

## **Chapter 1—Introduction to financial accounting**

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### **MULTIPLE CHOICE**

1. Which of the following use accounting information?

- 1. Shareholders
- 2. Banks
- 3. Trade unions

- A. 1 and 2 only
- B. 2 and 3 only
- C. 1 and 3 only
- D. 1, 2 and 3

ANS: D PTS: 1 TOP: Who uses financial accounting information?

2. Which of the following organisations may use financial statements?

- 1. Australian Taxation Office
- 2. A church congregation
- 3. A university

- A. 1 and 2 only
- B. 2 and 3 only
- C. 1 and 3 only
- D. 1, 2 and 3

ANS: D PTS: 1 TOP: Who uses financial accounting information?

3. Financial statements provide useful information for shareholders to:

- A. understand day-to-day activities.
- B. decide whether to buy, sell or hold shares of companies.
- C. decide whether to lend money to the business entity.
- D. create business planning strategies.

ANS: B PTS: 1 TOP: Who uses financial accounting information?

4. Financial performance means:

- A. providing information about the cash position of an entity.
- B. setting out the enterprise's set of financial resources and obligations at a point in time.
- C. identifying, measuring and communicating economic information to allow informed decisions.
- D. generating new resources from day-to-day operations over a period of time.

ANS: D PTS: 1 TOP: Financial accounting

5. Which of the following statements is NOT true?

- A. Judgements need to be made in determining profit.
- B. Attempts are made to measure incomplete transactions.
- C. The impact of transactions is recognised when cash is received or paid.
- D. Estimates are made of certain balance sheet items.

ANS: C PTS: 1 TOP: Accrual accounting

6. A user's main demand is for credible periodic reporting of an enterprise's financial position and performance. Credible means:

- A. 100 per cent accurate.
- B. easily understandable by users of financial statements.
- C. sufficiently trustworthy and competently prepared for it to be used to make decisions.

D. relevant to the needs of decision-makers.

ANS: C PTS: 1 TOP: The people involved in financial accounting

7. Which type of information would be of most interest to trade creditors?

- A. Dividends declared
- B. Ability to pay debts
- C. Pollution of waterways adjacent to the firm's factory
- D. Continuity of orders for the firm's products

ANS: B PTS: 1 TOP: The people involved in financial accounting

8. Which type of information would be of most interest to shareholders?

- A. Profitability
- B. Long-term financial stability
- C. Pollution of waterways adjacent to the firm's factory
- D. Continuity of orders for the firm's products

ANS: A PTS: 1 TOP: The people involved in financial accounting

9. Which type of information would be of least interest to employees?

- A. Proposed expansion of the business
- B. Long-term financial stability
- C. Dividends declared
- D. Profitability

ANS: C PTS: 1 TOP: The people involved in financial accounting

10. Which of the following statements about external company auditors is NOT true?

- A. External company auditors provide assurance that the financial statements audited by them contain no mistakes.
- B. External company auditors cannot credibly audit statements they have prepared.
- C. External company auditors must be independent.
- D. Auditing arose because users demanded some assurance that managers' reports on their performance were reliable.

ANS: A PTS: 1 TOP: The people involved in financial accounting

11. Which of the following statements about accrual accounting is NOT true?

- A. The impact of transactions on the financial statements is recognised when the cash is received or paid.
- B. The financial statements include estimates.
- C. Judgements made by accountants affect profit.
- D. Transactions are recognised at the time when revenue and expenses occur.

ANS: A PTS: 1 TOP: Accrual accounting

12. Does measuring economic performance involve: (i) estimates; (ii) adjustments; and/or (iii) judgements?

- A. (i) and (ii) only
- B. (i) and (iii) only
- C. (ii) and (iii) only
- D. (i), (ii) and (iii)

ANS: D PTS: 1 TOP: Accrual accounting

13. During 2016, a company makes credit sales of \$500 000, of which \$375 000 is collected at year-end. It pays \$200 000 in expenses and owes \$25 000 for electricity used during 2016. Accrual profit is:

- A. \$150 000.
- B. \$175 000.
- C. \$275 000.

