

***Financial Management for Decision Makers, Cdn. 2e (Atrill)***

**Chapter 2 Accounting - The Language of Business**

1) Fandango Co. Ltd. acquired a \$45,000 piece of heavy equipment. If they paid for the machine with a bank loan, the change in the balance sheet would be

- A) Assets increase by \$45,000 and long-term liabilities decrease by \$45,000
- B) Only long-term liabilities increase by \$45,000
- C) Assets and long-term liabilities each increase by \$45,000
- D) Long-term liabilities and shareholders equity each increase by \$45,000
- E) Only assets increased by \$45,000.

Answer: C

Diff: 1 Type: MC Page Ref: 20 28-29

Skill: Applied

Question Type: Quantitative

2) A company purchases a high-speed packaging machine for \$100,000. The correct entry for the purchase of Equipment in the fundamental accounting equation is

- A) An increase on the left side
- B) A decrease on the left side
- C) An increase on the right side
- D) A decrease on the right side
- E) Neither side increases or decreases

Answer: E

Diff: 1 Type: MC Page Ref: 19

Skill: Applied

Question Type: Qualitative

3) Accumulated amortization is grouped under

- A) Liabilities with other expense accruals
- B) Shareholders equity and serves to reduce its value
- C) Long-term liabilities as a penitentiary
- D) Expenses on the income statement
- E) Capital assets as a contra account

Answer: E

Diff: 2 Type: MC Page Ref: 20, 28-29

Skill: Recall

Question Type: Qualitative

4) A patent is an example of a(n)

- A) Current asset
- B) Current liability
- C) Intangible asset
- D) Long term liability
- E) Current liability

Answer: C

Diff: 1 Type: MC Page Ref: 20

Skill: Applied

Question Type: Qualitative

5) The following accounts represent the financial status of Fandango Company as of October 1. The business has cash of \$100,000. It must pay its suppliers \$250,000 within 60 days. It has a mortgage outstanding of \$3.1 million, of which \$100,000 is owed within the next 12 months. Inventory totals \$700,000 and the net book value of its land, building and equipment is \$3.6 million. Income tax payable equals \$50,000. It has \$1 million in shareholder's equity. The value of the Company's working capital is

- A) \$300,000
- B) \$350,000
- C) \$800,000
- D) \$400,000
- E) \$1 million

Answer: D

Diff: 2 Type: MC Page Ref: 21

Skill: Applied

Question Type: Quantitative

6) Fandango company reported current liabilities of \$520,000, total assets of \$10,560,000, and shareholders equity of \$4,750,000 on its July balance sheet. Which of the following would the business have to have reported to complete the balance sheet equation?

- A) \$14,790,000 in long-term liabilities
- B) \$5,290,000 in long-term liabilities
- C) \$10,040,000 in long-term liabilities
- D) \$10,040,000 in accumulated amortization
- E) \$14,790,000 in accumulated amortization

Answer: B

Diff: 1 Type: MC Page Ref: 19

Skill: Applied

Question Type: Quantitative

7) On May 15 RAJ Inc. received prepayment of \$132,000 representing the total amount to cover a purchase order requiring delivery of the custom blended product in four equal monthly shipments. The first shipment was scheduled for June 23. RAJ Inc.'s income statement showed

- A) The full amount on the September statement
- B) The full amount on the May statement
- C) The full amount on the June statement
- D) \$33,000 on the May statement
- E) \$33,000 on the June statement

Answer: E

Diff: 2 Type: MC Page Ref: 22

Skill: Applied

Question Type: Quantitative

8) Fandango Co. Ltd. uses straight-line amortization. If the book value of a new piece of equipment is \$36,000 and is expected to last five years with no salvage value, the monthly amortization expense will be

- A) \$360
- B) \$600
- C) \$3,000
- D) \$7,200
- E) \$36,000

Answer: B

Diff: 2 Type: MC Page Ref: 39-40

Skill: Applied

Question Type: Quantitative

9) The Matching Principle used in accounting is consistent with

- A) Cash based accounting practices
- B) The timing of cash inflows and outflows
- C) Calendar based accounting practices
- D) Accrual based accounting practices
- E) Standard credit and collections practices

