

Chapter 01 - Business Decisions and Financial Accounting

Chapter 01
Business Decisions and Financial Accounting

True / False Questions

1. Building a new warehouse is an operating activity.

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

2. The payment of dividends is a financing activity.

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

3. Daily activities involved in running a business such as buying supplies and paying wages are operating activities.

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

Chapter 01 - Business Decisions and Financial Accounting

4. Financing activities include borrowing and obtaining money by issuing shares of ownership (called stock certificates).

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

5. Shareholders are creditors of a company.

FALSE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-10 Shareholders' Equity

6. All corporations acquire financing by issuing shares of ownership (called stock certificates) for sale on public stock exchanges.

FALSE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-04 Corporation

7. You paid \$10,000 to buy 1% of the stock in a corporation that has now gone bankrupt. The company owes \$10 million dollars to creditors. As a result of the bankruptcy, you will lose \$100,000.

FALSE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-04 Corporation

8. The shareholders' equity in a company is the difference between assets and liabilities.

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-10 Shareholders' Equity

9. A company owes \$200,000 on a bank loan. If this loan is documented using a formal written debt contract, it will be reported as a liability called Notes Payable.

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-09 Liabilities

10. The accounting decisions that were made when preparing a company's financial statements are explained in the auditor's report.

FALSE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

11. Under the unit of measure concept, a Canadian company would report the data on the financial statements in Canadian dollars.

TRUE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-20 Generally Accepted Accounting Principles

12.

ANONYMOUS, INC. BALANCE SHEET SEPTEMBER 30, 2007	
Assets	
Cash	\$1,568,000
Accounts Receivable	310,500
Inventories	208,200
Property, Plant, and Equipment	391,600
Other Assets	<u>869,400</u>
Total Assets	<u>\$3,347,700</u>
Liabilities	
Accounts Payable	\$1,439,200
Notes Payable	<u> ?</u>
Total Liabilities	<u> ?</u>
Shareholders' Equity	
Contributed Capital	1,263,600
Retained Earnings	<u>207,100</u>
Total Shareholders' Equity	<u>1,470,700</u>
Total Liabilities and shareholders' Equity	<u>\$3,347,700</u>

Notes Payable would equal \$437,800 and Total Liabilities would equal \$1,877,000 on the balance sheet.

TRUE

Blooms: Analyze

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

13.

ANONYMOUS,INC BALANCE SHEET SEPTEMBER 30, 2007	
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Total Liabilities and shareholders' Equity	<u>\$3,347,700</u>

The \$207,100 shown on the balance sheet has been distributed to shareholders as dividends.
FALSE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

14.

ANONYMOUS,INC BALANCE SHEET SEPTEMBER 30, 2007	
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Anonymous, Inc. is owed \$310,500 from customers who have purchased goods or services from the company, but have not yet paid for them.

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

Chapter 01 - Business Decisions and Financial Accounting

15. The total net income from the income statement is ***always*** included in the Statement of Retained Earnings.

TRUE

Blooms: Analyze

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-11 Financial Statements

16. The income statement shows the assets and liabilities of the company at a point in time.

FALSE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

17. The income statement primarily shows whether a business made a profit from selling goods or providing services after subtracting the costs of doing business.

TRUE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

18. Net income is the amount the company earned after expenses and dividends are subtracted from revenue.

FALSE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

19. Expenses are shown on the income statement only in the time period in which they are paid.

FALSE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

20. In the Statement of Cash Flows, cash inflows are positive numbers while cash outflows are negative.

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

21. Cash at the end of the year is the sum of cash at the beginning of the year and the net change in cash during the year.

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

22. Cash flow from investing activities includes money received from a company's shareholders.

FALSE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

23. The balance sheets at the beginning and end of a time period are linked by the income statement, the statement of cash flows, and the statement of retained earnings for the time period.

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-11 Financial Statements

24. Shareholders in a corporation are personally liable for the company's obligations.

FALSE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-04 Corporation

25. Notes to the financial statements (also known as footnotes) immediately follow the four individual financial statements, and include descriptions of accounting decisions made when preparing the financial statements.

TRUE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-16 Notes to the Financial Statements

26. Just like footnotes in some articles and books, notes to the financial statements (also known as footnotes) report extra information that is not relevant to the financial statements.

