Financial Accounting (Canadian) 6th edition Libby Test Bank

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

1) The continuity assumption is inappropriate when
   A) the business is organized as a proprietorship.
   B) the business is just starting up.
   C) liquidation appears likely.
   D) fair values are higher than costs.

   Answer: C

2) Shareholders' equity
   A) is equal to liabilities and retained earnings.
   B) is shown on the income statement.
   C) is usually equal to cash on hand.
   D) includes retained earnings and contributed capital.

   Answer: D

3) It is assumed that the activities of Petro Canada Corporation can be distinguished from those of Imperial Oil Limited because of the
   A) unit-of-measure assumption.
   B) periodicity assumption.
   C) separate-entity assumption.
   D) continuity assumption.

   Answer: C

4) Abe Cox is the sole owner and manager of Cox Auto Repair Shop. In 20X1, Cox purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Cox from recording the cost of the new automobile as an asset to the business?
   A) Historical cost principle
   B) Separate-entity assumption
   C) Full disclosure
   D) Revenue principle

   Answer: B

5) The main objective of financial reporting is to:
   A) meet the needs of all potential users.
   B) provide information that is useful to individuals making investment and credit decisions.
   C) provide information that will be used by a company's managers for product pricing decisions.
   D) compare a company's performance with its competitors.

   Answer: B

6) Which one of the following is *not* a qualitative characteristic of useful accounting information?
   A) Faithful representation
   B) Relevance
   C) Materiality
   D) Comparability

   Answer: C

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7) The adoption of International Financial Reporting Standards can be viewed as an application of which of the following quality enhancing characteristics?

A) Verifiability
B) Representational faithfulness
C) Comparability
D) Timeliness

Answer: C

8) The dominating criteria by which accounting information can be judged is that of

A) freedom from bias.
B) usefulness for decision making.
C) timeliness.
D) comparability.

Answer: B

9) The assumption that a business enterprise will not be liquidated or sold in the near future is known as the

A) going concern assumption.
B) monetary unit assumption.
C) conservatism assumption.
D) economic entity assumption.

Answer: A

10) Accounting information is considered to be relevant when it

A) is verifiable and neutral.
B) can be depended on to represent the economic conditions and events that it is intended to represent.
C) is understandable by reasonably informed users of accounting information.
D) is capable of making a difference in a decision.

Answer: D

11) During the lifetime of an entity, accountants produce financial statements at arbitrary points in time in accordance with which accounting concept?

A) Periodicity
B) Cost/benefit relationship
C) Monetary unit assumption
D) Comparability

Answer: A

12) If Golden Company owed Eye Company $500, where would Golden Company reflect this?

A) Statement of cash flows
B) Statement of financial position.
C) Income statement.
D) Statement of changes in equity.

Answer: B

13) Which of the following defines assets?

A) Probable future economic benefits owned by an entity as a result of past transactions.
B) Probable future economic benefits owned by an entity as a result of future transactions.
C) Possible future economic benefits owed by an entity as a result of future transactions.
D) Possible future economic benefits owed by an entity as a result of past transactions.

Answer: A

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14) Which of the following defines liabilities?

A) Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.

B) Possible debts or obligations of an entity as a result of future transactions which will be paid with assets or services.

C) Possible debts or obligations of an entity as a result of past transactions which will be paid with assets or services.

D) Probable debts or obligations of an entity as a result of future transactions which will be paid with assets or services.

Answer: A

15) Which of the following defines shareholders' equity?

A) Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.

B) The financing provided by the owners and the operations of a business.

C) Probable future economic benefits owned by an entity as a result of past transactions.

D) Assets plus liabilities.

Answer: B

16) Liabilities are generally classified on a statement of financial position as

A) current liabilities and non-current liabilities.

B) small liabilities and large liabilities.

C) tangible liabilities and intangible liabilities.

D) present liabilities and future liabilities.

Answer: A

17) The asset that results when a customer buys goods or services on credit is

A) notes receivable.

B) accounts receivable.

C) Cash.

D) accounts payable.

Answer: B

18) The asset that results from the payment of expenses in advance is

A) accounts receivable.

B) short term investments.

C) inventory.

D) prepaid expenses.

Answer: D

19) Where would we report changes in shareholders' equity caused by operating activities?

A) In a contributed capital account.

B) In the retained earnings account.

C) In an asset account.

D) In a liability account.

Answer: B

20) How are goods, which are purchased for sale later, recorded in the financial statements

A) as operating expenses.

B) as prepaid expenses.

C) as cost of goods sold.

D) as inventory.

Answer: D

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21) On a classified balance sheet, prepaid expenses are classified as

A) a current liability.
B) a current asset.
C) a long-term investment.
D) property, plant, and equipment.

Answer: B

22) Which of the following is *not* considered an asset?

A) Equipment
B) Accounts receivable
C) Dividends
D) Inventory

Answer: C

23) Which of the following liability accounts is usually <u>not</u> satisfied by payment of cash?

A) Trade payables.
B) Taxes payable.
C) Unearned revenues.
D) Short-term borrowings.

Answer: C

24) Accounting systems should record

A) only events that involve cash.
B) items of interest to the shareholders.
C) all economic events.
D) events that result in a change in assets, liabilities, or shareholders' equity items.

Answer: B

25) Which of the following is least likely to have a liability called Deferred Revenue?

A) A magazine subscription company
B) A retailer
C) A university or college
D) An insurance company

Answer: B

26) When a new business is just starting up, which of the following must be done <u>first</u>?