D. \$300 000.

ANS: C PTS: 1 TOP: Accrual accounting

14. During 2016, a company makes credit sales of \$500 000, of which \$375 000 is collected at year-end. It pays \$200 000 in expenses and owes \$25 000 for electricity used during 2016. What would the profit be if cash accounting rather than accrual accounting was used?

A. \$150 000

B. \$175 000

C. \$275 000

D. \$300 000

ANS: B PTS: 1 TOP: Accrual accounting

15. What is the net profit for 2016 given the following information?

	\$
Cash sales	10 000
Credit sales	30 000
Cash received from accounts receivable	22 000
Wages paid	8000
Wages owing at year-end	5000

A. \$22 000

B. \$27 000

C. \$32 000

D. None of the answers provided

ANS: B PTS: 1 TOP: Accrual accounting

16. During 2016, a company makes credit sales of \$600 000, of which \$350 000 is collected at year-end. It pays \$220 000 in expenses and owes \$20 000 for electricity used during 2016. Profit according to accrual accounting is:

A. \$130 000.

B. \$380 000.

C. \$360 000.

D. \$710 000.

ANS: C PTS: 1 TOP: Accrual accounting

17. During 2016, a company makes credit sales of \$600 000, of which \$350 000 is collected at year-end. It pays \$220 000 in expenses and owes \$20 000 for electricity used during 2016. What would the profit be if cash accounting rather than accrual accounting were used?

A. \$130 000.

B. \$110 000.

C. \$380 000.

D. \$730 000.

ANS: A PTS: 1 TOP: Accrual accounting

18. Use the information given below to answer the following question.

	\$
Cash sales	20 000
Credit sales	60 000
Cash received from accounts receivable	42 000
Wages paid	10 000
Wages owing at year-end	8000

What is the net profit for 2016?

A. \$70 000

B. \$62 000

C. \$104 000

D. \$112 000

ANS: B PTS: 1 TOP: The key financial statements

19. Use the information given below to answer the following question.

	\$
Cash sales	20 000
Credit sales	60 000
Cash received from accounts receivable	42 000
Wages paid	10 000
Wages owing at year-end	8000

What is the cash flow from operations for 2016?

- A. \$52 000
- B. \$62 000
- C. \$70 000
- D. \$104 000

ANS: A PTS: 1 TOP: The key financial statements

20. ABC is a company that commenced business on 1 January 2016. Below are the balances in the 30 June 2016 financial statements.

	\$
Cash	1000
Share capital	6000
Accounts receivable	3000
Accounts payable	2000
Loan owed	7000
Land	10 000
Inventory	2000
Cost of goods sold	1500
Wages expense	2500
Sales	5000

What is the balance of assets?

- A. \$8000
- B. \$10 000
- C. \$16 000
- D. None of the answers provided

ANS: C PTS: 1 TOP: The key financial statements

21. ABC is a company that commenced business on 1 January 2016. Below are the balances in the 30 June 2016 financial statements.

	\$
Cash	1000
Share capital	6000
Accounts receivable	3000
Accounts payable	2000
Loan owed	7000
Land	10 000
Inventory	2000
Cost of goods sold	1500
Wages expense	2500
Sales	5000

What is the balance of liabilities?

- A. \$7000
- B. \$9000

C. \$15 000

D. None of the answers provided

ANS: B PTS: 1 TOP: The key financial statements

22. LPR is a company that commenced business on 1 January 2016. Below are the balances in the 30 June 2016 financial statements.

	\$
Cash	2000
Share capital	12 000
Accounts receivable	6000
Accounts payable	4000
Loan payable	14 000
Land	20 000
Inventory	4000
Cost of goods sold	3000
Wages expense	5000
Sales	10 000

What is the balance of assets?

