CHAPTER 1

# ACCOUNTING IN ACTION

### Summary of Questions by STUDY Objectives and Bloom’s Taxonomy

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Item | SO | BT | Item | SO | BT | Item | SO | BT | Item | SO | BT | Item | SO | BT |
| True-False Statements | | | | | | | | | | | | | | |
| 1. | 1 | K | 11. | 2 | K | 21. | 2 | K | 31. | 3 | K | 41. | 3 | K |
| 2. | 1 | K | 12. | 2 | K | 22. | 2 | K | 32. | 3 | K | 42. | 3 | K |
| 3. | 1 | K | 13. | 2 | K | 23. | 2 | K | 33. | 3 | K | 43. | 4 | K |
| 4. | 1 | K | 14. | 2 | C | 24. | 2 | C | 34. | 3 | C | 44. | 4 | K |
| 5. | 1 | K | 15. | 2 | C | 25. | 2 | K | 35. | 3 | K | 45. | 4 | C |
| 6. | 1 | K | 16. | 2 | C | 26. | 2 | C | 36. | 3 | K | 46. | 4 | C |
| 7. | 1 | K | 17. | 2 | K | 27. | 2 | K | 37. | 3 | C | 47. | 4 | C |
| 8. | 1 | C | 18. | 2 | K | 28. | 2 | C | 38. | 3 | K | 48. | 4 | K |
| 9. | 1 | C | 19. | 2 | K | 29. | 3 | C | 39. | 3 | K | 49. | 5 | C |
| 10. | 2 | K | 20. | 2 | C | 30. | 3 | K | 40. | 3 | K |  |  |  |
| Multiple Choice Questions | | | | | | | | | | | | | | |
| 50. | 1 | K | 66. | 2 | C | 82. | 3 | K | 98. | 4 | K | 114. | 5 | K |
| 51. | 1 | K | 67. | 2 | K | 83. | 3 | K | 99. | 4 | C | 115. | 5 | C |
| 52. | 1 | K | 68. | 2 | K | 84. | 3 | K | 100. | 5 | C | 116. | 5 | C |
| 53. | 1 | C | 69. | 2,4 | K | 85. | 3 | C | 101. | 5 | C | 117. | 5 | K |
| 54. | 1 | K | 70. | 2,4 | C | 86. | 3 | K | 102. | 5 | C | 118. | 6 | C |
| 55. | 2 | K | 71. | 2,4 | C | 87. | 3 | C | 103. | 5 | C | 119. | 6 | C |
| 56. | 2 | K | 72. | 3 | C | 88. | 3 | C | 104. | 5 | C | 120. | 6 | K |
| 57. | 2 | K | 73. | 3 | C | 89. | 3 | C | 105. | 5 | C | 121. | 6 | AP |
| 58. | 2 | C | 74. | 3 | K | 90. | 3 | C | 106. | 5 | AP | 122. | 6 | AP |
| 59. | 2 | C | 75. | 3 | C | 91. | 3 | C | 107. | 5 | AP | 123. | 6 | AP |
| 60. | 2 | K | 76. | 3 | C | 92. | 3 | K | 108. | 5 | C | 124. | 6 | K |
| 61. | 2 | K | 77. | 3 | K | 93. | 3 | C | 109. | 5 | C | 125. | 6 | C |
| 62. | 2 | C | 78. | 3 | AP | 94. | 3 | K | 110. | 5 | C | 126. | 6 | K |
| 63. | 2 | C | 79. | 3 | K | 95. | 3 | K | 111. | 5 | C | 127. | 6 | C |
| 64. | 2 | K | 80. | 3 | C | 96. | 3,6 | C | 112. | 5 | C | 128. | 6 | K |
| 65. | 2 | K | 81. | 3 | C | 97. | 4 | K | 113. | 5 | C |  |  |  |
| Matching Questions | | | | | | | | | | | | | | |
| 129. | 1,2,3,5 | K |  |  |  |  |  |  |  |  |  |  |  |  |