FALSE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-16 Notes to the Financial Statements

27. Investors analyze the income statement to identify trends in a company's net income, which can provide clues about the company's future earnings.

TRUE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

28. When a company goes bankrupt, assets are divided equally between creditors and investors.

FALSE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-03 Explain how financial statements are used by decision makers.

Topic: 01-19 Useful Financial Information

29. Statement of retained earnings is prepared before the income statement.

FALSE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-11 Financial Statements

30. Questionable ethical practices can make it harder for a company to attract lenders and investors in the future.

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-21 Ethical Conduct

31. Managerial accounting reports include detailed financial plans and continually updated reports about the operating performance of the company.

TRUE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-06 Accounting For Business Decisions

32. External financial statement users are not given access to detailed internal records of the company, so they rely extensively on the financial statements.

TRUE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-06 Accounting For Business Decisions

33. The separate entity assumption requires that a business's financial reports include only the activities of the business and its shareholders.

FALSE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-20 Generally Accepted Accounting Principles

34. Resources owed to banks and other creditors must equate to total assets.

FALSE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-07 The Basic Accounting Equation

35. Within shareholders equity, the contributed capital and retained earnings accounts must balance each other out.

FALSE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-07 The Basic Accounting Equation

36. Private enterprises in Canada are required by law to follow ASPE, if they earn a profit.

FALSE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

37. According to the cost principle of accounting, assets are initially reported on the balance sheet based on their original cost to the company.

TRUE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

38. It is not possible for a receivable to ever be considered a liability.

TRUE

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

39. Under IFRS it is possible for a payable to be recorded as an asset.

FALSE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-20 Generally Accepted Accounting Principles

40. Under modern accounting standards, it is more important for larger companies to behave ethically, than it is for smaller ones.

FALSE

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-21 Ethical Conduct

Multiple Choice Questions

41. Which of the following would ***not*** represent a financing activity?

A. Paying dividends to shareholders.

B. An investment of financial capital by the owners.

C. Borrowing money from a bank to finance the purchase of new equipment.

D. Collecting cash from customers.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

42. Investing activities:

- A. involve day to day events like selling goods and services, which occur when running a business.
- B.** involve the buying or selling of land, buildings, equipment, and other longer-term investments.
- C. only involve financial exchanges.
- D. buying the company's office supplies.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

43. Public corporations:

- A. are businesses owned by two or more people, each of whom is personally liable for the debts of the business.
- B.** are businesses whose stock is bought and sold on a stock exchange.
- C. are businesses whose stock is bought and sold privately.
- D. are setup for non-profit purposes.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-04 Corporation

44. Which of the following would represent an operating activity?

- A. Purchasing equipment with money borrowed from creditors.
- B. An investment of financial capital by the owners.
- C.** Buying the company's office supplies.
- D. Repaying a loan the company had taken out.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

45. The separate entity assumption means:

- A. a company's financial statements reflect only the business activities of that company and not that of the shareholders.
- B. each shareholders' activities must be revealed in the financial statements.
- C. each separate owner's finances must be revealed in the financial statements.
- D. each separate entity that has a claim on a company's assets must be shown in the financial statements.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-20 Generally Accepted Accounting Principles

46. Which of the following are the **disadvantages** of setting a corporation?

- A. Legal fees can be high and separate tax returns have to be filed for owners and the business.
- B. Owners are legally responsible for the liabilities of the corporation.
- C. Owners must be involved in day to day running of the business.
- D. The business and owners are considered as separate legal entities.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-04 Corporation

47. Which of the following is one reason a new start up could have a negative investing cash flow?

- A. Company needs cash to buy to purchase new equipment/plant and expand business.
- B. Company is having problems generating profits.
- C. Company needs to pay dividends to its shareholders.
- D. Company has borrowed money from banks/investors and is having problems paying them back.