A. \$28 000

B. \$32 000

C. \$34 000

D. \$44 000

ANS: B PTS: 1 TOP: The key financial statements

23. LPR is a company that commenced business on 1 January 2016. Below are the balances in the 30 June 2016 financial statements.

	\$
Cash	2000
Share capital	12 000
Accounts receivable	6000
Accounts payable	4000
Loan payable	14 000
Land	20 000
Inventory	4000
Cost of goods sold	3000
Wages expense	5000
Sales	10 000

What is the balance of liabilities?

A. \$18 000

B. \$30 000

C. \$20 000

D. \$21 000

ANS: A PTS: 1 TOP: The key financial statements

24. LPR is a company that commenced business on 1 January 2016. Below are the balances in the 30 June 2016 financial statements.

	\$
Cash	2000
Share capital	12 000
Accounts receivable	6000
Accounts payable	4000
Loan payable	14 000
Land	20 000
Inventory	4000

Cost of goods sold	3000
Wages expense	5000
Sales	10 000

What is the net profit for the period ending 30 June 2016?

- A. \$2000
- B. \$4000
- C. \$5000
- D. \$7000

ANS: A PTS: 1 TOP: The key financial statements

25. Which of the following is NOT shown in the heading of the balance sheet?

- A. The name of the enterprise
- B. The title of the report
- C. The period covered by the report
- D. All of the answers are shown in the heading

ANS: C PTS: 1 TOP: The key financial statements

26. Which of the following is NOT an asset?

- A. Marketable securities
- B. Accounts receivable
- C. Provisions for employee entitlements
- D. Inventory

ANS: C PTS: 1 TOP: The key financial statements

27. Which of the following may be an asset of a business enterprise?

- A. Retained profits
- B. Inventory
- C. Provision for warranty repairs
- D. Shareholders' equity

ANS: B PTS: 1 TOP: The key financial statements

28. Which of the following is NOT an example of a liability?

- A. Provisions for long service leave
- B. Share capital
- C. Accounts payable
- D. Loan payable

ANS: B PTS: 1 TOP: The key financial statements

29. Which of the following may be a liability of a business enterprise?

- A. Share capital
- B. Wages payable
- C. Retained profits
- D. Marketable security

ANS: B PTS: 1 TOP: The key financial statements

30. Which of the following statements about shareholders' equity is NOT true?

- A. Shareholders' equity is the excess of assets over liabilities.
- B. Shareholders' equity consists of two main elements: share capital and retained profits.
- C. Shareholders' equity is a residual claim of the shareholders on the assets of the organisation.
- D. Shareholders' equity is the amount shareholders will receive in dividends in the future.

ANS: D PTS: 1 TOP: The key financial statements

31. Which of the following statements about an income statement is NOT true?

- A. An income statement provides information on an organisation's profitability at a certain

point in time.

- B. An income statement includes revenues earned during a period, and expenses incurred in earning the revenues.
- C. The expenses may include depreciation.
- D. For revenue to be included, it is not necessary for cash to have been received.

ANS: A PTS: 1 TOP: The key financial statements

32. Which of the following statements about an income statement is true?

- A. An income statement provides information on an organisation's profitability at a certain point in time.
- B. An income statement deducts liabilities from assets to determine shareholders' equity.
- C. The expenses relate to cash payments.
- D. For revenue to be included, it is not necessary for cash to have been received.

ANS: D PTS: 1 TOP: The key financial statements

33. Assets are initially recorded at cost. What assumption/concept underlies this procedure?

- A. Accounting entity
- B. Monetary
- C. Historical cost
- D. Going concern

ANS: C PTS: 1 TOP: Financial statement assumptions

34. A company's assets are differentiated from the senior manager's. What assumption/concept underlies this procedure?

- A. Accounting entity
- B. Monetary
- C. Historical cost
- D. Going concern

ANS: A PTS: 1 TOP: Financial statement assumptions

35. Financial statements are prepared on the premise that the organisation will continue operations in the foreseeable future. To which financial statement assumption does this relate?