Answer: D

Diff: 2 Type: MC Page Ref: 24-25

Skill: Applied

Question Type: Qualitative

10) In the previous year, company XYZ had 500,000 shares outstanding, and an EPS of \$1.50 a share. This year, the company performed a buyback of 20% of the outstanding shares and by year end EPS had risen to \$1.60 per share. The remaining shareholders should be

- A) Positive because the company's earnings increased
- B) Positive because shareholder earnings increased
- C) Concerned because the company's earnings declined
- D) Concerned because the number of shares decreased
- E) Unconcerned because share price is not affected by company earnings

Answer: C

Diff: 3 Type: MC Page Ref: 24

Skill: Applied

Question Type: Quantitative

11) CapiCal Enterprises recorded net income of \$20 million for the year. The company has 1,500,000 preferred shares outstanding, with a stated dividend of \$.80. It also has 5 million common shares outstanding. If the company wishes its total dividend payout for the year to equal 20% of its net income, what will be the dividend paid on each common share?

- A) \$.43
- B) \$.56
- C) \$.62
- D) \$.80
- E) \$.82

Answer: B

Diff: 3 Type: MC Page Ref: 24, 25

Skill: Applied

Question Type: Quantitative

12) A company distributed \$612,000 3rd quarter dividends to its 900,000 common shareholders and \$150,000 to its 300,000 preferred shareholders. It recorded a net income of \$1,520,000 for the same quarter. The closing balance of the periods' statement of Retained Earnings was a \$1,287,000. It can be concluded that the opening balance on the Statement of Retained Earnings was

- A) \$529,000
- B) -\$233,000
- C) \$233,000
- D) -\$83,000
- E) \$379,000

Answer: A

Diff: 3 Type: MC Page Ref: 26

Skill: Applied

Question Type: Quantitative

13) Picton Furniture's Dining Department sold 372 units at an average price of \$1,278 each. Sales expenses accounted for \$125,000, Distribution expenses totaled \$24,500 and Administration expenses totaled \$13,500. It costs Picton an average of \$695 to manufacture each unit. What was Picton's gross profit?

- A) \$475,416
- B) \$187,416
- C) \$312,416
- D) \$133,540
- E) \$216,876

Answer: E

Diff: 2 Type: MC Page Ref: 24-25

Skill: Applied

Question Type: Quantitative

14) Over the week, East Wind Chinese Buffet sold 4,820 buffet meals at an average price of \$15 each, which cost the company, on average, \$5.50 each. Salaries accounted for \$24,600, newspaper advertising and coupon expenses were \$8,000, rent was \$4,500 and administration expenses totaled \$3,500. Interest equals \$1,000. Their income tax rate is 31%. What was East Wind's operating income?

- A) \$45,790
- B) \$2,991
- C) \$40,600
- D) \$5,190
- E) \$43,190

Answer: D

Diff: 3 Type: MC Page Ref: 24-25

Skill: Applied

Question Type: Quantitative

15) RAJ Inc. has secured an electronic link with its established customers and can offer Just In Time delivery to their retail locations. The JIT delivery expenses appear on the income statement included in

- A) Cost of Goods Sold
- B) Distribution Expenses
- C) Amortization Expenses
- D) Selling Expenses
- E) Administration Expenses

Answer: B

Diff: 1 Type: MC Page Ref: 24-25

Skill: Applied

Question Type: Qualitative

16) A vacuum moulding machine, originally priced at \$140,000 was purchased for \$100,000 from industrial liquidators. It was subsequently sold five years later for \$75,000. Straight-line accumulated amortization amounted to \$50,000. The sale of the machine produced

- A) A gain of \$5,000
- B) A gain of \$15,000
- C) A loss of \$15,000
- D) A gain of \$25,000
- E) A loss of \$25,000