A) Acquire the assets both long-lived and short-lived so they can operate.
B) Acquire financing from issuance of shares and borrowing from creditors.
C) These activities all occur simultaneously not sequentially.
D) Generate positive cash flow through successful operations.

Answer: B

27) An account is a part of the financial information system and is described by all except which one of the following?

A) An account consists of three parts
B) An account has a title
C) An account is a source document
D) An account has a debit and credit side

Answer: C

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28) If total liabilities decreased by $14,000, and shareholders' equity increased by $6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)

A) $20,000 increase.
B) $14,000 increase.
C) $8,000 increase.
D) $8,000 decrease.

Answer: D

29) Collection of a $600 accounts receivable

A) increases an asset $600; decreases a liability $600.
B) has no effect on total assets.
C) decreases a liability $600; increases shareholders' equity $600.
D) decreases an asset $600; decreases a liability $600.

Answer: B

30) The purchase of an asset on credit

A) has no effect on total assets.
B) increases assets and shareholders' equity.
C) increases assets and liabilities.
D) decreases assets and increases liabilities.

Answer: C

31) Assume a company's January 1, 20X1, financial position was: Assets, $40,000 and Liabilities, $15,000. During January 20X1, the company completed the following transactions: (a) paid on a note payable, $4,000 (no interest); (b) collected trade receivables, $4,000; (c) paid trade payables, $2,000; and (d) purchased a truck, $1,000 cash, and $8,000 notes payable. What is the company's January 31, 20X1 financial position?

	Assets	Liabilities	Shareholders' Equity
A)	$42,000	$9,000	$33,000
B)	$44,000	$17,000	$27,000
C)	$43,000	$18,000	$25,000
D)	$42,000	$17,000	$25,000

A) Choice A
B) Choice B
C) Choice C
D) Choice D

Answer: D

32) Winsome Inc. reports total assets and total liabilities of $225,000 and $100,000, respectively, at the end of its first year of business. The company earned $75,000 during the first year and distributed $30,000 in dividends. What was the corporation's contributed capital?

A) $80,000
B) $50,000
C) $95,000
D) $125,000

Answer: A

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33) Which one of the following represents the expanded basic accounting equation?

A) Assets = Revenues + Expenses - Liabilities
B) Assets + Liabilities = Dividends + Expenses + Contributed capital + Revenues
C) Assets = Liabilities + Contributed capital + Retained Earnings + Revenues - Expenses - Dividends
D) Assets - Liabilities - Dividends = Contributed capital + Revenues - Expenses

Answer: C

34) The collection of a trade receivable from a customer would do which of the following?

A) Not affect liabilities.
B) Decrease shareholders' equity.
C) Increase liabilities.
D) Decrease liabilities.

Answer: A

35) The following amounts are reported in the ledger of Bowers Company:

Assets	$25,000 (debit)
Liabilities	15,000 (credit)
Retained earnings	3,000 (credit)

What is the balance in the contributed capital account?

A) $12,000 credit.
B) $8,000 debit.
C) $7,000 credit.
D) $12,000 debit.

Answer: C

36) The purchase of an asset on credit

A) decreases assets and increases liabilities.
B) increases assets and shareholders' equity.
C) increases assets and liabilities.
D) has no effect on total assets.

Answer: C

37) Which of the following will not result in recording a transaction?

A) Signing a contract to have an outside cleaning service clean offices nightly.
B) Buying equipment and agreeing to pay a note payable and interest at the end of a year.
C) Selling shares to investors.
D) Paying our employees their wages.

Answer: A

38) Which of the following transactions will cause both the left and right side of the equation to <u>increase</u>?

A) We pay a supplier for inventory we previously bought on account
B) We borrow money from the bank
C) We collect cash from a customer who owed us money
D) We purchase equipment for cash

Answer: B

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39) When a company buys equipment for $60,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?

A) Equipment increases by $20,000.
B) Liabilities increase by $40,000.
C) Total assets increase by $60,000.
D) Cash decreases by $60,000.

Answer: B

40) The payment of a liability

A) increases assets and decreases liabilities.
B) decreases assets and increases liabilities.
C) decreases assets and liabilities.
D) decreases assets and shareholders' equity.

Answer: C

41) If total liabilities increased by $25,000 and shareholders' equity increased by $5,000 during a period of time, then total assets must change by what amount and direction during that same period?

A) $20,000 decrease
B) $30,000 increase
C) $25,000 increase
D) $20,000 increase

Answer: B

42) A new company signed a lease for office space during their first month of business. At that time, they paid a total of $16,000 for first and last months' rent. At the end of the first month, the effect on the financial statements would be:

A) $8,000 rent expense and $8,000 prepaid rent
B) $14,000 prepaid rent
C) $14,000 rent expense
D) Nothing is recorded because the company has not made any sales yet

Answer: A

43) Which of the following statements is true?

A) The normal balance is always on the debit side of the T account.
B) The normal balance is always on the credit side of the T account.
C) The normal balance is always on the side of the T account that is decreasing.
D) The normal balance is always on the side of the T account that is increasing

Answer: D

44) The classification and normal balance of the dividend account is

A) an expense with a debit balance.
B) shareholders' equity with a debit balance.
C) a liability with a credit balance.
D) revenue with a credit balance.

Answer: B

45) The best interpretation of the word credit is the

A) decrease side of an account.
B) offset side of an account.
C) right side of an account.
D) increase side of an account.

