economic obligations to creditors.
- C) debts to creditors.
- D) outsider claims.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

15) A promise by a customer to pay cash in the future is a(n):

- A) account receivable.
- B) liability.
- C) prepaid asset.
- D) note payable.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

16) If owner's equity is \$135,000 and total liabilities are \$90,000, then total assets would be:

- A) \$45,000.
- B) \$225,000.
- C) \$90,000.
- D) \$135,000.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

17) Owner's equity and total assets were \$32,000 and \$79,000 respectively at the beginning of the period. Assets increased 50% and liabilities decreased 60% during the period. What is owner's equity at the end of the period?

- A) \$47,000
- B) \$43,300
- C) \$99,700
- D) \$105,700

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

18) Total assets and total liabilities were \$31,000 and \$26,000 respectively at the beginning of the period. Assets increased by 20% and liabilities increased by 10% during the period. What is the owner's equity at the end of the period?

- A) \$8,600
- B) \$65,800
- C) \$290
- D) \$5,000

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

19) A business paid \$8,500 to a creditor. The effect of this transaction is to:

- A) increase assets and decrease liabilities.
- B) increase assets and decrease owner's equity.
- C) decrease liabilities and owner's equity.
- D) decrease assets and decrease liabilities.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

20) If total liabilities decrease by \$22,000 and owner's equity increases by \$8,000 during the period, then assets must have:

- A) increased \$30,000.
- B) decreased \$30,000.
- C) increased \$14,000.
- D) decreased \$14,000.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

21) If total liabilities are \$98,000 and owner's equity is \$150,000, total assets would be:

- A) \$52,000.
- B) \$248,000.
- C) \$98,000.
- D) \$300,000.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

22) If owner's equity is \$200,000 and total assets are \$325,000, total liabilities would be:

- A) \$200,000.
- B) \$525,000.
- C) \$125,000.
- D) \$325,000.

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

23) Earning revenue on account:

- A) decreases assets.
- B) increases liabilities.
- C) decreases owner's equity.
- D) increases owner's equity.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

24) The amount owed by an entity when it makes a purchase on account is termed a(n):

- A) accounts receivable.
- B) accounts payable.
- C) note receivable.
- D) note payable.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

25) On December 31, the assets of a business are: Cash, \$3,500, Accounts Receivable, \$14,000, and Supplies, \$1,050. The liabilities on December 31 total \$7,600. The owner's equity on December 31 is:

- A) \$18,550.
- B) \$25,100.
- C) \$10,950.
- D) \$11,100.

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

26) Purchasing office equipment on account would:

- A) decrease owner's equity.
- B) increase owner's equity.
- C) have no effect on owner's equity.
- D) decrease liabilities.

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

27) Purchasing a parcel of land for \$100,000 by paying \$10,000 in cash and signing a promissory note for the remainder would:

- A) decrease owner's equity by \$90,000.
- B) increase owner's equity by \$10,000.
- C) decrease liabilities by \$90,000.
- D) increase total assets by \$90,000.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

28) Collection of an account receivable would:

- A) decrease liabilities.
- B) have no effect on owner's equity.
- C) decrease owner's equity.
- D) increase total assets.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

29) The payment of an account payable would:

- A) increase owner's equity.
- B) decrease owner's equity.
- C) have no effect on total assets.
- D) have no effect on owner's equity.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

30) Transactions affecting owner's equity include:

- A) owner withdrawals and owner investments.
- B) purchases of assets for cash.
- C) purchases of assets on account.
- D) only owner investments.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

31) Borrowing money from a bank would:

- A) have no effect on owner's equity.
- B) decrease assets.
- C) decrease liabilities.
- D) increase revenues.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

32) Earning a revenue and immediately collecting the related cash would:

- A) decrease total assets.
- B) have no effect on owner's equity.
- C) have no effect on total assets.
- D) increase owner's equity.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

33) Earning a revenue on account would:

- A) have no effect on owner's equity.
- B) increase owner's equity.
- C) decrease owner's equity.
- D) decrease total assets.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

34) Earning a revenue on account would:

- A) increase liabilities.
- B) decrease owner's equity.
- C) increase accounts receivable.
- D) decrease total assets.

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

35) The payment of rent each month for office space would:

- A) increase total assets.
- B) increase owner's equity.
- C) decrease liabilities.
- D) increase expenses.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

36) A cash investment into the business by the owner would:

- A) increase liabilities and increase owner's equity.
- B) increase total assets and decrease owner's equity.
- C) increase owner's equity and increase total assets.
- D) increase total assets and decrease liabilities.

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

37) An owner investment of office furniture into the business would:

- A) decrease owner's equity and decrease liabilities.
- B) increase total assets and increase liabilities.
- C) increase owner's equity and increase total assets.
- D) decrease owner's equity and increase liabilities.

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

38) Purchasing office equipment on account would:

- A) increase total assets and increase liabilities.
- B) increase total assets and decrease owner's equity.
- C) have no effect on total assets or liabilities.
- D) increase liabilities and decrease owner's equity.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

- 39) Purchasing supplies for cash would:
- A) decrease total assets and decrease owner's equity.
 - B) increase total assets and increase liabilities.
 - C) decrease liabilities and decrease total assets.
 - D) have no effect on total assets.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

- 40) Purchasing a building for \$120,000 by paying cash of \$30,000 and obtaining a mortgage for \$90,000 would:

- A) increase assets and increase liabilities by \$90,000.
- B) increase owner's equity by \$90,000.
- C) increase liabilities by \$30,000.
- D) decrease assets and decrease liabilities by \$30,000.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

- 41) Purchasing a building for \$150,000 by paying cash of \$30,000 and obtaining a mortgage for \$120,000 would:

- A) increase assets and liabilities by \$150,000.
- B) increase liabilities by \$120,000.
- C) increase liabilities by \$30,000.
- D) decrease assets and liabilities by \$120,000.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

42) Receiving cash from a customer in payment of an account receivable would:

- A) decrease total assets and increase owner's equity.
- B) increase owner's equity and increase liabilities.
- C) increase total assets and decrease liabilities.
- D) have no effect on total assets or owner's equity.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

43) A cash payment of an account payable would:

- A) decrease total assets and decrease owner's equity.
- B) increase total assets and decrease liabilities.
- C) have no effect on total assets.
- D) decrease liabilities and decrease assets.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

44) A withdrawal of cash for personal use by an owner would:

- A) decrease total assets and decrease owner's equity.
- B) increase owner's equity and increase liabilities.
- C) decrease total assets and increase owner's equity.
- D) increase total assets and decrease owner's equity.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