Answer: D

Diff: 2 Type: MC Page Ref: 25

Skill: Applied

Question Type: Quantitative

17) If a business acquired a \$250,000 loan to buy a new warehouse, it would be recorded on a Cash Flow statement as

- A) An increase in the cash flow from financing activities
- B) An increase in cash flow from investing activities
- C) A decrease in cash flow from operating activities
- D) A decrease in cash flow from financing activities
- E) A decrease in cash flow from investing activities

Answer: A

Diff: 1 Type: MC Page Ref: 30-32

Skill: Applied

Question Type: Qualitative

18) When drawing up the Cash Flow statement, a step in determining the cash flow from operating activities is

- A) Adding accumulated amortization to net income after-tax
- B) Adding accumulated amortization to net income before tax
- C) Deducting increases in current liabilities and adding decreases in current liabilities
- D) Adding the gain on the sale of capital assets, such as land and buildings
- E) Deducting increases in current assets and adding decreases in current assets

Answer: E

Diff: 3 Type: MC Page Ref: 30-32

Skill: Applied

Question Type: Qualitative

19) The Board of Directors for JKJ Manufacturing Inc., set aside \$1 million of retained earnings for capital project allocations. This has the effect of

- A) Restricting the claim of shareholders on the Company's assets
- B) Limiting the potential for the distribution of profits as dividends
- C) Maintaining a \$1 million cash reserve for the company
- D) Moving \$1 million of Retained Earnings to Capital Assets on the Balance Sheet
- E) Limiting the company's growth potential

Answer: B

Diff: 3 Type: MC Page Ref: 26

Skill: Applied

Question Type: Qualitative

20) An increase in \_\_\_\_\_ represents a cash inflow from operating activities.

- A) Inventory
- B) Accounts receivable
- C) Accrued salaries
- D) Prepaid rent
- E) An organization

Answer: C

Diff: 1 Type: MC Page Ref: 33

Skill: Applied

Question Type: Qualitative

21) Each of the five sales representatives at CapiCal Enterprises were provided with automobiles valued at \$25,000 each. The purchase was made 26 months ago, two months before the end of the fiscal year. The cars have an expected lifetime of seven years each. What is the maximum CCA [capital cost allowance] the Company can claim on its annual tax return at the end of 26 months?

- A) \$37,500
- B) \$26,250
- C) \$22,313
- D) \$18,375
- E) \$17,857

Answer: C

Diff: 3 Type: MC Page Ref: 40,41

Skill: Applied

Question Type: Quantitative

22) Trekker Trash & Recycling Ltd. bought a prefabricated building at a cost of \$150,000 to house partially processed materials. The building was erected at the end of March, and its expected lifetime is 15 years. Buildings have a 4% CCA rate. What is the maximum amount of CCA can Trekker Trash claim for the fiscal year at its end in December?

- A) \$4,500
- B) \$3,000
- C) \$10,000
- D) \$7,500
- E) \$6,000

Answer: B

Diff: 2 Type: MC Page Ref: 40,41

Skill: Applied

Question Type: Quantitative

23) A Terminal Loss occurs when the selling price of a company's asset is

- A) Equal to the undepreciated capital cost (UCC)
- B) Higher than the undepreciated capital cost (UCC)
- C) Less than the undepreciated capital costs (UCC)
- D) Higher than the book value of the asset
- E) Less than book value, but higher than the undepreciated capital costs (UCC)

Answer: C

Diff: 2 Type: MC Page Ref: 41,42

Skill: Recall

Question Type: Qualitative

24) A factory was gutted by fire and none of its machinery was salvaged. The machinery was underinsured. The closing balance of the undepreciated capital cost (UCC) account to which the machinery had belonged was \$9,750,000 of which \$1,113,500 represented the lost assets. The CCA rate on this asset class is 30%. On the year's income tax return, the company

- A) Can claim \$3,704,450 to realize the full CCA on the lost assets
- B) Can claim \$2,590,950
- C) Cannot use any portion of the \$1,113,500 nor can it use it in the future as the assets no longer exist
- D) Can claim \$2,925,000
- E) Cannot use any portion of the \$1,113,500 until replacement assets have been purchased