Answer: C

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46) In the first month of operations, the total of the debit entries to the cash account amounted to $1,900 and the total of the credit entries to the cash account amounted to $1,500. The cash account has a

A) $900 debit balance.
B) $400 credit balance.
C) $400 debit balance.
D) $500 credit balance.

Answer: C

47) Borrowing $100,000 of cash from First National Bank, signing a note to be paid, would do which of the following?

A) Increase cash by a credit.
B) Decrease cash by a debit.
C) Increase notes payable by a debit.
D) Increase notes payable by a credit.

Answer: D

48) Jet Corporation was organized on March 1, 20X2. Jet Corporation issued shares to each of the six owners who paid in a total of $3,000 cash. On the basis of transaction analysis, the following entry should be recorded in the accounts (dr = debit and cr = credit)

A) Cash (dr), $3,000; Revenue (cr), $3,000.
B) Cash (dr), $3,000; Contributed capital (cr), $3,000.
C) Cash (cr), $3,000; Contributed capital (dr), $3,000.
D) Cash (cr), $3,000; Shareholders' equity (dr), $3,000.

Answer: B

49) Salida Company paid a note payable of $10,000 (interest had previously been paid). This transaction recorded as follows on the payment date.

A)	Accounts payable	10,000	
	Cash		10,000
B)	Cash	10,000	
	Note payable		10,000
C)	Note payable	10,000	
	Cash		10,000
D)	Note payable expense	10,000	
	Cash		10,000

A) Choice A
B) Choice B
C) Choice C
D) Choice D

Answer: C

50) A T account is

A) a special account used instead of a journal.
B) is the actual account form used in real accounting systems.
C) a way of depicting the basic form of an account.
D) a special account used instead of a trial balance.

Answer: C

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51) An accountant has debited an asset account for $500 and credited a revenue account for $1,000. What can be done to complete the recording of the transaction?

A) Debit another asset account for $500.
B) Credit a different asset account for $500.
C) Nothing further must be done.
D) Debit a shareholders' equity account for $500.

Answer: A

52) The trade payables account has a beginning balance of $1,000 and we purchased $3,000 of inventory on credit during the month. The ending balance was $800. How much did we pay our creditors during the month?

A) $3,000 B) $4,800 C) $2,800 D) $3,200

Answer: D

53) When recording transactions in T-account format, we must add an additional step to the transaction analysis process. Which of the following is the additional step?

A) We must have equal debits and credits once the entry is recorded in the accounts.
B) The accounting equation must remain in balance after each transaction.
C) Determine what accounts and elements in the equation are affected by the transaction.
D) Determine if the affected accounts are increased or decreased by the transaction.

Answer: A

54) Assets normally show

A) credit balances.
B) debit balances.
C) debit or credit balances.
D) debit and credit balances.

Answer: B

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Reference: 02-01

KOOL BILLIARDS LTD.				
Statement of Financial Position				
December 31, 20X6				
Cash	$60,000		Accounts payable	$70,000
Accounts receivable	50,000		Salaries payable	10,000
Inventory	70,000		Mortgage payable	90,000
Prepaid insurance	40,000			$170,000
Land	190,000			
Building	100,000		Common shares	140,000
Less accumulated amortization	(20,000)	80,000	Retained earnings	250,000
Trademark net of amortization	70,000		Total shareholders' equity	$390,000
Total assets	$560,000		Total liabilities and shareholders' equity	$560,000

55) The total dollar amount of assets to be classified as current assets is

A) $220,000 B) $270,000 C) $190,000 D) $170,000

Answer: A

56) The total dollar amount of assets to be classified as investments is

A) $0 B) $180,000 C) $100,000 D) $150,000

Answer: A

57) Long-term liabilities total

A) $170,000 B) $390,000 C) $560,000 D) $90,000

Answer: D

58) The total dollar amount of assets to be classified as property, plant, and equipment is

A) $340,000 B) $270,000 C) $80,000 D) $190,000

Answer: B

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59) The total amount of working capital is

A) $40,000 B) $60,000 C) $140,000 D) $370,000

Answer: C

60) The current ratio is:

A) 1.50 to 1 B) 2.75 to 1 C) 3.25 to 1 D) 1.75 to 1

Answer: B

61) Earnings retained for use in the business are

A) $250,000 B) $390,000 C) $60,000 D) $80,000

Answer: A

62) A weakness of the current ratio is

A) that it doesn't take the composition of the current assets into account.
B) that it is rarely used by sophisticated analysts.
C) that it can be expressed as a percentage, as a rate, or as a proportion.
D) the difficulty of the calculation.

Answer: A

63) Financing activities involve

A) lending money.
B) acquiring long-lived assets.
C) issuing shares.
D) acquiring investments.

Answer: C

64) Which of the following would be an example of a financing transaction?

A) Buying inventory from a supplier for cash.
B) Buying inventory from a supplier on credit.
C) Purchasing equipment for cash.
D) Selling shares to investors for cash.

Answer: D

65) Investing activities include

A) repaying money previously borrowed.
B) obtaining cash from creditors.
C) obtaining capital from owners.
D) collecting the principal on loans made.

Answer: D

66) Which of the following would cause an inflow of cash?

A) Payment of accounts payable.
B) Payment of a long-term mortgage.
C) Purchase of inventory for debt.
D) Sale of an asset for cash at less than its book value.

Answer: D

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67) Dow Construction Company reports a net use of cash for investing activities of $1.2 million and a net source of cash provided by financing of $.8 million. What was the effect on the cash balance?

A) To cause the balance to increase by $.4 million.
B) To cause the balance to decrease by $.4 million.
C) Undeterminable because the beginning cash balance was not given.
D) To cause the balance to increase by $.8 million.