### Note: K = Knowledge C = Comprehension AP = Application

### SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Item | Type | Item | Type | Item | Type | Item | Type | Item | Type | Item | Type | Item | Type |
| **Study Objective 1** | | | | | | | | | | | | | |
| 1. | TF | 4. | TF | 7. | TF | 50. | MC | 53. | MC |  |  |  |  |
| 2. | TF | 5. | TF | 8. | TF | 51. | MC | 54. | MC |  |  |  |  |
| 3. | TF | 6. | TF | 9. | TF | 52. | MC | 129. | Ma |  |  |  |  |
| Study Objective 2 | | | | | | | | | | | | | |
| 10. | TF | 16. | TF | 22. | TF | 28. | TF | 60. | MC | 66. | MC | 129. | Ma |
| 11. | TF | 17. | TF | 23. | TF | 55. | MC | 61. | MC | 67. | MC |  |  |
| 12. | TF | 18. | TF | 24. | TF | 56. | MC | 62. | MC | 68. | MC |  |  |
| 13. | TF | 19. | TF | 25. | TF | 57. | MC | 63. | MC | 69. | MC |  |  |
| 14. | TF | 20. | TF | 26. | TF | 58. | MC | 64. | MC | 70. | MC |  |  |
| 15. | TF | 21. | TF | 27. | TF | 59. | MC | 65. | MC | 71. | MC |  |  |
| **Study Objective 3** | | | | | | | | | | | | | |
| 29. | TF | 35. | TF | 41. | TF | 76. | MC | 82. | MC | 88. | MC | 94. | MC |
| 30. | TF | 36. | TF | 42. | TF | 77. | MC | 83. | MC | 89. | MC | 95. | MC |
| 31. | TF | 37. | TF | 72. | MC | 78. | MC | 84. | MC | 90. | MC | 96. | MC |
| 32. | TF | 38. | TF | 73. | MC | 79. | MC | 85. | MC | 91. | MC | 129. | Ma |
| 33. | TF | 39. | TF | 74. | MC | 80. | MC | 86. | MC | 92. | MC |  |  |
| 34. | TF | 40. | TF | 75. | MC | 81. | MC | 87. | MC | 93. | MC |  |  |
| **Study Objective 4** | | | | | | | | | | | | | |
| 43. | TF | 45. | TF | 47. | TF | 69. | MC | 71. | MC | 98. | MC |  |  |
| 44. | TF | 46. | TF | 48. | TF | 70. | MC | 97. | MC | 99. | MC |  |  |
| **Study Objective 5** | | | | | | | | | | | | | |
| 49. | TF | 102. | MC | 105. | MC | 108. | MC | 111. | MC | 114. | MC | 117. | MC |
| 100. | MC | 103. | MC | 106. | MC | 109. | MC | 112. | MC | 115. | MC | 129. | Ma |
| 101. | MC | 104. | MC | 107. | MC | 110. | MC | 113. | MC | 116. | MC |  |  |
| **Study Objective 6** | | | | | | | | | | | | | |
| 118. | MC | 120. | MC | 122. | MC | 124. | MC | 126. | MC | 128. | MC |  |  |
| 119. | MC | 121. | MC | 123. | MC | 125. | MC | 127. | MC |  |  |  |  |

Note: TF = True-False MC = Multiple Choice Ma = Matching

### Summary of Questions by lEVEL OF dIFFICULTY (LOD)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Item | SO | LOD | Item | SO | LOD | Item | SO | LOD | Item | SO | LOD | Item | SO | LOD |
| True-False Statements | | | | | | | | | | | | | | |
| 1. | 1 | E | 11. | 2 | E | 21. | 2 | E | 31. | 3 | E | 41. | 3 | E |
| 2. | 1 | E | 12. | 2 | E | 22. | 2 | E | 32. | 3 | E | 42. | 3 | E |
| 3. | 1 | E | 13. | 2 | E | 23. | 2 | E | 33. | 3 | E | 43. | 4 | E |
| 4. | 1 | E | 14. | 2 | M | 24. | 2 | M | 34. | 3 | M | 44. | 4 | E |
| 5. | 1 | E | 15. | 2 | M | 25. | 2 | E | 35. | 3 | E | 45. | 4 | M |
| 6. | 1 | E | 16. | 2 | M | 26. | 2 | E | 36. | 3 | E | 46. | 4 | E |
| 7. | 1 | E | 17. | 2 | E | 27. | 2 | E | 37. | 3 | M | 47. | 4 | M |
| 8. | 1 | E | 18. | 2 | E | 28. | 2 | E | 38. | 3 | E | 48. | 4 | E |
| 9. | 1 | M | 19. | 2 | M | 29. | 3 | E | 39. | 3 | E | 49. | 5 | M |
| 10. | 2 | E | 20. | 2 | M | 30. | 3 | E | 40. | 3 | E |  |  |  |
| Multiple Choice Questions | | | | | | | | | | | | | | |
| 50. | 1 | E | 66. | 2 | E | 82. | 3 | E | 98. | 4 | E | 114. | 5 | E |
| 51. | 1 | E | 67. | 2 | E | 83. | 3 | M | 99. | 4 | E | 115. | 5 | E |
| 52. | 1 | E | 68. | 2 | E | 84. | 3 | E | 100. | 5 | E | 116. | 5 | M |
| 53. | 1 | E | 69. | 2,4 | M | 85. | 3 | E | 101. | 5 | E | 117. | 5 | E |
| 54. | 1 | E | 70. | 2,4 | E | 86. | 3 | M | 102. | 5 | E | 118. | 6 | M |
| 55. | 2 | E | 71. | 2,4 | E | 87. | 3 | M | 103. | 5 | M | 119. | 6 | M |
| 56. | 2 | E | 72. | 3 | M | 88. | 3 | E | 104. | 5 | E | 120. | 6 | M |
| 57. | 2 | M | 73. | 3 | M | 89. | 3 | E | 105. | 5 | E | 121. | 6 | E |
| 58. | 2 | M | 74. | 3 | E | 90. | 3 | E | 106. | 5 | M | 122. | 6 | E |
| 59. | 2 | E | 75. | 3 | M | 91. | 3 | E | 107. | 5 | E | 123. | 6 | E |
| 60. | 2 | E | 76. | 3 | M | 92. | 3 | E | 108. | 5 | M | 124. | 6 | E |
| 61. | 2 | E | 77. | 3 | E | 93. | 3 | E | 109. | 5 | E | 125. | 6 | E |
| 62. | 2 | M | 78. | 3 | E | 94. | 3 | E | 110. | 5 | E | 126. | 6 | E |
| 63. | 2 | M | 79. | 3 | E | 95. | 3 | E | 111. | 5 | E | 127. | 6 | M |
| 64. | 2 | E | 80. | 3 | M | 96. | 3,6 | E | 112. | 5 | M | 128. | 6 | E |
| 65. | 2 | E | 81. | 3 | E | 97. | 4 | E | 113. | 5 | M |  |  |  |
| Matching Questions | | | | | | | | | | | | | | |
| 129. | 1,2,3,5 | E |  |  |  |  |  |  |  |  |  |  |  |  |