45) Borrowing money and signing a note payable would:

- A) increase total assets and increase liabilities.
- B) decrease liabilities and increase total assets.
- C) increase liabilities and increase owner's equity.
- D) increase total assets and increase owner's equity.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

46) Receiving cash for services performed the same day would:

- A) increase owner's equity and decrease total assets.
- B) decrease total assets and decrease liabilities.
- C) increase liabilities and increase total assets.
- D) increase owner's equity and have no effect on liabilities.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

47) A business receives its bill for utilities for the current month that it plans to pay next month when the payment is due. This transaction causes:

- A) an increase in both assets and owner's equity.
- B) a decrease in both owner's equity and liabilities.
- C) an increase in both assets and liabilities.
- D) an increase in liabilities and a decrease in owner's equity.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

48) Performing a service on account would:

- A) increase liabilities and decrease total assets.
- B) decrease liabilities and increase total assets.
- C) increase owner's equity and decrease liabilities.
- D) increase total assets and increase owner's equity.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

- 49) Collecting cash on account causes:
- A) assets to increase and owner's equity to decrease.
 - B) assets to increase and liabilities to increase.
 - C) assets to increase and owner's equity to increase.
 - D) no change in total assets.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

- 50) A business acquires a parcel of land by issuing a note payable for \$50,000. This transaction causes:

- A) total assets to increase.
- B) owner's equity to increase.
- C) assets to increase and equity to increase.
- D) liabilities to decrease.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

- 51) Which of the following transactions would increase an asset and increase owner's equity?

- A) payment of a note payable
- B) receipt of cash in payment of an account receivable
- C) owner investment of land into the business
- D) payment of the telephone bill

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

52) Which of the following transactions would increase one asset and decrease another asset?

- A) purchasing equipment for cash
- B) borrowing money from a bank
- C) performing a service and receiving the cash immediately
- D) purchasing office supplies on account

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

53) Which of the following transactions would increase an asset and increase a liability?

- A) payment of an account payable
- B) borrowing money from a bank
- C) an owner investment of cash into the business
- D) purchasing office equipment for cash

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

54) Which of the following transactions would increase one asset, decrease another asset, and increase a liability?

- A) purchasing supplies and equipment on account
- B) paying liabilities incurred last period
- C) owner investment of cash and equipment into the business
- D) purchasing land with a cash down payment and a note payable

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

55) Which of the following transactions would have no effect on total assets, total liabilities, or owner's equity?

- A) payment of a liability
- B) borrowing cash by issuing a note payable
- C) purchasing supplies for cash
- D) purchasing supplies on account

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

56) Determine net income for the period if beginning owner's equity is \$20,000, cash withdrawals by the owner amount to \$7,000, and ending owner's equity is \$37,000.

- A) \$10,000
- B) \$27,000
- C) \$24,000
- D) \$13,000

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Apply

57) If beginning capital was \$25,000, ending capital is \$37,000, and the owner's withdrawals were \$23,000, the amount of net income or net loss for the period was:

- A) net loss of \$35,000.
- B) net income of \$35,000.
- C) net income of \$14,000.
- D) net loss of \$14,000.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Apply

58) Determine cash withdrawals for the period if net income is \$34,000, beginning owner's equity is \$29,000, and ending owner's equity is \$45,000.

- A) \$74,000
- B) \$5,000
- C) \$11,000
- D) \$18,000

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Apply

59) Total assets at the end of the period were \$330,000 and liabilities were 25% of owner's equity. Determine owner's equity at the end of the period.

- A) \$264,000
- B) \$132,000
- C) \$462,000
- D) \$825,000

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Apply

Table 1-3

Ace Builders had the following transactions in June: earned \$4,000 "on account" that will be collected in cash next month; collected \$3,000 from a customer that was owed from a previous month; incurred \$500 of repair expense and paid cash to the repairman; paid \$1,200 cash to a supplier that it owed from the previous month; paid out \$800 in cash withdrawals to the owner.

60) For Ace Builders, what is the combined effect on owner's capital from the June transactions?

- A) Up \$2,700
- B) Up \$3,500
- C) Up \$4,500
- D) Down \$800

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Analyze

61) For Ace Builders, what is the combined effect on cash from the June transactions?

- A) Down \$800
- B) Down \$2,500
- C) Up \$4,500
- D) Up \$500

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Analyze

62) For Ace Builders, how much was the net income or net loss in June?

- A) \$6,500 net income
- B) \$3,500 net income
- C) \$5,300 net income
- D) \$2,500 net loss

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Analyze

Table 1-4

ABC Delivery Service had the following transactions in June: earned \$4,000 cash for services rendered; collected \$2,500 from a customer "on account" for work completed the previous month; paid out \$200 cash for plumbing services; received \$3,500 of supplies and promised to pay one month later; paid out \$1,000 in cash withdrawals to the owner.

63) For ABC Delivery Service, what is the combined effect on owner's capital from the June transactions?

- A) Up \$2,800
- B) Up \$5,300
- C) Up \$1,800
- D) Down \$1,000

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Analyze

64) For ABC Delivery Service, what is the combined effect on cash from the June transactions?

- A) Up \$4,000
- B) Up \$5,300
- C) Up \$1,800
- D) Up \$2,800

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Analyze

65) For ABC Delivery Service, how much was net income or net loss in June?

- A) \$2,800 net income
- B) \$1,800 net income
- C) \$6,300 net loss
- D) \$3,800 net income

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Analyze

Match the following terms and definitions:

- A) earnings estimate
- B) capital
- C) proprietorship
- D) limited-liability partnership
- E) accounting
- F) account receivable
- G) transaction
- H) liability
- I) corporation
- J) expense
- K) revenue
- L) asset
- M) generally accepted accounting principles

66) The system that measures business activities and processes information into reports

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

67) A business owned by shareholders

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

68) Another name for the owner's equity of a proprietorship

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

69) An entity with a single owner

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

70) Guidelines that govern how businesses report their financial statements to the public

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

71) An event that affects the financial position of a particular entity and can be reliably measured

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

72) An increase in owner's equity that is earned by delivering goods or services to customers

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

73) An economic resource that is expected to be of benefit in the future

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

74) An economic obligation payable to an individual or an organization outside of the business

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

75) A decrease in owner's equity that occurs in the course of delivering goods or services to customers

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

Answers: 66) E 67) I 68) B 69) C 70) M 71) G 72) K 73) L 74) H 75) J

For the items listed below, choose the appropriate term to indicate whether the item is an asset, liability, or owner's equity item.