Answer: D

Diff: 3 Type: MC Page Ref: 40,41

Skill: Applied

Question Type: Quantitative



25) When an asset, which had been in use for several years, is sold at a price that exceeds the balance in the UCC account but is less than book value

- A) The excess amount is called CCA
- B) The excess amount is called is a capital gain
- C) The excess amount is called recaptured CCA
- D) The excess amount reduce taxable income
- E) The excess amount is not considered income

Answer: C

Diff: 1 Type: MC Page Ref: 41

Skill: Applied

Question Type: Qualitative

26) JKJ Manufacturing Inc.'s Income Statement for the year reported Sales Revenue of \$44,350,000. Cost of Goods Sold was 35% of Sales Revenue. Sales, Administration and Distribution expenses were \$19,750,000. Interest charges amounted to \$1,200,000. There were no differences between accounting income and taxable income. If the federal tax rate is 20.5% and the provincial rate is 16%, what is JKJ Manufacturing Inc.'s taxes payable?

- A) \$2,875,287.50
- B) \$6,027,975
- C) \$1,614,887.50
- D) \$1,260,400
- E) \$3,313,287.50

Answer: A

Diff: 2 Type: MC Page Ref: 39, 40, 44

Skill: Applied

Question Type: Quantitative

27) Adjustments must be made from accrual-based accounting records to be consistent with the Canadian Income Tax Act. One such adjustment is

- A) The unfunded portion of pension expenses must be estimated to be tax-deductible
- B) Cash payouts in support of warranties must be estimated to be tax deductible
- C) Dividends received from Canadian corporations must be added into taxable income
- D) Amortization expense that is declared must conform to CCA rate maximums
- E) Income earned is declared according to the calendar year, not incorporate fiscal year

Answer: D

Diff: 2 Type: MC Page Ref: 41

Skill: Recall

Question Type: Qualitative

28) A company's financial statements two years ago showed a net income after taxes of \$1,235,000 and a year ago, \$877,500. This year the company reported a loss of \$1,550,000. If the Company's tax rate has remained unchanged at 35% for these years, what refund will it be eligible to receive?

- A) No refund. Losses are carried forward.
- B) \$542,500
- C) \$775,250
- D) \$196,875
- E) \$1,550,000

Answer: B

Diff: 3 Type: MC Page Ref: 44-45

Skill: Applied

Question Type: Quantitative

29) If losses are to be carried forward the amount is

- A) Multiplied by the expected future tax rate and is entered as a liability
- B) Entered in its entirety as a deferred tax liability
- C) Entered in its entirety as a prepaid tax under current assets
- D) Entered in its entirety as an extraordinary gain
- E) Multiplied by the expected future tax rate and entered as an asset

Answer: E

Diff: 2 Type: MC Page Ref: 44

Skill: Applied

Question Type: Qualitative

30) The federal plus provincial income tax brackets [rounded to thousands and inclusive] are as follows: Up to \$20,000 is 15%, \$21,000-\$50,000 is 25%, \$51,000 to \$90,000 is 32%, \$91,000 up to \$130,000 is 36%, and over \$130,000 is 41%. Kenneth Sloan's annual income is \$110,000 after deductions, what is his tax payable?

- A) \$28,400
- B) \$30,500
- C) \$35,200
- D) \$37,700
- E) \$39,600

Answer: B

Diff: 3 Type: MC Page Ref: 45

Skill: Applied

Question Type: Quantitative

31) An asset was purchased midway into the fiscal year for \$844,200. It was used to by the company for 17 months before being sold for \$870,000. If the CCA class rate is 25%, the CCA recaptured is \$315,994 and the Company's tax rate is 40%, how much corporate income tax will the company pay?