Note: E = Easy M = Medium H=Hard

### CHAPTER STUDY OBJECTIVES

1. ***Identify the use and users of accounting and the objective of financial reporting.*** Accounting is the information system that identifies, records, and communicates the economic events of an organization to a wide variety of interested users. Good accounting is important to people both inside and outside the organization. Internal users, such as management, use accounting information to plan, control, and evaluate business operations. External users include investors and creditors, among others. Accounting data are used by investors (owners or potential owners) to decide whether to buy, hold, or sell their financial interests. Creditors (suppliers and bankers) evaluate the risks of granting credit or lending money based on the accounting information. The objective of financial reporting is to provide useful information to the investors and creditors who make these decisions. Users need information about the business’s ability to earn a profit and generate cash. For our economic system to function smoothly, reliable and ethical accounting and financial reporting are critical.

2. ***Compare different forms of business organizations and explain how Canadian accounting standards apply to these organizations.*** The most common examples of business organizations are proprietorships, partnerships, and corporations. Generally accepted accounting principles are a common set of guidelines that are used to prepare and report accounting information. In Canada, there are two sets of standards for profit-oriented businesses. Publicly accountable enterprises follow International Financial Reporting Standards (IFRS) and private enterprises have the choice of following IFRS or Accounting Standards for Private Enterprises (ASPE).

The economic entity concept requires the business activities of each economic entity to be kept separate from the activities of its owner and other economic entities. The going concern assumption presumes that a business will continue operations for enough time to use its assets for their intended purpose and to fulfill its commitments.

3. ***Describe the components of the financial statements and explain the accounting equation.*** Assets, liabilities, and owner’s equity are reported in the balance sheet. Assets are resources owned or controlled by a business that are expected to provide future services or benefits. Liabilities are current obligations arising from past events to make future payments of assets or services. Owner’s equity is the owner’s claim on the company’s assets and is equal to total assets minus total liabilities. The balance sheet is based on the accounting equation: Assets = Liabilities + Owner’s Equity.

The income statement reports the profit or loss for a specified period of time. Profit is equal to revenues minus expenses. Revenues are the increase in assets, or decrease in liabilities, that result from business activities that are done to earn profit. Expenses are the cost of assets consumed or services used in a company’s ordinary business activities. They are decreases in assets or increases in liabilities, excluding withdrawals made by the owners, and result in a decrease to owner’s equity.

The statement of owner’s equity summarizes the changes in owner’s equity during the period. Owner’s equity is increased by investments by the owner and profits. It is decreased by drawings and losses. Investments are contributions of cash or other assets by owners. Drawings are withdrawals of cash or other assets from the business for the owner’s personal use. Owner’s equity in a partnership is referred to as partners’ equity and in a corporation as shareholders’ equity.

A cash flow statement summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

4. ***Determine what events are recognized in the financial statements and how the events are measured.*** Only events that cause changes in assets, liabilities, or owner’s equity are recorded. Recognition is the process of recording items and measurement is the process of determining the amount that should be recognized. The cost principle states that assets should be recorded at their historical (original) cost. Fair value may be a more appropriate measure for certain types of assets. Generally fair value is the amount the asset could be sold for in the market. The monetary unit assumption requires that only transaction data that can be expressed as an amount of money be included in the accounting records, and it assumes that the monetary unit is stable.

5. ***Analyze the effects of business transactions on the accounting equation.*** Each business transaction must have a dual effect on the accounting equation. For example, if an individual asset is increased, there must be a corresponding (1) decrease in another asset, (2) increase in a liability, and/or (3) increase in owner’s equity.