Answer: B

68) Which of the following expenses has no effect on the cash flow of a firm?

A) Salaries expense
B) Cost of goods sold
C) Interest expense
D) Depreciation expense

Answer: D

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

69) Qualitative characteristics of accounting information are not part of the conceptual framework of accounting.

Answer: True ✓ False

70) If you trade your computer plus cash for a new car, the cost of the new car is equal to the cash paid plus the market value of the computer.

Answer: ✓ True False

71) Faithful representation means information must be free from material error, neutral and complete.

Answer: ✓ True False

72) The unit-of-measure assumption states that financial information is reported in the national monetary unit.

Answer: ✓ True False

73) The separate-entity assumption assumes a stable monetary unit (not affected by inflation or deflation).

Answer: True ✓ False

74) Three of the four basic assumptions that underlie accounting measurement and reporting relate to the statement of financial position.

Answer: ✓ True False

75) The amount shown on the statement of financial position as shareholders' equity represents the current market value of the owners' residual claim against the company.

Answer: True ✓ False

76) Cash and supplies are both classified as current assets.

Answer: ✓ True False

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77) Assets are economic resources controlled by an entity as a result of past transactions or events and for which future economic benefits may be obtained.

Answer: ✓ True False

78) Liability accounts are reported on the statement of financial position.

Answer: ✓ True False

79) The basic system of recording transactions has withstood the test of time, and has been in use for more than 500 years.

Answer: ✓ True False

80) An individual accounting record for a specific asset, liability or shareholders' equity item is called an account.

Answer: ✓ True False

81) Long-term investments appear in the property, plant, and equipment section of the balance sheet.

Answer: True ✓ False

82) On the income statement, assets should always equal liabilities plus shareholders' equity.

Answer: True ✓ False

83) Transactions have a dual economic effect on the fundamental accounting model.

Answer: ✓ True False

84) The payment of a liability in cash will decrease shareholders' equity.

Answer: True ✓ False

85) If the correct accounts have been identified and the appropriate direction of the effect on each account has been determined, then the equation should remain in balance.

Answer: ✓ True False

86) The purchase of a delivery truck for cash increases assets and shareholders' equity.

Answer: True ✓ False

87) Recording the borrowing of cash with a note payable increases shareholders' equity.

Answer: True ✓ False

88) When a business owner invests cash in the business, the investment causes a liability to increase.

Answer: True ✓ False

89) When a business pays a previously recorded bill, the liabilities of the business decrease.

Answer: ✓ True False

90) The objective of transaction analysis is to determine the economic effects of each transaction in terms of the accounting model.

Answer: ✓ True False

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91) If a company has assets of $60,000 and shareholders' equity of $30,000, then its liabilities must be $90,000.

Answer: True ✓ False

92) A debit increases an account and a credit decreases an account.

Answer: True ✓ False

93) A T-account shows total debits of $25,000 and total credits of $22,000; therefore, it has a $3,000 credit balance.

Answer: True ✓ False

94) In its simplest form, a T account consists of three parts: (1) its title, (2) a left or debit side and (3) a right or credit side.

Answer: ✓ True False

95) Debit and credit can be interpreted to mean "bad" and "good," respectively.

Answer: True ✓ False

96) A T-account is an accounting method of expressing the effects of a single transaction in a debits-equal-credits format.

Answer: True ✓ False

97) Normally, asset accounts will have credit balances and liability accounts will have debit balances.

Answer: True ✓ False

98) "Debit" is the designation for the left side of an account, and "credit" is the designation for the right side of an account.

Answer: ✓ True False

99) Some legal contracts, such as the signing of a contract to hire a new employee, are not reflected in the financial statements.

Answer: ✓ True False

100) Contributed capital results when a company buys a new delivery truck.

Answer: True ✓ False

101) Usually when a short-term, interest-bearing note payable is paid on its maturity date, an asset is credited and a liability is debited.

Answer: ✓ True False

102) By themselves, journal entries do not provide the balances in accounts.

Answer: ✓ True False

103) Calculating financial ratios can give clues to underlying conditions that may not be noticed by examining each financial statement item separately.

Answer: ✓ True False

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104) The current ratio takes into account the composition of current assets.

Answer: True ✓ False

105) The sale of land for cash would be classified as a cash inflow from an investing activity.

Answer: ✓ True False

106) The activity from the balance sheet to be presented in the financing activities section of the cash flow statement is based on an analysis of shareholders' equity only.

Answer: True ✓ False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

107) Match the terminology with the description by entering the proper letter in the space to the left.

A. Credits
B. Share Capital
C. Cost principle
D. Transaction
E. Debits
F. Liability
G. Statement of financial position
H. Primary objective of external financial reporting
I. Separate-entity assumption
J. Retained earnings
K. As at December 31, 20X1
L. For the period ended December 31, 20X1
M. None of the above is correct

____ 1. Increase assets and decreases shareholders" equity.
____ 2. An exchange between an entity and another party.
____ 3. Normal balances for liabilities.
____ 4. To provide useful economic information about a business to help external parties make soun decisions.
____ 5. Accounting assumption that requires assets to be recorded at their cash equivalent cost.
____ 6. Cumulative earnings that have not been distributed to the owners.
____ 7. A debt owed by the entity.
____ 8. Statement of financial position.
____ 9. Account for a business separate from its owners.
___10. Dating of the statement of financial position (20X1).