- A) Owner's Equity
- B) Asset
- C) Liability

76) Accounts receivable

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

77) Office supplies

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

78) Truck

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

79) Don Smith, Capital

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

80) Salary payable

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

81) Note payable

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

82) Cash

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

83) Land

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

84) Accounts payable

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

85) Office furniture

Type: MA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

Answers: 76) B 77) B 78) B 79) A 80) C 81) C 82) B 83) B 84) C 85) B

86) Provide the accounting equation.

Answer: $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

87) Determine the expenses for the current period based on the following data:

Net income for the current period	\$55,000
Ending owner's equity	85,000
Beginning owner's equity	49,000
Owner withdrawals	19,000
Revenue for the current period	96,000

Answer: Revenue - net income = expenses

$$\$96,000 - \$55,000 = \$41,000$$

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

88) Determine the expenses for the current period based on the following data:

Net income for the current period	\$15,000
Ending owner's equity	45,000
Beginning owner's equity	40,000
Owner withdrawals	10,000
Revenue for the current period	90,000

Answer: Revenue - net income = expenses

$$\$90,000 - \$15,000 = \$75,000$$

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

89) Selected transactions for Sarah's Kitchen are shown below. State the effect in dollars on the accounting equation of each transaction.

- a) Sarah Cook invests \$20,000 cash into a business known as Sarah's Kitchen.
- b) Sarah purchases kitchen supplies on account for \$500.
- c) Sarah purchases a new oven for \$6,500 cash.
- d) Sarah receives and pays the kitchen's utilities bill amounting to \$425.
- e) Kitchen revenue for the current period amounts to \$2,500. (All revenue transactions involved cash.)

Item	Assets	Liabilities	Owner's Equity
a)			
b)			
c)			
d)			
e)			
Totals			

Answer:

Item	Assets	Liabilities	Owner's Equity
a)	20,000		20,000
b)	500	500	
c)	6,500 (6,500)		
d)	(425)		(425)
e)	2,500		2,500
Totals	22,575	500	22,075

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

90) Selected transactions for Mac's Garage are shown below. State the effect in dollars on the accounting equation of each transaction.

- a) George McGuire invests \$4,000 cash into a business known as Mac's Garage.
- b) George purchases supplies on account for \$300.
- c) George purchases a new welder for \$1,500 cash.
- d) George receives the garage's telephone bill amounting to \$100 to be paid next month.
- e) George withdraws \$200 cash for personal use.
- f) Garage revenue for the current period amounts to \$2,500. (All revenue transactions involved cash.)

Item	Assets	Liabilities	Owner's Equity
a)			
b)			
c)			
d)			
e)			
f)			
Totals			

Answer:

Item	Assets	Liabilities	Owner's Equity
a)	4,000		4,000
b)	300	300	
c)	1,500 (1,500)		
d)		100	(100)
e)	(200)		(200)
f)	2,500		2,500
Totals	6,600	400	6,200

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

91) Assets and liabilities for Stan's Garage at the beginning and end of the current accounting period are as follows:

	January 1	December 31
Total assets	\$450,000	\$690,000
Total liabilities	\$325,000	\$440,000

a) Determine net income or net loss for the current year. The owner did not invest any additional assets during the year and made no withdrawals.

b) Determine net income or net loss for the current year. The owner invested an additional \$100,000 of assets into the business during the year and made no withdrawals.

Answer: a) Owner's equity at the end of the year \$250,000

Owner's equity at the beginning of the year 125,000

Net income \$125,000

b) Owner's equity at the end of the year \$250,000

Owner's equity at the beginning of the year 125,000

Increase in owner's equity 125,000

Owner investment - 100,000

Net income \$25,000

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Apply

92) For each of the following events, indicate the amount by which total assets increased or decreased.

- a) Purchased \$400 of supplies on account.
- b) Earned \$800 of revenue by performing a service for cash.
- c) Received utilities bill for \$500, to be paid in the following period.
- d) Paid salaries to employees of \$5,000.
- e) Purchased equipment for \$1,600 on account.
- f) Purchased equipment for \$5,000 cash.
- g) Collected \$475 from a customer on an account receivable.
- h) Performed \$3,000 of services on account.

Answer:

- a) \$400 increase
- b) \$800 increase
- c) \$0
- d) \$5,000 decrease
- e) \$1,600 increase
- f) \$0
- g) \$0
- h) \$3,000 increase

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

93) For each of the following events, indicate the amount by which liabilities increased or decreased.

- a) Owner invested cash of \$20,000 and equipment valued at \$10,500 into the business.
- b) Purchased \$600 of supplies on account.
- c) Borrowed \$10,000 from the bank, issuing a note payable.
- d) Performed a service for \$1,500 and immediately collected the cash.
- e) Paid the employee salaries of \$1,200 cash.
- f) Purchased equipment for \$550 cash.
- g) Received monthly rent bill of \$1,300, to be paid in the following period.
- h) Performed a service on account for \$2,300.

Answer:

- a) \$0
- b) \$600 increase
- c) \$10,000 increase
- d) \$0
- e) \$0
- f) \$0
- g) \$1,300 increase
- h) \$0

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

94) Following is a list of events for Manning Cleaning for the month of April. Show the effects in dollars of these events on the accounting equation by completing the table below.

- April 1 Owner invested \$10,000 cash and equipment valued at \$25,000 into the business.
 3 Purchased \$5,500 of equipment on account.
 5 Purchased \$400 of supplies for cash.
 10 Bought a truck, paying \$4,000 in cash and signing a note for \$11,000.
 14 Performed services for a customer for \$1,850 cash.
 15 Paid employee wages of \$1,200.
 18 Paid \$2,000 on the equipment purchased on April 3.
 24 Performed services for a customer on account, \$2,500.
 27 Collected \$500 from the customer of April 24.
 30 Owner withdrew \$900 cash for personal use.

Date	Cash	A/R	Supp.	Equip.	Truck	A/P	N/P	Capital
Apr. 1								
3								
5								
10								
14								
15								
18								
24								
27								
30								
Totals								

Answer:

Date	Cash	A/R	Supp.	Equip	Truck	A/P	N/P	Capital
Apr. 1	10,000			25,000				35,000
3				5,500		5,500		
5	(400)		400					
10	(4,000)				15,000		11,000	
14	1,850							1,850
15	(1,200)							(1,200)
18	(2,000)					(2,000)		
24		2,500						2,500
27	500	(500)						
30	(900)							(900)
Total	3,850	2,000	400	30,500	15,000	3,500	11,000	37,250

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

95) Following is a list of events for Sterling Moving for the month of January. Show the effects in dollars of these events on the accounting equation by completing the table below.