6. ***Prepare financial statements.*** The income statement is prepared first. Expenses are deducted from revenues to calculate the profit or loss for a specific period of time. Then the statement of owner’s equity is prepared using the profit or loss reported in the income statement. The profit is added to (losses are deducted from) the owner’s equity at the beginning of the period. Drawings are then deducted to calculate owner’s equity at the end of the period. A balance sheet reports the assets, liabilities, and owner’s equity of a business as at the end of the accounting period. The owner’s equity at the end of period, as calculated in the statement of owner’s equity, is reported in the balance sheet in the owner’s equity section.

### TRUE-FALSE STATEMENTS

1. Accounting is the information system that identifies, records, and communicates the economic events of an organization to a wide variety of interested users.

2. A working knowledge of accounting can be useful to doctors or lawyers.

3. The main objective of financial statements is to provide useful information to management.

4. Employees are an example of an external user.

5. Creditors are an example of an internal user of accounting information.

6. Accounting information is used only by external users with a direct financial interest in a company.

7. Ethics are critical in the preparation of accounting information.

8. Only the accountants should be concerned with ethics when the financial statements are being prepared.

9. In a situation with an ethical consideration, there is only one ethical course of action which can be followed.

10. In a proprietorship, there may be 2 or more owners.

11. One of the disadvantages of a proprietorship is that there is unlimited liability for the owner.

12. Under the proprietorship form of business organization, no distinction is made between the business as an economic unit and its owner.

13. A partnership must have at least 2 people in the partnership.

14. In a partnership, all of the partners will generally have unlimited liability for the debts of the partnerships.

15. A corporation may only be formed under the federal legislation.

16. A corporation is only subject to the federal laws of corporations.

17. A corporation may be formed under either the provincial legislation or the federal legislation.

18. A corporation’s ownership is divided into transferable shares.

19. One of the main advantages of a corporation is the limit of liability for the shareholders of the company.

20. An advantage of the corporation is that the shares of the corporation are easily transferable.

21. A private company is one that issues shares to the public.

22. GAAP stands for Generally Accepted Accounting Principles.

23. In Canada, the main standard setting board is the Accounting Standards Board.

24. Companies incorporated under provincial legislation report under ASPE and companies incorporated under federal legislation report under IFRS.

25. Publicly Traded Corporations can choose to report under either ASPE or IFRS.

26. Both IFRS and ASPE are considered “principles-based” as opposed to “rules-based” standards.

27. The going concern assumption is the assumption that a company will continue to operate in the foreseeable future.

28. The economic entity concept requires that an entity’s business activities be combined with the activities of its owner for financial reporting purposes.

29. Assets are current obligations, arising from past events, to make a future payment or to provide services.

30. Liabilities are the resources owned by a business that are expected to provide future services or benefits.

31. Accounts payable is the asset created when a company sells services or products to customers who promise to pay cash in the future.

32. An obligation to pay cash to a supplier in the future is called accounts payable.

33. The owner’s claim on the assets of the company is known as owner’s equity.

34. Owner’s claims to total business assets take precedence over the claims of creditors because owners invest assets in the business and are liable for losses.

35. Expenses are the costs of assets that are consumed or services used in the ordinary business activities.

36. A balance sheet presents the revenues and expenses, and the resulting profit or loss for a specific period of time.

37. Profit results when a company’s expenses are higher than its revenues.

38. A balance sheet reports the assets, liabilities, and owner’s equity at a specific date.

39. An income statement will give the answer to the question – “where did all the cash get used during this month?”

40. A cash flow statement is organized into three categories, operating, financing and investing activities of the company.

41. Revenues decrease owner’s equity and expenses increase owner’s equity.

42. A Balance Sheet can also be called a Statement of Financial Position.

43. Recognition is the process of recording a transaction in the accounting records.

44. Measurement is the process of determining the amount that should be recognized.

45. Cost value is the amount of the consideration that would be agreed upon in an arm’s-length transaction between knowledgeable, willing parties who are under no compulsion to act.

46. The cost and fair value of an asset are the same at the time of acquisition and in all subsequent periods.

47. The monetary unit assumption assumes that all transactions will take place in Canadian dollars.

48. Sometimes Canadian companies will report their results in U.S. dollars.

49. An accounting transaction occurs when assets, liabilities, or owner’s equity items change as the result of some economic event.

##### ANSWERS TO TRUE- FALSE STATEMENTS

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** |
| 1. | T | 11. | T | 21. | F | 31. | F | 41. | F |
| 2. | T | 12. | F | 22. | T | 32. | T | 42. | T |
| 3. | F | 13. | T | 23. | T | 33. | T | 43. | T |
| 4. | F | 14. | T | 24. | F | 34. | F | 44. | T |
| 5. | F | 15. | F | 25. | F | 35. | T | 45. | F |
| 6. | F | 16. | F | 26. | T | 36. | F | 46. | F |
| 7. | T | 17. | T | 27. | T | 37. | F | 47. | F |
| 8. | F | 18. | T | 28. | F | 38. | T | 48. | T |
| 9. | F | 19. | T | 29. | F | 39. | F | 49. | T |
| 10. | F | 20. | T | 30. | F | 40. | T |  |  |

### MULTIPLE CHOICE QUESTIONS

50. An external user could be

a. employees.

b. management.

c. Canada Revenue Agency.

d. the human resource director.