Answer: 1. E; 2. D; 3. A; 4. H; 5. C; 6. J; 7. F; 8. G; 9. I; 10. K

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108) Why is the continuity assumption so important for statement of financial position reporting?

Answer: The continuity assumption is also known as the going-concern assumption. It is important for statement of financial position reporting because of valuation issues. If a business is expected to operate into the foreseeable future, amounts presented on the statement of financial position for assets and liabilities are based on the cost principle. If the continuity assumption is not followed, assets and liabilities might be reported at liquidation values as if they are going out of business.

109) Why is the separate-entity assumption so important for statement of financial position reporting?

Answer: The separate-entity assumption is important for statement of financial position reporting because a business should present only its own assets and liabilities on the statement. A business is a separate accounting entity from its owners. Therefore, the owners' assets and liabilities would appear on their own (personal) financial statement.

110) Why is the historical cost principle so important for statement of financial position reporting?

Answer: The cost principle is important for statement of financial position reporting because of valuation issues. The cash-equivalent cost is verifiable. If it were not for the cost principle, assets and liabilities could be reported at more subjective values. This could lead to manipulation of statement of financial position amounts.

111) Classify the following statement of financial position accounts for White Goose Linen Co.

_____	a. Investments in associates
_____	b. Retained Earnings
_____	c. Notes Payable due in 3 months
_____	d. Land
_____	e. Short-term investments
_____	f. Bonds Payable
_____	g. Supplies
_____	h. Share Capital
_____	i. Notes Payable due in 5 years
_____	j. Income Taxes Payable

Answer: (a) NCA, (b) SE, (c) CL, (d) NCA, (e) CA, (f) NCL, (g) CA, (h) SE, (i) NCL, (j) CL

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112) For each of the following events, which ones result in an exchange transaction for the O'Brien Comp

_____	a. Purchased land for cash and a note payable
_____	b. Agreed to purchase one million inventory parts from a new supplier
_____	c. Paid the employees for the week
_____	d. One of our shareholders sells her shares to a new investor
_____	e. Received inventory from a supplier under the new contract
_____	f. Entered into a contract with a new cleaning service

Answer: (a) Y, (b) N, (c) Y, (d) N, (e) Y, (f) N

113) For each item below, indicate whether the account will be debited or credited:

1. Decrease in Accounts Payable
2. Increase in Dividends
3. Increase in Common Shares
4. Increase in Unearned Revenue
5. Decrease in Interest Payable
6. Increase in Prepaid Insurance
7. Decrease in Wages Expense
8. Decrease in Supplies
9. Increase in Revenues
10. Decrease in Accounts Receivable

Answer: Please review the following information:

1. Decrease in Accounts Payable	Dr.
2. Increase in Dividends	Dr.
3. Increase in Common Shares	Cr.
4. Increase in Unearned Revenue	Cr.
5. Decrease in Interest Payable	Dr.
6. Increase in Prepaid Insurance	Dr.
7. Decrease in Wages Expense	Cr.
8. Decrease in Supplies	Cr.
9. Increase in Revenues	Cr.
10. Decrease in Accounts Receivable	Cr.

114) Analyze the transactions of the business organized as a corporation described below and indicate thei on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (-) to ir decrease.

	Assets	= Liabilities	+ Shareholders' Equity
1. Received cash for services provided.			

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2. Purchased office equipment on credit.			
3. Paid employees' salaries.			
4. Received cash from customer in payment on account.			
5. Paid telephone bill for the month.			
6. Paid for office equipment purchased in transaction 2.			
7. Purchased office supplies on credit.			
8. Dividends were paid.			
9. Obtained a loan from the bank.			
10. Billed customers for services performed.			

Answer: Please review the following information:

	Assets	= Liabilities	+ Shareholders' Equity
1. Received cash for services provided.	+		+
2. Purchased office equipment on credit.	+	+	
3. Paid employees' salaries.	-		-
4. Received cash from customer in payment on account.	+, -		
5. Paid telephone bill for the month.	-		-
6. Paid for office equipment purchased in transaction 2.		-	
7. Purchased office supplies on credit.	+	+	
8. Dividends were paid.	-		-
9. Obtained a loan from the bank.	+	+	
10. Billed customers for services performed.	+		+

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115) For each financial statement element listed, enter check marks to reflect the Debit = Credit concept.

Element		Debit		Credit	
		Increase	Decrease	Increase	Decrease
A	Assets				
B	Liabilities				
C	Share Capital				
D	Retained Earnings				

Answer: Please review the following information:

Element		Debit		Credit	
		Increase	Decrease	Increase	Decrease
A	Assets	X			X
B	Liabilities		X	X	
C	Share Capital		X	X	
D	Retained Earnings		x	X	

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116) For each of the accounts listed below, enter a check mark in the space provided to the right to indicat the typical or normal balance is a debit or credit.

Transaction		Typical Balance	
		Debit	Credit
A	Supplies		
B	Notes payable		
C	Retained earnings		
D	Equipment		
E	Prepaid insurance		
F	Trade receivables		
G	Building		
H	Share capital		
I	Trade payables		

Answer: Please review the following information:

Transaction		Typical Balance	
		Debit	Credit
A	Supplies	X	
B	Notes payable		X
C	Retained earnings		X
D	Equipment	X	
E	Prepaid insurance	X	
F	Trade receivables	X	
G	Building	X	
H	Share capital		X
I	Trade payables		X

117) In what two places do amounts for transactions appear in the accounting system or "the books"? Describe them.