- Jan. 1 Owner invested \$30,000 cash into the business.
 3 Purchased \$1,500 of equipment with cash.
 5 Purchased \$400 of supplies on account.
 12 Bought a car, paying \$2,000 in cash and signing a note for \$10,000.
 14 Performed services for a customer for \$1,000 on account.
 15 Paid employee wages of \$600.
 18 Paid \$2,000 on the note payable for the car purchased on Jan. 12.
 24 Performed services for a customer for cash, \$2,500.
 27 Collected \$500 from the customer of Jan. 14.
 30 Owner withdrew \$400 cash for personal use.

Date	Cash	A/R	Supp.	Equip	Car	A/P	N/P	Capital
Jan. 1								
3								
5								
12								
14								
15								
18								
24								
27								
30								
Total								

Answer:

Date	Cash	A/R	Supp.	Equip	Car	A/P	N/P	Capital
Jan. 1	30,000							30,000
3	(1,500)			1,500				
5			400			400		
12	(2,000)				12,000		10,000	
14		1,000						1,000
15	(600)							(600)
18	(2,000)						(2,000)	
24	2,500							2,500
27	500	(500)						
30	(400)							(400)
Total	26,500	500	400	1,500	12,000	400	8,000	32,500

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

96) For each of the following events, indicate the amount by which liabilities increased or decreased.

- a) Owner invested cash of \$25,000 and equipment valued at \$10,500 into the business.
- b) Purchased \$600 of supplies on account.
- c) Borrowed \$10,000 from the bank, issuing a note payable.
- d) Performed a service for \$1,500 and immediately collected the cash.
- e) Paid the employee salaries of \$1,200 cash.
- f) Purchased equipment for \$550 cash.
- g) Received monthly rent bill of \$1,300, to be paid in the following period.
- h) Performed a service on account for \$2,300.

Answer:

- a) \$0
- b) \$600 increase
- c) \$10,000 increase
- d) \$0
- e) \$0
- f) \$0
- g) \$1,300 increase
- h) \$0

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

97) For each of the following events, indicate the amount by which assets increased or decreased.

- a) Owner invested cash of \$25,000 and equipment valued at \$10,500 into the business.
- b) Purchased \$600 of supplies on account.
- c) Borrowed \$10,000 from the bank, issuing a note payable.
- d) Performed a service for \$1,500 and immediately collected the cash.
- e) Paid the employee salaries of \$1,200 cash.
- f) Purchased equipment for \$550 cash.
- g) Received monthly rent bill of \$1,300, to be paid in the following month.
- h) Performed a service on account for \$2,300.

Answer:

- a) \$35,500 increase
- b) \$600 increase
- c) \$10,000 increase
- d) \$1,500 increase
- e) \$1,200 decrease
- f) \$0
- g) \$0
- h) \$2,300 increase

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

98) For each of the following events, indicate the amount by which owner's equity increased or decreased.

- a) Owner invested cash of \$25,000 and equipment valued at \$10,500 into the business.
- b) Purchased \$600 of supplies on account.
- c) Borrowed \$10,000 from the bank, issuing a note payable.
- d) Performed a service for \$1,500 and immediately collected the cash.
- e) Paid the employee salaries of \$1,200 cash.
- f) Purchased equipment for \$550 cash.
- g) Received monthly rent bill of \$1,300, to be paid in the following month.
- h) Performed a service on account for \$2,300.

Answer:

- a) \$35,500 increase
- b) \$0
- c) \$0
- d) \$1,500 increase
- e) \$1,200 decrease
- f) \$0
- g) \$1,300 decrease
- h) \$2,300 increase

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

99) For the following independent situations, determine the amount of net income or net loss.

- a) Revenues for the year were \$200,000 and expenses were \$103,000. The owner withdrew \$40,000 for personal use and made an additional investment of \$30,000 during the year.
- b) Revenues for the year were \$249,000 and expenses were \$136,000. The owner withdrew \$55,000 for personal use and made no additional investments.
- c) Revenues for the year were \$154,000 and expenses were \$189,000. The owner made an additional investment of \$90,000 and withdrew \$67,000 for personal use.
- d) Revenues for the year were \$150,000 and expenses were \$101,000. The owner made no withdrawals during the year but invested \$20,000 cash during the year into the business.

Answer:

- a) \$97,000 net income (\$200,000 - \$103,000)
- b) \$113,000 net income (\$249,000 - \$136,000)
- c) \$35,000 net loss (\$154,000 - \$189,000)
- d) \$49,000 net income (\$150,000 - \$101,000)

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Apply

100) Describe how the accounting equation can be used to analyse business transactions.

Answer: A transaction is an event that affects the financial position of an entity and can be reliably recorded. Transactions affect a business's assets, liabilities and owner's equity.

Therefore, transactions are often analysed in terms of their effect on the accounting equation.

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-4 Use the accounting equation to analyze business transactions

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

Objective 1-5

1) The balance sheet lists all the entity's assets, liabilities, and owner's equity as of a specific date.

Answer: TRUE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

2) An income statement is dated for a period of time such as "For the Year Ended December 31, 2019."

Answer: TRUE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

3) The income statement must be prepared before the statement of owner's equity since net income or net loss is added to or subtracted from the beginning balance in the owner's capital account.

Answer: TRUE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

4) The income statement presents a summary of an entity's revenues and liabilities over a period of time.

Answer: FALSE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

5) The income statement shows how much the cash account either increased or decreased during the period.

Answer: FALSE

Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

6) The financial statement that presents a summary of the assets, liabilities, and owner's equity as of a specific date is the:

A) statement of assets.

B) balance sheet.

C) statement of owner's equity.

D) cash flow statement.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

7) The statement that presents a summary of the revenues and expenses of an entity is called the:

A) statement of owner's equity.

B) statement of financial position.

C) income statement.

D) balance sheet.

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

- 8) The income statement presents a summary of the:
- A) cash inflows and outflows of an entity.
 - B) revenues and expenses of an entity.
 - C) assets and liabilities of an entity.
 - D) changes that occurred in the owner's equity of an entity.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

- 9) Which of the following financial statements reports owner's equity as of the end of the accounting period?

- A) income statement and the balance sheet
- B) cash flow statement and the balance sheet
- C) statement of owner's equity and the balance sheet
- D) cash flow statement and the income statement

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

- 10) Which of the following statements should be prepared before the balance sheet is prepared?