51. An external user would NOT include

a. A creditor of the company.

b. Canada Revenue Agency.

c. An employee.

d. The company’s bank.

52. Which of the following would NOT be considered an internal user of accounting data for the ABC Company?

a. President of the company

b. Production manager

c. Merchandise inventory clerk

d. President of the employees' labour union

53. All of the following are steps used to analyze ethical dilemmas EXCEPT

a. using the organization’s code of ethics to identify ethical situations.

b. using personal ethics to identify ethical situations.

c. identifying potential stakeholders.

d. discussing the ethical dilemma with co-workers.

54. The main objective of the financial statements is

a. to show the profit of a company.

b. to allow customers to determine whether a company will honour its product warranties.

c. to provide useful information to investors and creditors to make decisions about a business.

d. to determine how many employees the company can afford to hire each year.

55. The proprietorship form of business organization

a. must have at least three owners in most provinces.

b. represents the largest number of businesses in Canada.

c. combines the records of the business with the personal records of the owner.

d. is characterized by a legal distinction between the business as an economic unit and the owner.

56. A business organized as a corporation

a. is not a separate legal entity in most provinces.

b. requires that shareholders be personally liable for the debts of the business.

c. is owned by its shareholders.

d. terminates when one of its original shareholders dies.

57. The partnership form of business organization

a. is a separate legal entity.

b. is a common form of organization for service-type businesses.

c. enjoys an unlimited life.

d. has limited liability.

58. Which of the following is NOT an advantage of the corporate form of business organization?

a. limited liability of shareholders

b. transferability of ownership

c. unlimited personal liability for shareholders

d. unlimited life

59. Judy and Marilyn met at law school and decide to start a small law practice after graduation. They agree to split revenues and expenses evenly. The most common form of business organization for a business such as this would be a(n)

a. non profit organization.

b. partnership.

c. corporation.

d. proprietorship.

60. Which of the following forms of business organizations typically have their shares listed on the Toronto Stock Exchange?

a. Proprietorships

b. Private companies

c. Public companies

d. Partnerships

61. Which of the following is true regarding the corporate form of business organization?

a. Corporations are the most prevalent form of business organization.

b. Corporate businesses are generally smaller in size than partnerships and proprietor-ships.

c. The revenues of corporations are greater than the combined revenues of partnerships and proprietorships.

d. Corporations are separate legal entities organized exclusively under federal law.

62. Canadian Accounting Standards allow a choice of whether or not to use International Financial Reporting Standards for which type of company?

a. Public companies

b. Only small private companies

c. Banks

d. All private companies in Canada

63. ASPE requires less information on the financial statements of private companies than IFRS requires because

a. private companies are smaller than public companies.

b. users of private company financial statements have the ability to obtain additional information from the company if required.

c. public companies have their information available on the internet.

d. public companies may report in different foreign currencies.

64. Generally accepted accounting principles are

a. income tax regulations.

b. standards that indicate how to report economic events.

c. theories that are based on physical laws of the universe.

d. principles that have been proven correct by academic researchers.

65. GAAP stands for

a. Generally Accepted Auditing Procedures.

b. Generally Accepted Accounting Principles.

c. Generally Accepted Auditing Principles.

d. Generally Accepted Accounting Procedures.

66. Which of the following would violate the economic entity concept?

a. reporting amounts owed to the company’s suppliers as a liability on the balance sheet.

b. reporting equipment owned and used in the business as an asset in the balance sheet.

c. reporting withdrawals by the owner as a drawing in the statement of owner’s equity.

d. reporting the owner’s personal sailboat as an asset on the balance sheet.

67. The International Accounting Standards Board

a. works to reduce differences in accounting practices across countries.

b. promotes unique accounting applications.

c. works to increase differences in accounting practices across countries.

d. only operates in countries which speak English.

68. The going concern assumption

a. states that a company will not operate long enough to utilize assets and fulfill obligations.

b. assumes the company will continue to operate in the foreseeable future.

c. is inconsistent with the cost principle.

d. states that net worth is the most appropriate value at which to record assets.