Answer: Transactions are first recorded in the journal. This is known as the book of original entry. Transactions are entered chronologically in a debit-credit format. After transactions are journalized, the amounts are posted to the ledger (the book of final entry). The ledger contains accounts for each financial statement element so that balances can be determined.

118) The accounts with identification letters for Wild World Inc. are listed below.
Letter Account Title

A Cash
B Trade Receivables
C Office supplies
D Equipment

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E Land
F Trade Payables
G Notes Payable
H Share Capital
I Retained Earnings

During 20X1, the company completed the transactions given below. You are to indicate the appropri
entry for each transaction by giving the account letter and amount. Some entries may need three lette
first transaction is given as an example.

Transaction		Debit		Credit	
		Letter	Amount	Letter	Amount
Ex.	Owners invested $30,000 cash for shares.	A	$30,000	H	$30,000
A	Borrowed $50,000 and signed a note.				
B	Purchased equipment for $30,000. Paid $10,000 in cash, signed a $20,000 note payable.				
C	Collected $16,000 trade receivables.				
D	Paid $8,000 of trade payables.				
E	Acquired a $40,000 piece of land by issuing capital shares.				
F	Purchased $2,000 of office supplies (an asset) on credit.				
G	Paid for the office supplies in (F).				

Answer: Please review the following information:

Transaction		Debit		Credit	
		Letter	Amount	Letter	Amount
A	Borrowed $50,000 and signed a note.	A	50,000	G	50,000
B	Purchased equipment for $30,000. Paid $10,000 in cash, signed a $20,000 note payable.	D	30,000	A G	10,000 20,000
C	Collected $16,000 trade receivables.	A	16,000	B	16,000
D	Paid $8,000 of trade payables.	F	8,000	A	8,000
E	Acquired a $40,000 piece of land by issuing capital shares.	E	40,000	H	40,000

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F	Purchased $2,000 of office supplies (an asset) on credit.	C	2,000	F	2,000
G	Paid for the office supplies	F	2,000	A	2,000

119) Analyze the effect of the following transactions using the basic accounting equation and the format p below.

i. Bought land with an estimated fair value of $150,000 by issuing 100,000 shares.
ii. Issued 10,000 common shares for $15,000 cash
iii. Purchased a 2-year insurance policy for $4,800.
iv. Paid rent of $3,000
v. Bought equipment for $50,000. Paid 20% down in cash and the balance on a 5-year, 6% note payal
vi. Purchased $9,000 of merchandise inventory on credit.
vii. Paid utilities bill for $750.
viii. Sold $8,000 of merchandise inventory for $16,000 cash.
ix. Paid $2,500 on merchandise inventory previously purchased.
x. Declared a $1,000 dividend.
xi. Recognized that 1 month of the insurance coverage had expired.

FORMAT:

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ASSETS =							LIABILITIES+			SHAREHOLDERS' EQUITY	
Transaction	Cash	A/R	Inventory	Prepaid expense	Land	Equipment	A/P	Dividend Payable	Long-term debt	Common shares	Retained Earnings
Example											
					150,000					150,000	
Account totals											
TOTALS	$						$			$	

Answer: Please review the following information:

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ASSETS =							LIABILITIES +			SHAREHOLDERS' EQUITY	
Transaction	Cash	A/R	Inventory	Prepaid expense	Land	Equipment	A/P	Dividend Payable	Long-term debt	Common shares	Retained Earnings
					+150,000					+150,000	
	+15,000									+15,000	
	–4,800			+4,800							
	-3,000										-3,000
	–10,000					+50,000			+40,000		
			+9,000				+9,000				
	–750										–750
	+16,000		–8,000								+8,000
	–2,500						-2,500				
								+1,000			–1,000
				-200							-200
Account totals	+9,950	0.	+1,000	+4,600	+150,000	+50,000	+6,500	+1,000	+40,000	+165,000	+3,050
TOTALS	= $215,550						= $215,550				

120) (A) Complete the following schedule for Gold Eye Company.

Transaction	Assets	Liabilities	Shareholders' Equity
Beginning financial position	$75,000	$25,000	$50,000
Borrowed $20,000 cash using a note payable, face amount $20,000			
Collected trade receivables for cash, $5,000			
Paid trade payables, $1,000 cash			
Purchased office supplies on credit, $1,000			
Sold shares to new investors for $5,000 of cash			
Paid a $10,000 note payable			
Ending financial position			

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(B) How much did cash change during the period?

Answer: (A)

Transaction	Assets	Liabilities	Shareholders' Equity
Beginning financial position	$75,000	$25,000	$50,000
Borrowed $20,000 cash using a note payable, face amount $20,000	+20,000	+20,000	
Collected trade receivables for cash, $5,000	+5,000 -5,000		
Paid trade payables, $1,000 cash	-1,000	-1,000	
Purchased office supplies on credit, $1,000	+1,000	+1,000	
Sold shares to new investors for $5,000 of cash	+5,000		+5,000
Paid a $10,000 note payable	-10,000	-10,000	
Ending financial position	$90,000	$35,000	$55,000

(B) Cash increase, $19,000
(+ 20,000 + 5,000 - 1,000 + 5,000 - 10,000)

121) Scott, Kim and Koko organized the SKK Corporation on January 1 20X1. Each of these owners inve: $30,000 cash and received shares. Below are selected transactions that were completed during Januar

(A) Give the entry on SKK's books for each transaction:

(1) Sold shares to the owners.
(2) Borrowed $100,000 on one-year note payable.
(3) Purchased land by signing a $20,000 note payable.
(4) Paid $5,000 of trade payables.
(5) Purchased two service vehicles, $21,000 each; paid cash.
(6) Accepted a promissory note of $1,000 from a customer.