- A) statement of owner's equity
- B) statement of financial position
- C) income statement
- D) statement of owner's equity and income statement

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

11) Assets are reported on the:

- A) income statement.
- B) income statement and balance sheet.
- C) statement of owner's equity.
- D) balance sheet.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

12) Liabilities are reported on the:

- A) statement of owner's equity.
- B) income statement.
- C) statement of owner's equity and the income statement.
- D) balance sheet.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

13) Cash investments by the owner are reported on the:

- A) balance sheet.
- B) income statement.
- C) cash flow statement.
- D) income statement and the balance sheet.

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

Table 1-1

Following is a random list showing the account balances of various assets, liabilities, revenues, and expenses for Spiffy's Garage at December 31, 2019, the end of its first year of operations.

Accounts receivable	\$15,000
Accounts payable	3,500
Salary expense	4,500
Repairs expense	800
Truck	8,500
Equipment	6,300
Notes payable	8,200
Cash	6,800
Supplies expense	1,600
Service revenue	12,800
Gasoline expense	800
Salary payable	2,200

The owner, Spiffy Sloan, invested \$22,600 at the beginning of the year and withdrew \$5,000 during the year for personal use.

14) Refer to Table 1-1. The net income or loss for the year was:

- A) \$12,800.
- B) \$5,100.
- C) \$5,900.
- D) \$7,700.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

15) Refer to Table 1-1. Total assets at December 31, 2019, were:

- A) \$31,600.
- B) \$32,700.
- C) \$36,200.
- D) \$36,600.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

16) Refer to Table 1-1. Owner's equity at December 31, 2019, was:

- A) \$13,900.
- B) \$22,700.
- C) \$22,600.
- D) \$18,700.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

17) Refer to Table 1-1. The statement of owner's equity would show an ending capital balance of:

- A) \$36,600.
- B) \$3,900.
- C) \$22,700.
- D) \$22,600.

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

18) Refer to Table 1-1. Total liabilities at December 31, 2019, were:

- A) \$12,800.
- B) \$13,900.
- C) \$20,600.
- D) \$22,600.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

19) Refer to Table 1-1. Not including the investment, the net change in owner's equity for the year ended December 31, 2019, was:

- A) an increase of \$5,100.
- B) a decrease of \$7,800.
- C) an increase of \$22,700.
- D) an increase of \$100.

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

20) Refer to Table 1-1. Total expenses for the year were:

- A) \$5,300.
- B) \$7,700.
- C) \$7,800.
- D) \$6,900.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

Table 1-2

Following is a list showing the account balances of various assets, liabilities, revenues, and expenses for Tim's Landscaping at December 31, 2019, the end of its first year of operations.

Accounts receivable	\$30,000
Accounts payable	7,000
Salary expense	9,000
Repairs expense	1,600
Truck	17,000
Equipment	12,600
Notes payable	16,400
Cash	13,600
Supplies expense	3,200
Service revenue	25,600
Gasoline expense	1,600
Salary payable	4,400

The owner, Tim Brown, invested \$45,200 during the year and withdrew \$10,000 during the year for personal use.

21) Refer to Table 1-2. The net income or loss for the year was:

- A) \$10,200.
- B) \$25,600.
- C) \$11,800.
- D) \$15,400.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

22) Refer to Table 1-2. The statement of owner's equity would show an ending balance in the Capital account at December 31, 2019, of:

- A) \$73,200.
- B) \$7,800.
- C) \$45,400.
- D) \$45,200.

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

23) Refer to Table 1-2. Not including the investment, the net change in owner's equity for the year ended December 31, 2019, was:

- A) an increase of \$200.
- B) an increase of \$45,400.
- C) an increase of \$10,200.
- D) a decrease of \$15,600.

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

24) Refer to Table 1-2. Total liabilities at December 31, 2019, were:

- A) \$25,600.
- B) \$27,800.
- C) \$41,200.
- D) \$45,200.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

25) Refer to Table 1-2. Total assets at December 31, 2019, were:

- A) \$65,400.
- B) \$72,400.
- C) \$73,200.
- D) \$63,200.

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

26) Refer to Table 1-2. Owner's equity at December 31, 2019, was:

- A) \$26,800.
- B) \$45,400.
- C) \$45,200.
- D) \$37,400.

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

27) Which of the following financial statements reports an increase or decrease in net cash during the time period covered?

- A) Income statement
- B) Trial balance
- C) Statement of owner's equity
- D) Cash flow statement

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

28) Which of the following amounts appears on both the income statement and statement of owner's equity?

- A) Ending capital
- B) Net income
- C) Total revenues
- D) Drawings

Answer: B

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

29) On the financial statements, which line item connects the balance sheet to the statement of cash flows?

- A) Owner's equity (ending balance)
- B) Net income
- C) Total assets
- D) Cash (ending balance)

Answer: D

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

30) The financial statements should be prepared in what order?

- A) Income statement, statement of owner's equity, balance sheet, statement of cash flows
- B) Statement of owner's equity, balance sheet, income statement, statement of cash flows
- C) Balance sheet, statement of owner's equity, income statement, statement of cash flows
- D) Balance sheet, income statement, statement of owner's equity, statement of cash flows

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

31) Each financial statement includes a heading giving three pieces of data. Which of the following items is *not* included in these headings?

- A) Name of the financial statement
- B) Date or time period covered
- C) Name of the preparer of the statement
- D) Name of the business

Answer: C

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

32) Which of the following financial statements uses net income or net loss taken directly from the income statement?

- A) Statement of owner's equity
- B) Statement of cash flow
- C) Balance sheet
- D) Statement of expenditures

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

33) Which of the following financial statements lists the entity's assets, liabilities, and owner's equity as of a specific date?

- A) Balance sheet
- B) Statement of owner's equity
- C) Income statement
- D) Statement of cash flows

Answer: A

Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

34) State whether the following accounts are assets, liabilities or owner's equity.

- a) _____ Equipment
- b) _____ Capital
- c) _____ Supplies
- d) _____ Accounts payable
- e) _____ Accounts receivable
- f) _____ Wages payable
- g) _____ Cash

Answer:

- a) asset
- b) owner's equity
- c) asset
- d) liability
- e) asset
- f) liability
- g) asset

Type: SA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

35) State whether the following accounts would appear on an income statement, balance sheet, or statement of owner's equity.