69. Which of the following principles or assumptions requires that the activities of a business be kept distinct from those of its owner(s)?

a. economic entity concept

b. going concern assumption

c. monetary unit assumption

d. cost principle

70. Mel Green is the proprietor (owner) of Green's, a retailer of athletic apparel. When recording the financial transactions of Green's, Mel does not record an entry for a car he purchased for personal use. Mel took out a personal loan to pay for the car. What accounting assumption guides Mel's behaviour in this situation?

a. going concern assumption

b. economic entity concept

c. time period assumption

d. monetary unit assumption

71. Emily Hogan recently opened a new business. The business has been very successful and as a reward for all her hard work Emily spent a day at the local spa. Emily paid for the spa using a company credit card and charged the amount to the expense account called Repairs and Maintenance expense. Emily’s actions violated which of the following?

a. The going concern assumption

b. The monetary unit assumption

c. The cost principle

d. The economic entity concept

72. Withdrawal of cash from a business by the owner for personal reasons will NOT affect which financial statement?

a. Balance Sheet

b. Income Statement

c. Statement of Owner’s Equity

d. Cash Flow Statement

73. Which of the following is true when considering the accounting equation?

a. An increase in an asset must always equal a decrease in a liability.

b. For every transaction an asset and a liability must be affected.

c. An increase in a liability must equal a decrease in owner’s equity.

d. An increase in an asset may result in a decrease in another asset.

74. The common characteristic possessed by all assets is

a. long life.

b. great monetary value.

c. tangible nature.

d. future economic benefit.

75. The accounting equation, for a proprietorship, may be expressed as

a. Assets = Liabilities + Shareholders' Equity.

b. Assets – Liabilities = Partners' Equity.

c. Assets = Liabilities + Owner's Equity.

d. all of these.

76. The accounting equation, for a corporation, is best expressed as

a. Assets = Liabilities + Shareholders' Equity.

b. Assets – Liabilities = Partner’s Equity.

c. Assets = Liabilities + Owner's Equity.

d. all of these.

77. An account receivable is recorded in the accounting records as a(n)

a. liability.

b. expense.

c. asset.

d. revenue.

78. Bing Company has total liabilities of $10,000 and total assets of $15,000. Based on this information, Bing Company’s owner’s equity must be

a. $10,000.

b. $ 0.

c. $5,000.

d. $15,000.

79. Liabilities

a. are future economic benefits.

b. are current or long term obligations arising from past events.

c. possess service potential.

d. are things of value used by the business in its operation.

80. Which of the following would best be described as an ownership claim on a company’s assets?

a. expenses

b. account receivable from the owner

c. owner’s equity

d. liabilities

81. Evan Guanzon owns and operates Guanzon’s Pizza Express. Evan should record the cost of wages paid to store employees as a (an)

a. revenue.

b. expense.

c. liability.

d. asset.

82. Owner's equity is often referred to as

a. residual equity.

b. leftovers.

c. spoils.

d. a second equity.

83. In a proprietorship, owner’s equity is affected by all of the following EXCEPT

a. the investment of cash by the owners.

b. the purchase of a personal automobile by the owner using personal funds.

c. the purchase of a computer for the owner’s son using cash generated by the business.

d. the sale of goods by the business.

84. When an owner, in a proprietorship or partnership, withdraws cash or other assets from a business for personal use, these withdrawals are termed

a. expenses.

b. salary.

c. drawings.

d. a credit line.

85. Revenues would NOT result from

a. sale of merchandise.

b. initial investment of cash by owner.

c. performance of services.

d. rental of property to a tenant.

86. Sources of increases to owner's equity, in a proprietorship, are

a. additional investments by owners.

b. purchases of merchandise.

c. withdrawals by the owner.

d. sale of share capital.

87. The basic accounting equation, in a proprietorship, CANNOT be restated as

a. Assets – Liabilities = Owner's Equity.

b. Assets – Owner's Equity = Liabilities.

c. Owner's Equity + Liabilities = Assets.

d. Assets + Liabilities = Owner's Equity.

88. Owner's equity, in a proprietorship, is increased by

a. drawings.

b. revenues.

c. expenses.

d. liabilities.

89. Owner's equity, in a proprietorship, is decreased by

a. assets.

b. revenues.

c. expenses.

d. liabilities.

90. Revenues, in a proprietorship, are

a. the cost of assets consumed during the period.

b. the gross increases in owner's equity resulting from business activities.

c. the cost of services used during the period.

d. actual or expected cash outflows.

91. Profit results when

a. Assets > Liabilities.

b. Revenues = Expenses.

c. Revenues > Expenses.

d. Revenues < Expenses.

92. A balance sheet, in a proprietorship, shows

a. revenues, liabilities, and owner's equity.

b. expenses, drawings, and owner's equity.

c. revenues, expenses, and drawings.

d. assets, liabilities, and owner's equity.

93. An Income Statement

a. summarizes the changes in owner's equity for a specific period of time.

b. reports the changes in assets, liabilities, and owner's equity over a period of time.

c. reports the assets, liabilities, and owner's equity at a specific date.

d. presents the revenues and expenses for a specific period of time.

94. The Income Statement is sometimes referred to as

a. a Statement of Earnings.

b. the Statement of Financial Position.

c. the Cash Flow Statement.

d. the Statement of Owner's Equity.

95. The primary purpose of the Cash Flow Statement is to report

a. a company's investing transactions.

b. a company's financing transactions.

c. information about cash inflows and cash outflows of a company.

d. the net increase or decrease in cash.