- A) \$10,320
- B) \$126,000
- C) \$131,557
- D) \$136,320
- E) \$139,290

Answer: C

Diff: 2 Type: MC Page Ref: 41, 42

Skill: Applied

Question Type: Quantitative

32) Marcus Lalonde received \$1,835.00 in cash dividends from Canadian corporations whose shares are in his personal portfolio. Marcus faces a problem of double taxation because

- A) The tax rate on passive income such as dividends is twice as high as on income from employment.
- B) He is liable for income taxes on these dividends. However, the cash represents income from corporations which have already paid income tax on those earnings
- C) He is liable for the income tax on these dividends and may be liable for capital gains tax upon sale of the shares that produced the dividends
- D) The tax treatment on dividends is similar to withdrawals from RRSP's. A portion of the dividend is withheld by Revenue Canada upon the issue of the dividends and the portion that is taken into income is taxed
- E) He will be taxed on the dividends taken into income this year and will be taxed for the total amount of dividends he has received while holding the shares upon the sale of shares

Answer: B

Diff: 2 Type: MC Page Ref: 47

Skill: Applied

Question Type: Qualitative

33) Long Ltd. received cash from various activities as follows: \$50,000 from interest earned on bonds it had purchased from IBM; \$200,000 from a sale of inventory to GM; and \$1,000,000 from a sale of its own shares to Manulife. How would these items appear on the cash flow statement?

- A) Operating activities \$50,000; investing activities \$200,000; financing activities \$1,000,000.
- B) Operating activities \$200,000; investing activities \$1,000,000; financing activities \$50,000.
- C) Operating activities \$1,000,000; investing activities \$50,000; financing activities \$200,000.
- D) Operating activities \$(50,000); investing activities \$(200,000); financing activities \$(1,000,000).
- E) Operating activities \$200,000; investing activities \$0; financing activities \$1,050,000.

Answer: E

Diff: 2 Type: MC Page Ref: 30-32

Skill: Applied

Question Type: Quantitative

34) Short Ltd. received cash of \$400,000 from a sale to Toronto Glass and \$450,000 from a sale of a used machine to Oshawa Fibres. Short Ltd. paid \$35,000 interest on bonds it had sold to Bankers' Trust. How would these items appear on the cash flow statement?

- A) Operating activities \$400,000; investing activities \$450,000; financing activities \$35,000.
- B) Operating activities \$450,000; investing activities \$35,000; financing activities \$400,000.
- C) Operating activities \$35,000; investing activities \$400,000; financing activities \$450,000.
- D) Operating activities \$400,000; investing activities \$450,000; financing activities \$(35,000).
- E) Operating activities \$(400,000); investing activities \$(450,000); financing activities \$(35,000).

Answer: D

Diff: 2 Type: MC Page Ref: 30-32

Skill: Applied

Question Type: Quantitative

35) Midday Ltd. received cash of \$4,000 from a sale to Sirius Ltd., \$50,000 from a sale of a used machine to Foolish Inc., and \$70,000 dividends on shares it owns in of Gong Ltd. How would these items appear on the cash flow statement?

- A) Operating activities \$4,000; investing activities \$50,000; financing activities \$70,000.
- B) Operating activities \$70,000; investing activities \$4,000; financing activities \$50,000.
- C) Operating activities \$50,000; investing activities \$70,000; financing activities \$4,000.
- D) Operating activities \$(4,000); investing activities \$(50,000); financing activities \$(70,000).
- E) Operating activities \$(70,000); investing activities \$(4,000); financing activities \$(50,000).

Answer: A

Diff: 3 Type: MC Page Ref: 30-32

Skill: Applied

Question Type: Quantitative

36) Allison Controls Ltd. follows a policy of paying cash for everything it buys. At the end of 2011 Allison had a balance in its machine account of \$90,000 and the associated accumulated depreciation account of \$45,000. Similar amounts at the end of 2010 were \$100,000 and \$50,000 respectively. During 2011 Allison sold a machine for \$10,000. It had cost \$25,000 and had accumulated depreciation of \$10,000 at the time of the sale. How would these amounts appear on the cash flow statement?