- a) _____ Equipment
- b) _____ Owner's withdrawals
- c) _____ Utilities expense
- d) _____ Accounts payable
- e) _____ Accounts receivable
- f) _____ Service revenue
- g) _____ Cash
- h) _____ Beginning owner's equity

Answer:

- a) balance sheet
- b) statement of owner's equity
- c) income statement
- d) balance sheet
- e) balance sheet
- f) income statement
- g) balance sheet
- h) statement of owner's equity

Type: SA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Remember

36) Classify each event below as an operating activity, investing activity, or financing activity.

- a) _____ Owner invested cash into the entity.
- b) _____ Purchased equipment for cash.
- c) _____ Paid salaries of employees.
- d) _____ Collected cash on account and from cash customers.
- e) _____ Paid utilities for the current period.
- f) _____ Borrowed money from the bank.
- g) _____ Pay for interest on bank loan.
- h) _____ Owner withdraws cash from the business for personal use.

Answer:

- a) financing activity
- b) investing activity
- c) operating activity
- d) operating activity
- e) operating activity
- f) financing activity
- g) operating activity
- h) financing activity

Type: SA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

37) On January 1, 2019, Brad Thomas invested \$30,000 in Thomas Repairs. During 2019, Brad withdrew \$17,000 for personal use. Thomas Repairs reports the following balances on December 31, 2019:

Accounts receivable	\$9,000
Accounts payable	4,200
Service revenue	25,550
Land	4,000
Rent expense	4,500
Note payable	3,800
Supplies	900
Brad Thomas, Capital, Jan. 1, 2014	0
Salary expense	9,650
Cash	18,500
Brad Thomas, Withdrawals	17,000

Prepare an income statement for the year ended December 31, 2019.

Answer: Thomas Repairs

Income Statement

For the Year Ended December 31, 2019

Revenue:

Service revenue	\$25,550
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Expenses:

Salary expense	\$9,650
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Rent expense	<u>4,500</u>
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Total expenses	<u>14,150</u>
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Net income	<u>\$11,400</u>
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Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

38) On January 1, 2019, Brad Thomas invested \$30,000 in Thomas Repairs. During 2019, Brad withdrew \$17,000 for personal use. Thomas Repairs reports the following balances on December 31, 2019:

Accounts receivable	\$9,000
Accounts payable	4,200
Service revenue	25,550
Land	4,000
Rent expense	4,500
Note payable	3,800
Supplies	900
Brad Thomas, Capital, Jan. 1, 2019	0
Salary expense	9,650
Cash	18,500
Brad Thomas, Withdrawals	17,000

Prepare a balance sheet dated December 31, 2019, for Thomas Repairs.

Answer: Thomas Repairs
Balance Sheet
December 31, 2019

Assets		Liabilities	
Cash	\$18,500	Accounts payable	\$4,200
Accounts receivable	9,000	Note payable	<u>3,800</u>
Supplies	900	Total liabilities	\$8,000
Land	<u>4,000</u>		
		Owner's equity	
		Brad Thomas, Capital	<u>24,400</u>
		Total liabilities and	
Total assets	<u>\$32,400</u>	owner's equity	<u>\$32,400</u>

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

Table 1-2

Following is a list showing the account balances of various assets, liabilities, revenues, and expenses for Tim's Landscaping at December 31, 2019, the end of its first year of operations.

Accounts receivable	\$30,000
Accounts payable	7,000
Salary expense	9,000
Repairs expense	1,600
Truck	17,000
Equipment	12,600
Notes payable	16,400
Cash	13,600
Supplies expense	3,200
Service revenue	25,600
Gasoline expense	1,600
Salary payable	4,400

The owner, Tim Brown, invested \$45,200 during the year and withdrew \$10,000 during the year for personal use.

39) Refer to Table 1-2. Prepare an income statement for Tim's Landscaping for the year ending December 31, 2019, the end of its first year of operations.

Answer: Tim's Landscaping
Income Statement

For the Year Ended December 31, 2019

Revenue:

Service revenue \$25,600

Expenses:

Salary expense \$9,000

Repairs expense 1,600

Supplies expense 3,200

Gasoline expense 1,600

Total expenses 15,400

Net income \$10,200

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

40) Refer to Table 1-2. Prepare a statement of owner's equity for Tim's Landscaping for the year ending December 31, 2019, the end of its first year of operations.

Answer: Tim's Landscaping
Statement of Owner's Equity
For the Year Ended December 31, 2019

Tim Brown, capital, Jan. 1, 2019	\$0
Add: Owner investments during 2019	45,200
Add: Net income for the year	<u>10,200</u>
	55,400
Less: Withdrawals by owner	<u>10,000</u>
Tim Brown capital, Dec. 31, 2019	<u>\$45,400</u>

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

41) Refer to Table 1-2. Prepare a balance sheet dated December 31, 2019, for Tim's Landscaping

Answer: Tim's Landscaping
Balance Sheet
December 31, 2019

Assets		Liabilities	
Cash	\$13,600	Accounts payable	\$7,000
Accounts receivable	30,000	Salary payable	4,400
Truck	17,000	Note payable	<u>16,400</u>
Equipment	<u>12,600</u>	Total liabilities	\$27,800
		Owner's equity	
		Tim Brown, capital	<u>45,400</u>
		Total liabilities and	
Total assets	<u>\$73,200</u>	owner's equity	<u>\$73,200</u>

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

42) Alice Li started Li Design Consultants on December 1, 2019, and invested \$5,000 into the business. On December 12, she rendered services to three clients "on account" with total revenues earned of \$4,500. She then incurred advertising expense on four different websites and promised to pay a total of \$1,600 at a later date. On December 15, she purchased \$900 of office supplies for cash. On December 20, she received \$1,000 in cash payment from her first client and deposited it into the business account. On December 22, she incurred \$2,000 for legal expense and paid cash. On December 31, she made a payment of \$300 to one of the websites that she owed for advertising provided earlier in the month. No withdrawals were taken in December. Prepare an income statement for the month of December, a statement of owner's equity for the month of December, and a balance sheet at December 31, 2019.