96. Which of the following accounts would NOT be found on the Balance Sheet?

a. Cash

b. Drawings

c. Equipment

d. Accounts Payable.

97. The cost principle requires that when assets are acquired, they be recorded at

a. appraisal value.

b. the amount paid.

c. the amount the asset could be sold for.

d. list price.

98. A basic assumption of accounting assumes that the dollar is

a. unrelated to business transactions.

b. a poor measure of economic activities.

c. the common unit of measure for all business transactions.

d. useless in measuring an economic event.

99. Recognition in the accounting terminology means

a. recognizing the difference between assets and liabilities.

b. recognizing the difference between income and expenses.

c. recognizing that initially transactions are recorded at fair value.

d. the process of recording a transaction in the accounting records.

100. Which of the following would NOT affect owner’s equity?

a. a cash receipt from a customer in payment of account

b. payment of an expense

c. services provided for cash

d. withdrawal of funds for personal use

101. Which of the following is an example of an economic event that should be recorded as an accounting transaction?

a. the purchase of supplies

b. the signing of a contract to build a new corporate headquarters

c. the appointment of a new Chief Executive Officer

d. the launch of a new marketing strategy

102. Which of the following transactions would NOT affect Cash?

a. payment to a supplier on account

b. purchase of supplies on account

c. payment of salaries for the week

d. prepaying an insurance premium

103. An investment by a company’s owner increases a company’s cash and

a. reduces its liabilities.

b. reduces a company’s total assets.

c. increases owner’s equity.

d. increases the company’s net earnings in the year in which the investment is made.

104. Partners' equity, in a partnership, is decreased by

a. payment of dividends.

b. drawings.

c. owner's investments.

d. revenues.

105. Shareholders' equity, in a corporation, is increased by

a. an expense.

b. shareholder purchase of common shares.

c. payment of dividends.

d. liabilities.

106. If total liabilities increased by $5,000, then

a. assets must have decreased by $5,000.

b. owner's equity must have increased by $5,000.

c. assets must have increased by $5,000, or owner's equity must have decreased by $5,000.

d. assets and owner's equity each increased by $2,500.

107. Collection of a $600 Accounts Receivable

a. increases an asset $600; decreases an asset $600.

b. increases an asset $600; decreases a liability $600.

c. decreases a liability $600; increases owner's equity $600.

d. decreases an asset $600; decreases a liability $600.

108. If an individual asset, in a proprietorship, is increased, then

a. there may be an equal decrease in a specific liability.

b. there may be an equal decrease in owner's equity.

c. there may be an equal decrease in another asset.

d. none of these is possible.

109. If services are provided for credit, in a proprietorship, then

a. assets will decrease.

b. liabilities will increase.

c. owner's equity will increase.

d. liabilities will decrease.

110. If expenses, in a proprietorship, are paid in cash, then

a. assets will increase.

b. liabilities will decrease.

c. owner's equity will increase.

d. assets will decrease.

111. If an owner makes a withdrawal of cash from a proprietorship, then

a. there has been a violation of accounting principles.

b. assets will decrease and owner's equity will increase.

c. assets will decrease and owner's equity will decrease.

d. assets will decrease and liabilities will increase.

112. If supplies that have been purchased are used in the course of business, then

a. a liability will increase.

b. an asset will increase.

c. owner's equity will decrease.

d. owner's equity will increase.

113. Two or more items could be affected by a transaction. Which of the following statements is INCORRECT?

a. An increase in an asset may result in a decrease in another asset.

b. An increase in an asset may result in a decrease in an asset and increase in a liability.

c. An increase in a liability may result in a decrease in an asset.

d. An increase in a liability may result in a decrease in owner’s equity.

114. The cost of advertising purchased for the month is considered an expense, not an asset because

a. the expense will generate future benefits.

b. the advertising will generate future cash inflows.

c. the benefits of the expense have already been used.

d. the expense has not yet been used.

115. Expenses do not have to be paid in cash at the time they are incurred. When payment is made on the later date, the liability accounts payable account will decrease and the asset

a. cash will increase.

b. cash will decrease.

c. will not be affected.

d. accounts receivable will increase.

116. Payment of a liability for an expense that has been previously recorded

a. does not affect the owner’s equity account.

b. only affects the liability accounts.

c. does not affect the asset accounts.

d. only affects the asset accounts.

117. Ingrid Ltd and Bulgar Equipment rentals company sign a contract to rent equipment in the next two years. What is the impact on the accounting equation?

a. Assets increase and liabilities increase.

b. Assets decrease and liabilities decrease.

c. No impact on the accounting equation.

d. Owner’s equity increases and assets decrease.

118. Owner's equity, in a proprietorship, at the end of the period is equal to

a. owner's capital at the beginning of the period plus profit minus liabilities.

b. owner's capital at the beginning of the period plus profit minus drawings.

c. profit.

d. assets plus liabilities.

119. Shareholders' equity, in a corporation, at the end of the period is equal to

a. shareholders' equity at the beginning of the period plus profit minus liabilities.

b. share capital plus retained earnings.

c. share capital plus dividends.

d. share capital plus this year's profit.