- A. Accounting entity
- B. Monetary
- C. Historical cost
- D. Going concern

ANS: D PTS: 1 TOP: Financial statement assumptions

36. The life of a business is divided into equal periods to determine profit or loss for that period. What assumption/concept underlies this procedure?

- A. Materiality
- B. Monetary
- C. Accounting period
- D. Accounting entity

ANS: C PTS: 1 TOP: Financial statement assumptions

37. The owner withdraws inventory for his own use from the business. To which financial statement assumption does this relate?

- A. Materiality
- B. Monetary
- C. Accounting period
- D. Accounting entity

ANS: D PTS: 1 TOP: Financial statement assumptions

38. Which financial statement assumption relates to the procedure where a \$200 paper shredder with a five-year useful life is treated as an expense?
- A. Monetary
  - B. Accounting period
  - C. Materiality
  - D. Historical cost
- ANS: C PTS: 1 TOP: Financial statement assumption

39. The owner of a corner store keeps separate private and business transactions. To which financial statement assumption does this relate?
- A. Materiality
  - B. Accounting entity
  - C. Accounting period
  - D. Going concern
- ANS: B PTS: 1 TOP: Financial statement assumptions

40. Mike's Mulching (MM) had the following assets and liabilities:

	\$
Cash in hand	5 000
Accounts payable	4 000
Inventory	2 700
Accounts receivable	8 100
Office furniture	4 500
Loan from MM	15 000
Motor vehicles	12 000

Shareholders' equity would be:

- A. \$2300.
  - B. \$31 000.
  - C. \$13 300.
  - D. None of the answers provided.
- ANS: C PTS: 1 TOP: The key financial statements
41. A balance sheet:
- A. lists the assets and liabilities at present cash values.
  - B. shows how the resources of an entity change during a period of time.
  - C. shows all facts affecting the financial position of the entity.
  - D. lists the assets, liabilities and owners' equity at a specific point in time.
- ANS: D PTS: 1 TOP: The key financial statements
42. Given the following information, what is the balance of shareholders' equity?

	\$
Cash	30 000
Inventory	60 000
Equipment	200 000
Accounts payable	50 000
Taxes payable	40 000
Loans to the company	150 000

- A. \$40 000
  - B. \$50 000
  - C. \$100 000
  - D. None of the answers provided
- ANS: B PTS: 1 TOP: The key financial statements



43. The Great Drink Company, in preparing its balance sheet, excludes the general manager's personal motor vehicle (not used in the business) because of which of the following accounting assumption?
- A. The historical cost assumption
  - B. The reliability assumption
  - C. The accounting entity assumption
  - D. The accounting period assumption
- ANS: C PTS: 1 TOP: Financial statement assumptions

44. Use the information given below at 30 June 2016 to answer the following question.

	\$
Share capital	200 000
Equipment	300 000
Inventory	60 000
Accounts receivable	40 000
Accounts payable	60 000
Retained profits	160 000
Cash	20 000

What is the balance of total assets at 30 June 2016?

- A. \$400 000
- B. \$420 000
- C. \$580 000
- D. None of the answers provided

ANS: B PTS: 1 TOP: The key financial statements

45. Use the information given below at 30 June 2016 to answer the following question.

	\$
Share capital	200 000
Equipment	300 000
Inventory	60 000
Accounts receivable	40 000
Accounts payable	60 000
Retained profits	160 000
Cash	20 000

What is the balance of shareholder equity?

- A. \$200 000
- B. \$360 000
- C. \$660 000
- D. None of the answers provided

ANS: B PTS: 1 TOP: The key financial statements

46. During 2015 a company makes cash sales of \$900 000. It pays \$300 000 in expenses and owes \$90 000 for services it received in 2015 but payable in 2016. It pays \$150 000 in dividends. What is the profit for 2015?

- A. \$360 000
- B. \$510 000
- C. \$600 000
- D. None of the answers provided

ANS: B PTS: 1 TOP: The key financial statements