Blooms: Analyze

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

Chapter 01 - Business Decisions and Financial Accounting

48. Creditors are:

- A. people or organizations who owe money to a business.
- B. people or organizations to whom a business owes money.**
- C. shareholders of a business.
- D. customers of a business.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-06 Accounting For Business Decisions

49. An entity that is holding assets for another party and has legal authority and duty to make decisions regarding financial matters concerning that party is:

- A. fiduciary.**
- B. accountant.
- C. attorney.
- D. manager.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-19 Useful Financial Information

50. The three main types of business activities measured by financial statements are:

- A. selling goods, selling services, and obtaining financing.
- B. operating activities, investing activities, and financing activities.**
- C. hiring, producing, and advertising.
- D. generating revenues, paying expenses, and incurring dividends.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-17 Relationships among the Financial Statements

51. Financing that individuals or institutions have provided to a company is:

A. always classified as liabilities.

B. classified as liabilities when provided by creditors and shareholders' equity when provided by owners.

C. always classified as shareholders' equity.

D. classified as shareholders' equity when provided by creditors and liabilities when provided by owners.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

52. Financial statements are most commonly prepared:

A. semi-monthly.

B. monthly, quarterly and annually.

C. whenever management feels like it.

D. weekly.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-11 Financial Statements

53. Which of the following is true?

A. Companies are allowed to choose their fiscal year-end date.

B. Companies must end their fiscal year on March 31, June 30, September 30, or December 31.

C. Companies can select any date except a holiday to end their fiscal year.

D. Companies must end their fiscal year on December 31.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-11 Financial Statements

54. Assets:

- A. represent the amounts earned by a company.
- B. must equal the liabilities of a company.
- C. must equal the shareholders' equity of the company.
- D.** represent the resources controlled by a company.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-08 Assets

55. Which of the following are the three basic elements of the balance sheet?

- A. Assets, liabilities, and retained earnings.
- B. Assets, liabilities, and contributed capital.
- C. Assets, liabilities, and revenues.
- D.** Assets, liabilities, and shareholders' equity.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

56. The Don't Bite Me pest control company has 10,000 gallons of insecticide supplies on hand that cost \$300,000; a bill from the vendor for \$100,000 of these supplies has not yet been paid. The company expects to earn \$800,000 for its services when it uses the insecticide supplies. The company would report:

- A. \$300,000 in assets under supplies and no accounts payable.
- B. \$200,000 in assets under supplies and no accounts payable.
- C.** \$300,000 in assets under supplies and \$100,000 in liabilities under accounts payable.
- D. \$800,000 in assets under supplies and \$100,000 in liabilities under accounts payable.

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Hard

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

57. The Publish or Perish Printing Company paid a dividend to shareholders. This will be reported on the:

- A. audit report.
- B. income statement.
- C. balance sheet.
- D.** statement of retained earnings.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

58. Which of the following is not true?

- A. $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$
- B. $\text{Liabilities} = \text{Assets} - \text{Shareholders' Equity}$
- C. $\text{Shareholders' Equity} + \text{Liabilities} - \text{Assets} = 0$
- D.** $\text{Liabilities} - \text{Shareholders' Equity} = \text{Assets}$

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-07 The Basic Accounting Equation

59. Which of the following would affect shareholders' equity?

- A. A company borrows \$100 million and buys \$100 million in equipment.
- B.** A company pays \$100 million to shareholders as a dividend.
- C. A company sells \$100 million in assets for \$100 million cash.
- D. A company receives payment for \$100 million in accounts receivable.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

60. At the end of last year, the company's assets totalled \$860,000 and its liabilities totalled \$740,000. During the current year, the company's total assets increased by \$58,000 and its total liabilities increased by \$24,000. At the end of the current year:

- A. shareholders' equity was \$154,000.
- B. shareholders' equity was \$120,000.
- C. shareholders' equity was \$34,000.
- D. shareholders' equity was \$178,000.

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Hard

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

61. A company's balance sheet contained the following information:

Contributed Capital	\$12,000	Total Assets	\$176,000
Accounts Payable	\$64,000	Retained Earnings	\$28,000

Assuming Notes Payable is the only other item on the balance sheet:

- A. Notes Payable must equal \$200,000.
- B. Notes Payable must equal \$8,000.
- C. Notes Payable must equal \$72,000.
- D. Notes Payable must equal \$344,000.

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Hard

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

62. During its first year of operations, Widgets Incorporated reported sales revenue of \$386,000 but collected only \$303,000 from customers. The amount to be reported as accounts receivable at the end of the year is:

- A. \$689,000.
- B. \$386,000.
- C. \$303,000.
- D.** \$83,000.

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

63. If XYZ Company had \$12 million in revenue and net income of \$3 million then its:

- A. expenses must have been \$15 million.
- B.** expenses must have been \$9 million.
- C. assets must have been \$12 million.
- D. assets must have been \$3 million.