120. If the owner's equity account increases from the beginning of the year to the end of the year, the best explanation for this change is

a. profit is less than owner drawings.

b. a loss is less than owner drawings.

c. additional owner investments are less than a loss.

d. profit is greater than owner drawings.

121. Jackson's Small Engine Repair Shop, a proprietorship, started the year with total assets of $60,000 and total liabilities of $40,000. During the year, the business recorded $100,000 in repair revenues, $55,000 in expenses, and Mike Jackson, the owner, withdrew $10,000. Jackson's Capital balance at the end of the year was

a. $55,000.

b. $35,000.

c. $65,000.

d. $45,000.

122. Jackson's Small Engine Repair Shop, a proprietorship, started the year with total assets of $60,000 and total liabilities of $40,000. During the year, the business recorded $100,000 in repair revenues, $55,000 in expenses, and Mike Jackson, the owner, withdrew $10,000. The profit reported by Jackson's Small Engine Repair Shop for the year was

a. $35,000.

b. $45,000.

c. $20,000.

d. $90,000.

123. Jackson's Small Engine Repair Shop, a proprietorship, started the year with total assets of $60,000 and total liabilities of $40,000. During the year, the business recorded $100,000 in repair revenues, $55,000 in expenses, and Mike Jackson, the owner, withdrew $10,000. Jackson's Capital balance changed by what amount from the beginning of the year to the end of the year?

a. $10,000.

b. $45,000.

c. $20,000.

d. $35,000.

124. The income statement is prepared from the data in the

a. assets column.

b. liabilities column.

c. owner’s equity column.

d. liabilities and owner’s equity column.

125. Which of the following statements is correct in regards to the order of preparing financial statements?

a. Income statement, Balance sheet, Statement of changes in owner’s equity, Cash flow statement

b. Balance sheet, Income statement, Cash flow statement, Statement of changes in owner’s equity

c. Income statement, Statement of changes in owner’s equity, Balance sheet, Cash flow statement

d. Income statement, Statement of changes in owner’s equity, Cash flow statement, Balance sheet

126. The income statement is always prepared first in order to determine

a. the total assets to be reported on the balance sheet.

b. the cash outflow of the company.

c. the profit or loss used in the statement of changes in owner’s equity.

d. the amount of investments or withdrawals used in the statement of changes in owner’s equity.

127. If a company reported a loss in the first month of operations, the loss would reduce owner’s capital and would be

a. added in the same section as owner’s investments.

b. deducted in the same section as owner’s investments.

c. deducted in the same section as owner’s drawings.

d. added in the same section as owner’s drawings.

128. The heading of a balance sheet must identify the

a. company, statement and time period.

b. statement and date.

c. company, statement and date.

d. company and date.

##### ANSWERS TO MULTIPLE CHOICE QUESTIONS

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** |
| 50. | c | 66. | d | 82. | a | 98. | c | 114. | c |
| 51. | c | 67. | a | 83. | b | 99. | d | 115. | b |
| 52. | d | 68. | b | 84. | c | 100. | a | 116. | a |
| 53. | d | 69. | a | 85. | b | 101. | a | 117. | c |
| 54. | c | 70. | b | 86. | a | 102. | b | 118. | b |
| 55. | b | 71. | d | 87. | d | 103. | c | 119. | b |
| 56. | c | 72. | b | 88. | b | 104. | b | 120. | d |
| 57. | b | 73. | d | 89. | c | 105. | b | 121. | a |
| 58. | c | 74. | d | 90. | b | 106. | c | 122. | b |
| 59. | b | 75. | c | 91. | c | 107. | a | 123. | d |
| 60. | c | 76. | a | 92. | d | 108. | c | 124. | c |
| 61. | a | 77. | c | 93. | d | 109. | c | 125. | c |
| 62. | d | 78. | c | 94. | a | 110. | d | 126. | c |
| 63. | b | 79. | b | 95. | c | 111. | c | 127. | c |
| 64. | b | 80. | c | 96. | b | 112. | c | 128. | c |
| 65. | b | 81. | b | 97. | b | 113. | c |  |  |

### MATCHING

129. Match the items below by entering the appropriate code letter in the space provided.

A. Codes of conduct F. Corporation

B. Profit G. Assets

C. Partnership H. Equities

D. Proprietorship I. Expenses

E. Economic Entity Assumption J. Transactions

1. Ownership is limited to one person.

2. Rules for ethical business practices

3. A separate legal entity under federal or provincial laws

4. Reflective of two or more owners

5. Economic events can be identified with a particular unit of accountability.

6. Consumed assets or services

7. Ownership claims against the assets of the business

8. Results when revenues exceed expenses.

9. Future economic benefits

10. Economic events recorded by accountants.

##### ANSWERS TO MATCHING

1. D

2. A

3. F

4. C

5. E

6. I

7. H

8. B

9. G

10. J

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