Answer: Li Design Consultants
Income Statement
For the Month Ended December 31, 2019

Revenue:		
Service revenue	\$4,500	
Expenses:		
Advertising expense	\$1,600	
Legal expenses	<u>2,000</u>	
Total expenses	<u>3,600</u>	
Net income		<u>\$900</u>

	Li Design Consultants
	Statement of Owner's Equity
	For the Month Ended December 31, 2019
Alice Li, capital, December 1, 2019	\$0
Add: Owner investments during December	5,000
Add: Net income for December	<u>900</u>
	5,900
Less: Withdrawals by owner	<u>0</u>
Alice Li, capital, December 31, 2019	<u>\$5,900</u>

	Li Design Consultants	
	Balance Sheet	
	December 31, 2019	
Assets	Liabilities	
Cash \$2,800	Accounts payable <u>\$ 1,300</u>	
Accounts receivable 3,500	Total liabilities 1,300	
Office supplies <u>900</u>		
	Owner's equity	
	A. Li, Capital <u>5,900</u>	
Total assets <u>\$7,200</u>	Total liabilities and owner's equity <u>\$7,200</u>	

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

43) On January 1, 2019, William Kelly started Kelly's Computer Service by investing \$10,000. On January 3, the business borrowed \$10,000 from a creditor and executed a Note payable with the principal and interest to be due in one year. On January 5, the business purchased \$12,000 of equipment for cash. On January 8, Kelly's rendered service to his first corporate client and earned \$2,500 in cash. On January 12, Kelly's incurred repair expense of \$1,200 and promised to pay the repair contractor the following month. On January 18, Kelly's rendered service to a new client in the amount of \$6,000 "on account" (the client promised to pay the following month). At the end of January, Kelly took a withdrawal of \$1,000. Prepare an income statement for the month of January, a statement of owner's equity for the month of January, and a balance sheet at January 31, 2019.

Answer: Kelly's Computer Service
Income Statement
For the Month Ended January 31, 2019

Revenue:		
Service revenue	\$8,500	
Expenses:		
Repairs expenses	<u>1,200</u>	
Net income		<u>\$7,300</u>

Kelly's Computer Service	
Statement of Owner's Equity	
For the Month Ended January 31, 2019	
William Kelly, capital, January 1, 2019	\$0
Add: Owner investments during January	10,000
Add: Net income for January	<u>7,300</u>
	17,300
Less: Withdrawals by owner	<u>1,000</u>
William Kelly, capital, January 31, 2019	<u>\$16,300</u>

Kelly's Computer Service			
Balance Sheet			
January 31, 2019			
Assets		Liabilities	
Cash	\$9,500	Accounts payable	\$1,200
Accounts receivable	6,000	Notes payable	<u>10,000</u>
Equipment	<u>12,000</u>	Total liabilities	11,200
		Owner's equity	
		W. Kelly, Capital	<u>16,300</u>
Total assets	<u>\$27,500</u>	Total liabilities and owner's equity	<u>\$27,500</u>

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

44) Scott's Camera Shop started 2019 with total assets of \$80,000 and total liabilities of \$40,000. During the year the business earned revenues of \$120,000 and incurred expenses of \$70,000. Scott made an additional \$15,000 capital contribution during the year, and made withdrawals of \$60,000. Prepare a statement of owner's equity for 2019.

Answer: Scott's Camera Shop
 Statement of Owner's Equity
 For the Year Ended December 31, 2019

Scott capital, January 1	\$40,000
Add: Investment by owner	15,000
Net income	<u>50,000</u>
	105,000
Deduct: Withdrawals	<u>(60,000)</u>
Scott capital, December 31	<u>\$45,000</u>

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

45) Your best friend has asked you to review the financial status of her company before she goes to the bank to request a loan. Answer the following questions:

1) What will you need to review in order to make a sound decision?

2) What will the bank be looking for?

Answer: 1) A decision maker would like to have access to all the financial statements of a company for several years, including the income statement, balance sheet, statement of owner's equity, and cash flow statement.

2) Specifically, the bank will be looking at the company's ability to repay the loan. It will look at the amount of income generated by the company for the past several years as well as whether or not it has been increasing or decreasing. The amount of debt already owed by the company will also be an issue. The bank would like to see that owner's equity exceeds total liabilities at the time of the loan request. Also, the owner's withdrawals should not exceed the net income in any given period.

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

Table 2-1

The following is a list of the accounts and their balances appearing in the ledger of Henry Garage Repairs as of December 31, 2019, the company's year end. The accounts are in alphabetical order and have normal balances.

Accounts payable	\$450
Accounts receivable	1,250
Cash	400
Equipment	12,600
Gasoline expense	600
Ian Henry, Capital	6,600
Ian Henry, Withdrawals	500
Notes payable	11,000
Rent expense	1,200
Repairs expense	650
Salary expense	700
Salary payable	100
Service revenue	8,250
Supplies	200
Supplies expense	300
Truck	8,000

46) Refer to Table 2-1. Prepare a Statement of Owner's Equity for Henry Garage Repairs for the year ended December 31, 2019. Assume the capital amount did not change since January 1, 2019.

Answer: Henry Garage Repairs
 Statement of Owner's Equity
 For the Year Ended December 31, 2019

Ian Henry, Capital January 1, 2019	\$6,600
Add: Net income for the year	<u>4,800</u>
	11,400
Less: Withdrawal by owner	<u>500</u>
Ian Henry, Capital December 31, 2019	<u>\$10,900</u>

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

47) Refer to Table 2-1. Prepare an Income statement for Henry Garage Repairs for the year ended December 31, 2019.

Answer: Henry Garage Repairs

Income Statement

For the Year Ended December 31, 2019

Service revenue		\$8,250
Gasoline expense	\$600	
Rent expense	1,200	
Repairs expense	650	
Salary expense	700	
Supplies expense	<u>300</u>	
Total expenses		<u>3,450</u>
Net income		<u><u>\$4,800</u></u>

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

Table 2-2

The following is a list of the accounts and their balances appearing in the ledger of Martin Mann Garage as of December 31, 2019, the company's year end. The accounts are in alphabetical order and have normal balances.

Accounts payable	1,350
Accounts receivable	3,750
Cash	1,200
Equipment	37,800
Gasoline expense	1,800
Martin Mann, Capital	19,800
Martin Mann, Withdrawals	1,500
Notes payable	33,000
Rent expense	3,600
Repairs expense	1,950
Salary expense	2,100
Salary payable	300
Service revenue	24,750
Supplies	600
Supplies expense	900
Truck	24,000

48) Refer to Table 2-2. Prepare an Income statement for Martin Mann Garage for the year ended December 31, 2019.

Answer: Martin Mann Garage

Income Statement

For the Year Ended December 31, 2019

Service revenue		\$24,750
Gasoline expense	\$1,800	
Rent expense	3,600	
Repairs expense	1,950	
Salary expense	2,100	
Supplies expense	<u>900</u>	
Total expenses		<u>10,350</u>
Net income		<u>\$14,400</u>

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

49) Refer to Table 2-2. Prepare a Statement of Owner's Equity for Martin Mann Garage for the year ended December 31, 2019. Assume the capital amount did not change since January 1, 2019.