(B) Complete the following based only on the 6 transactions above:

Assets $
Liabilities $
Shareholders' equity $

Answer: a)

1.	Cash(30,000 × 3) (A)	90,000	
	Share capital (SE)		90,000
	Investment by owners		
2.	Cash (A)	100,000	
	Note payable (L)		100,000

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	Borrowed $100,000 on a one-year note.		
3.	Land (A)	20,000	
	Note payable (L)		20,000
	Purchased land by signing a $20,000 note payable.		
4.	Trade payables (L)	5,000	
	Cash (A)		5,000
	Paid $5,000 of trade payables.		
5.	Equipment (A)	42,000	
	Cash (A)		42,000
	Purchased two service vehicles, $21,000 each (paid cash)		
6.	Notes receivable (A)	1,000	
	Cash (A)		1,000
	Accepted a $1,000 promissory note from a customer.		

b)

Assets	$205,000
Liabilities	$115,000
Shareholders' equity	$90,000

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122) On January 1, 20X1, Cliff Constable started a new professional corporation, Cliff Constable, LLC., t
medicine with an initial investment of $50,000. On June 30, 20X1 the accounting records contained t
following amounts:

Trade Payables	$100
Trade Receivables	3,900
Cash	25,100
Share Capital	50,000
Office Equipment	24,000
Office Supplies	500
Retained Earnings	3,400

Prepare a statement of financial position at June 30, 20X1.

Answer:

Cliff Constable, LLC.
Statement of Financial Position
As of June 30, 20X1

Assets	$25,100
Cash	3,900
Trade receivables	500
Office supplies	24,000
Total assets	$53,500
Liabilities	
Trade payables	$100
Shareholders' Equity	
Share capital	$50,000
Retained earnings	3,400
Total shareholders' equity	53,400
Total liabilities and shareholders' equity	$53,500

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123) For each of the transactions listed below, indicate whether it is an investing (I) or financing (F) activi cash flow statement. Also, indicate if the transaction increases (+) or decreases (-) cash.

Transaction		Type of Activity	Effect on Cash
Ex.	Paid dividends to the owners	F	-
A	Purchased equipment to use in the business.		
B	Issued shares for cash.		
C	Borrowed money at the bank.		
D	Sold a piece of land adjacent to the plant.		
E	Paid the principal balance of a note payable.		

Answer: Please review the following information:

Transaction		Type of Activity	Effect on Cash
A	Purchased equipment to use in the business.	I	-
B	Issued shares for cash.	F	+
C	Borrowed money at the bank.	F	+
D	Sold a piece of land adjacent to the plant.	I	+
E	Paid the principal balance of a note payable.	F	-

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Answer Key
Testname: UNTITLED8

1) C
2) D
3) C
4) B
5) B
6) C
7) C
8) B
9) A
10) D
11) A
12) B
13) A
14) A
15) B
16) A
17) B
18) D
19) B
20) D
21) B
22) C
23) C
24) B
25) B
26) B
27) C
28) D
29) B
30) C
31) D
32) A
33) C
34) A
35) C
36) C
37) A
38) B
39) B
40) C
41) B
42) A
43) D
44) B
45) C
46) C
47) D
48) B
49) C
50) C

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51) A
52) D
53) A
54) B
55) A
56) A
57) D
58) B
59) C
60) B
61) A
62) A
63) C
64) D
65) D
66) D
67) B
68) D
69) FALSE
70) TRUE
71) TRUE
72) TRUE
73) FALSE
74) TRUE
75) FALSE
76) TRUE
77) TRUE
78) TRUE
79) TRUE
80) TRUE
81) FALSE
82) FALSE
83) TRUE
84) FALSE
85) TRUE
86) FALSE
87) FALSE
88) FALSE
89) TRUE
90) TRUE
91) FALSE
92) FALSE
93) FALSE
94) TRUE
95) FALSE
96) FALSE
97) FALSE
98) TRUE
99) TRUE
100) FALSE

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101) TRUE
102) TRUE
103) TRUE
104) FALSE
105) TRUE
106) FALSE
107) 1. E; 2. D; 3. A; 4. H; 5. C; 6. J; 7. F; 8. G; 9. I; 10. K
108) The continuity assumption is also known as the going-concern assumption. It is important for statement of financial position reporting because of valuation issues. If a business is expected to operate into the foreseeable future, amounts presented on the statement of financial position for assets and liabilities are based on the cost principle. If the continuity assumption is not followed, assets and liabilities might be reported at liquidation values as if they are going out of business.
109) The separate-entity assumption is important for statement of financial position reporting because a business should present only its own assets and liabilities on the statement. A business is a separate accounting entity from its owners. Therefore, the owners' assets and liabilities would appear on their own (personal) financial statement.
110) The cost principle is important for statement of financial position reporting because of valuation issues. The cash-equivalent cost is verifiable. If it were not for the cost principle, assets and liabilities could be reported at more subjective values. This could lead to manipulation of statement of financial position amounts.
111) (a) NCA, (b) SE, (c) CL, (d) NCA, (e) CA, (f) NCL, (g) CA, (h) SE, (i) NCL, (j) CL
112) (a) Y, (b) N, (c) Y, (d) N, (e) Y, (f) N
113) Please review the following information:

1. Decrease in Accounts Payable	Dr.
2. Increase in Dividends	Dr.
3. Increase in Common Shares	Cr.
4. Increase in Unearned Revenue	Cr.
5. Decrease in Interest Payable	Dr.
6. Increase in Prepaid Insurance	Dr.
7. Decrease in Wages Expense	Cr.
8. Decrease in Supplies	Cr.
9. Increase in Revenues	Cr.
10. Decrease in Accounts Receivable	Cr.