- A) Operating activities \$(5,000); investing activities \$(10,000); financing activities \$15,000.
- B) Operating activities \$0; investing activities \$(5,000); financing activities \$0.
- C) Operating activities \$25,000; investing activities \$35,000; financing activities \$90,000.
- D) Operating activities \$0; investing activities \$0; financing activities \$15,000.
- E) Operating activities \$5,000; investing activities \$0; financing activities \$0.

Answer: B

Diff: 3 Type: MC Page Ref: 34

Skill: Applied

Question Type: Quantitative

37) Allison Controls Ltd. follows a policy of paying cash for everything it buys. At the end of 2011 Allison had a balance in its machine account of \$90,000 and the associated accumulated depreciation account of \$45,000. Similar amounts at the end of 2010 were \$100,000 and \$50,000 respectively. During 2011 Allison sold a machine for \$10,000. It had cost \$25,000 and had accumulated depreciation of \$10,000 at the time of the sale. How would these amounts appear on the income and cash flow statements?

- A) A loss of \$5,000 on the income statement and a net cash outflow of \$5,000 on the cash flow statement.
- B) A loss of \$10,000 on the income statement and a net cash outflow of \$15,000 on the cash flow statement.
- C) A loss of \$15,000 on the income statement and a net cash outflow of \$25,000 on the cash flow statement.
- D) A loss of \$20,000 on the income statement and a net cash outflow of \$10,000 on the cash flow statement.
- E) A loss of \$30,000 on the income statement and a net cash outflow of \$20,000 on the cash flow statement.

Answer: A

Diff: 3 Type: MC Page Ref: 24,25,34

Skill: Applied

Question Type: Quantitative

38) Which part(s) of the cash flow statement does the direct method cash flow statement alter?

- A) Operating activities.
- B) Investing activities.
- C) Financing activities.
- D) Operating and investing activities.
- E) Investing and financing activities.

Answer: A

Diff: 1 Type: MC Page Ref: 31

Skill: Recall

Question Type: Qualitative

39) In the direct cash flow method, which part of the cash flow statement do heating expenses paid affect?

- A) Operating activities cash inflows.
- B) Operating activities cash outflows.
- C) Investing activities cash inflows.
- D) Investing activities cash outflows.
- E) Financing activities cash inflows.

Answer: B

Diff: 1 Type: MC Page Ref: 31

Skill: Applied

Question Type: Qualitative

- 40) Which of the following statements best describes the purpose of the dividend tax credit?
- A) The dividend tax credit attempts to counteract other tax breaks enjoyed by investors.
  - B) The dividend tax credit attempts to provide more revenue for cash-strapped governments.
  - C) The dividend tax credit attempts to entice more corporations to list their shares on the TSX.
  - D) The dividend tax credit attempts to counteract double taxation on investors.
  - E) The dividend tax credit attempts to counteract the non-deductibility of dividends for corporations.

Answer: D

Diff: 1 Type: MC Page Ref: 47

Skill: Recall

Question Type: Qualitative

- 41) The current assets of KLM Inc. totalled \$145,000 while its current liabilities were \$200,000. Which of the following best describes KLM's situation?

- A) KLM's cash sales were too low during the current year.
- B) KLM's spending was too high during the current period.
- C) KLM's financial viability is at risk for the current period.
- D) KLM's inventory was too high during the current period.
- E) KLM's accrued wages were too high during the current period.

Answer: A

Diff: 2 Type: MC Page Ref: 21

Skill: Applied

Question Type: Qualitative

- 42) Which of the following represents the best description of accumulated depreciation?

- A) Accumulated depreciation is a non-cash expenditure on the cash flow statement.
- B) Accumulated depreciation is a contra asset on the balance sheet.
- C) Accumulated depreciation is an expense on the income statement.
- D) Accumulated depreciation is an allocation of costs over the life of the asset.
- E) Accumulated depreciation is an expense that is not permitted under IFRS.

Answer: B

Diff: 1 Type: MC Page Ref: 27, 28, 39, 40

Skill: Recall

Question Type: Qualitative