Answer: Martin Mann Garage
Statement of Owner's Equity
for the year ended December 31, 2019

Martin Mann, Capital January 1, 2019	\$19,800
Add: Net income for the year	<u>14,400</u>
	34,200
Less: Withdrawal by owner	<u>1,500</u>
Martin Mann, Capital December 31, 2019	<u>\$32,700</u>

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Procedural

Cognitive Taxon.: Apply

50) Prepare a balance sheet dated December 31, 2019, for Canfield Enterprises based on the following transactions completed during 2019.

- a) Marilyn Canfield invested \$16,000 cash and equipment valued at \$6,000 into the business.
- b) Purchased \$500 of supplies on account.
- c) Purchased \$2,000 of equipment for cash.
- d) Purchased a building by issuing a \$10,000 note.

Answer: Canfield Enterprises
Balance Sheet
December 31, 2019

Assets		Liabilities	
Cash	\$14,000	Accounts payable	\$500
Supplies	500	Note payable	<u>10,000</u>
Equipment	8,000	Total liabilities	10,500
Building	<u>10,000</u>		
		Owner's equity	
		Marilyn Canfield, Capital <u>22,000</u>	
Total assets	<u>\$32,500</u>	Total liabilities and owners' equity	<u>\$32,500</u>

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Apply

51) Following is a list of events for Ester's Accounting for the month of November. Show the effects in dollars of these events on the accounting equation by completing the table below.

- Nov. 1 Owner invested \$8,000 cash and equipment valued at \$12,000 into the business.
 3 Purchased \$2,500 of equipment on account.
 5 Purchased \$200 of supplies for cash.
 10 Bought a truck, paying \$2,000 in cash and signing a note for \$18,000.
 14 Performed services for a customer for \$4,850 cash.
 15 Paid employee wages of \$1,800.
 18 Paid \$2,000 on the equipment purchased on Nov 3.
 22 Paid the November utilities, \$300.
 24 Performed services for a customer on account, \$2,000.
 27 Collected \$500 from the customer of Nov 24.
 30 Owner withdrew \$600 cash for personal use.

Date	Cash	A/R	Supp.	Equip	Truck	A/P	N/P	Capital
Nov. 1								
3								
5								
10								
14								
15								
18								
22								
24								
27								
30								
Total								

Using the information in the table above, prepare an Income statement for Ester 's Accounting for the month ended November 30, 2019.

Answer:

Date	Cash	A/R	Supp.	Equip	Truck	A/P	N/P	Capital
Nov. 1	8,000			12,000				20,000
3				2,500		2,500		
5	(200)		200					
10	(2,000)				20,000		18,000	
14	4,850							4,850
15	(1,800)							(1,800)
18	(2,000)					(2,000)		
22	(300)							(300)
24		2,000						2,000
27	500	(500)						
30	(600)							(600)
Total	6,450	1,500	200	14,500	20,000	500	18,000	24,150

Ester 's Accounting
Income Statement
For the Month Ended November 30, 2019

Service revenue	\$6,850
Expense	
Wage expense	\$1,800
Utilities expense	<u>300</u>
Total expenses	<u>2,100</u>
Net income	<u>\$4,750</u>

Type: ES

CPA Competency: 1.3.1 Prepares financial statements

Objective: 1-5 Prepare financial statements

Knowledge Taxon.: Conceptual

Cognitive Taxon.: Understand

Objective 1-6

1) Private Corporations can follow the ASPE or IFRS when preparing financial statements.

Answer: TRUE

Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-6 Briefly explain the different accounting standards

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

2) Public corporations must follow IFRS when preparing financial statements.

Answer: TRUE

Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-6 Briefly explain the different accounting standards

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

3) ASPE is included in the CPA Canada Handbook while IFRS is included in the International Handbook.

Answer: FALSE

Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-6 Briefly explain the different accounting standards

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

4) What classifications of Canadian corporations are required to use International Financial Reporting Standards (IFRS)?

A) publicly accountable enterprises

B) all companies

C) private companies

D) none

Answer: A

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-6 Briefly explain the different accounting standards

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

5) Publicly accountable enterprises, generally speaking, are publicly traded or for which a strong public interest exists.

Answer: TRUE

Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-6 Briefly explain the different accounting standards

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

6) Both IFRS and ASPE:

- A) provide the detailed accounting treatment for every business transaction.
- B) are principles based.
- C) are specific guidelines that never require professional interpretation.
- D) are designed to meet the needs of publicly accountable enterprises in Canada.

Answer: B

Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-6 Briefly explain the different accounting standards

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

7) Why has Canada, along with most other countries, adopted International Financial Reporting Standards?

Answer: Many companies do business internationally and also seek to raise capital around the globe. For investors, it is difficult to assess and compare the financial statements of companies that have been prepared using different accounting standards. To address the concerns of international investors, regulatory groups and other interested parties, International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board have recently been adopted by or are in the process of being adopted by most of the industrialized countries of the world. Financial statements prepared under a common set of accounting standards (IFRS) will be more useful to decision makers around the globe.

Type: ES

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-6 Briefly explain the different accounting standards

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

8) Why were Accounting Standards for Private Enterprises (ASPE) implemented in Canada?

Answer: The IFRS standards are much more complex than many Canadian businesses require in preparing their financial statements. Most Canadian businesses are small to medium in size and are privately owned. The most significant users of their financial information are their creditors (likely their bank) and the government (for computing income taxes and sales taxes).

Consequently, a second set of accounting standards, Accounting Standards for Private Enterprises, was developed for these types of businesses.

Type: ES

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-6 Briefly explain the different accounting standards

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

Matching quiz - Multiple Objectives

Match the assumption, principle, or constraint description with the appropriate term.

- A) going-concern assumption
- B) understandability characteristic
- C) stable-monetary unit assumption
- D) relevance principle
- E) economic-entity assumption
- F) recognition principle
- G) reliability characteristic
- H) materiality constraint
- I) cost/benefit constraint
- J) cost principle of measurement

1) Benefits of the information produced by an accounting system must be greater than the costs

Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

2) Amounts may be ignored if the effect on a decision maker's decision is not significant

Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

3) Transactions are recorded based on the cash amount received or paid

Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

4) Transactions are expressed using units of money

Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

5) Assumes that a business is going to continue operations indefinitely

Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

6) Business must keep its accounting records separate from its owner's accounting records

Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 1-3 Describe some concepts and principles of accounting

Knowledge Taxon.: Factual

Cognitive Taxon.: Remember

Answers: 1) I 2) H 3) J 4) C 5) A 6) E