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114) Please review the following information:

	Assets	= Liabilities	+ Shareholders' Equity
1. Received cash for services provided.	+		+
2. Purchased office equipment on credit.	+	+	
3. Paid employees' salaries.	-		-
4. Received cash from customer in payment on account.	+, -		
5. Paid telephone bill for the month.	-		-
6. Paid for office equipment purchased in transaction 2.	-	-	
7. Purchased office supplies on credit.	+	+	
8. Dividends were paid.	-		-
9. Obtained a loan from the bank.	+	+	
10. Billed customers for services performed.	+		+

115) Please review the following information:

Element		Debit		Credit	
		Increase	Decrease	Increase	Decrease
A	Assets	X			X
B	Liabilities		X	X	
C	Share Capital		X	X	
D	Retained Earnings		x	X	

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116) Please review the following information:

Transaction		Typical Balance	
		Debit	Credit
A	Supplies	X	
B	Notes payable		X
C	Retained earnings		X
D	Equipment	X	
E	Prepaid insurance	X	
F	Trade receivables	X	
G	Building	X	
H	Share capital		X
I	Trade payables		X

117) Transactions are first recorded in the journal. This is known as the book of original entry. Transactions are entered chronologically in a debit-credit format. After transactions are journalized, the amounts are posted to the ledger (the book of final entry). The ledger contains accounts for each financial statement element so that balances can be determined.

118) Please review the following information:

Transaction		Debit		Credit	
		Letter	Amount	Letter	Amount
A	Borrowed $50,000 and signed a note.	A	50,000	G	50,000
B	Purchased equipment for $30,000. Paid $10,000 in cash, signed a $20,000 note payable.	D	30,000	A G	10,000 20,000
C	Collected $16,000 trade receivables.	A	16,000	B	16,000
D	Paid $8,000 of trade payables.	F	8,000	A	8,000
E	Acquired a $40,000 piece of land by issuing capital shares.	E	40,000	H	40,000
F	Purchased $2,000 of office supplies (an asset) on credit.	C	2,000	F	2,000
G	Paid for the office supplies in (F).	F	2,000	A	2,000

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119) Please review the following information:

ASSETS =							LIABILITIES +			SHAREHOLDERS' EQUITY	
Transaction	Cash	A/R	Inventory	Prepaid expense	Land	Equipment	A/P	Dividend Payable	Long-term debt	Common shares	Retained Earnings
					+150,000					+150,000	
	+15,000									+15,000	
	–4,800			+4,800							
	-3,000										-3,000
	–10,000					+50,000			+40,000		
			+9,000				+9,000				
	–750										–750
	+16,000		–8,000								+8,000
	–2,500						-2,500				
								+1,000			–1,000
				-200							-200
Account totals	+9,950	0.	+1,000	+4,600	+150,000	+50,000	+6,500	+1,000	+40,000	+165,000	+3,050
TOTALS	= $215,550						= $215,550				

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120) (A)

Transaction	Assets	Liabilities	Shareholders' Equity
Beginning financial position	$75,000	$25,000	$50,000
Borrowed $20,000 cash using a note payable, face amount $20,000	+20,000	+20,000	
Collected trade receivables for cash, $5,000	+5,000 -5,000		
Paid trade payables, $1,000 cash	-1,000	-1,000	
Purchased office supplies on credit, $1,000	+1,000	+1,000	
Sold shares to new investors for $5,000 of cash	+5,000		+5,000
Paid a $10,000 note payable	-10,000	-10,000	
Ending financial position	$90,000	$35,000	$55,000

(B) Cash increase, $19,000
(+ 20,000 + 5,000 - 1,000 + 5,000 - 10,000)

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121) a)

1.	Cash(30,000 × 3) (A)	90,000	
	Share capital (SE)		90,000
	Investment by owners		
2.	Cash (A)	100,000	
	Note payable (L)		100,000
	Borrowed $100,000 on a one-year note.		
3.	Land (A)	20,000	
	Note payable (L)		20,000
	Purchased land by signing a $20,000 note payable.		
4.	Trade payables (L)	5,000	
	Cash (A)		5,000
	Paid $5,000 of trade payables.		
5.	Equipment (A)	42,000	
	Cash (A)		42,000
	Purchased two service vehicles, $21,000 each (paid cash)		
6.	Notes receivable (A)	1,000	
	Cash (A)		1,000
	Accepted a $1,000 promissory note from a customer.		

b)

Assets	$205,000
Liabilities	$115,000
Shareholders' equity	$90,000

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122)

Cliff Constable, LLC.
Statement of Financial Position
As of June 30, 20X1

Assets	$25,100
Cash	3,900
Trade receivables	500
Office supplies	24,000
Total assets	$53,500
Liabilities	
Trade payables	$100
Shareholders' Equity	
Share capital	$50,000
Retained earnings	3,400
Total shareholders' equity	53,400
Total liabilities and shareholders' equity	$53,500

123) Please review the following information:

Transaction		Type of Activity	Effect on Cash
A	Purchased equipment to use in the business.	I	-
B	Issued shares for cash.	F	+
C	Borrowed money at the bank.	F	+
D	Sold a piece of land adjacent to the plant.	I	+
E	Paid the principal balance of a note payable.	F	-

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