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

64. The Whackem-Smackem Software Company sold \$11 million of computer games in its first year of operations. The company received payments of \$7.5 million for these computer games. The company's income statement would report:

- A. sales revenue of \$7.5 million.
- B. accounts receivable of \$3.5 million.
- C. expenses of \$3.5 million.
- D.** sales revenue of \$11 million.

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

Chapter 01 - Business Decisions and Financial Accounting

65. Dividends are reported on the:

- A. Income statement.
- B. Balance sheet.
- C. Statement of retained earnings.
- D. Income statement and balance sheet.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-13 The Statement of Retained Earnings

66. Which of the following would not affect a company's net income?

- A. A change in the company's income taxes.
- B. Changing the selling price of a company's product.
- C. Paying a dividend to shareholders.
- D. Advertising a new product.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

67. Which of the following would be reported on the income statement for 2005?

- A. Supplies that were purchased and used in 2004 but paid for in 2005.
- B. Dividends that were paid in 2005.
- C. Supplies that were purchased and used in 2005 but paid for in 2004.
- D. All of the choices are correct.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

68. Find the missing data.

CINNAMON AND SPICE, INC.	
Income Statement	
For the Year Ended December 31, 2008	
Revenues	
Sales Revenue	<u>\$3,810,200</u>
Total Revenues	<u> ?</u>
Expenses	
Wages Expense	1,314,900
Advertising and Promotion Expenses	482,200
Other Selling and Administrative Expenses	?
Interest Expense	225,600
Income Tax Expense	117,700
Other Expenses	<u>253,700</u>
Total Expenses	<u>3,445,600</u>
Net Income	<u>\$?</u>

- A.** Total revenues are \$3,810,200, other selling and administrative expenses are \$1,051,500, and net income is \$364,600.
- B.** Total revenues are \$2,495,300, other selling and administrative expenses are \$1,051,500, and net income is (\$950,300).
- C.** Total revenues are \$364,600, other selling and administrative expenses are \$3,081,000, and net income is \$7,255,800.
- D.** Total revenues are \$3,810,200, other selling and administrative expenses are \$364,600, and net income is \$7,255,800.

Blooms: Analyze

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

69. Which of the following is **not** true?

HOOPER'S HOPS	
Statement of Retained Earnings	
For the Year Ended December 31, 2008	
Retained Earnings, January 1, 2008	\$167,800
Net Income for 2008	219,100
Dividends for 2008	<u>(36,400)</u>
Retained Earnings, December 31, 2008	<u>\$350,500</u>

- A. Retained earnings of \$350,500 will appear on the balance sheet as of December 31, 2008.
- B. The net income in the statement came from the income statement for the year ended December 31, 2008.
- C. Dividends are shown in parenthesis because they are payments made by a company to its shareholders as a return on their investment.
- D.** Retained earnings are the amount of distributions made to the shareholders since the company started.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-13 The Statement of Retained Earnings

70. Which of the following statements is true?

- A. The "net change in cash" reported on the statement of cash flows is also reported on the statement of retained earnings.
- B.** Both the income statement and the statement of cash flows show the results of a company's operating activities.
- C. The statement of cash flows is for a period of time while the income statement is at a point in time.
- D. The statement of cash flows is at a point of time while the income statement is for a period of time.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-11 Financial Statements

71.

GIL'S FISHING EQUIPMENT, INC. Statement of Cash Flows For the Year Ended December 31,2008	
Cash flows from operating activities	
Cash collected from customers	A
Cash paid to suppliers and employees	B
Cash paid for other operating activities	<u>C</u>
Net cash flow from operating activities	
Cash flows from investing activities	
Cash paid to purchase equipment and other assets	D
Cash received from selling equipment and other assets	<u>E</u>
Net cash flow from investing activities	
Cash flows from financing activities	
Cash paid on notes payable	F
Cash paid for dividends	<u>G</u>
Net cash flow from financing activities	
Net change in cash during the year	
Cash at beginning of year	
Cash at end of year	

In the statement of cash flows which letters represent cash outflows?

- A. B, C, D, F and G.
- B. A, E and G.
- C. B, C, E and F.
- D. A, E, F and G.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

72.

GIL'S FISHING EQUIPMENT, INC. Statement of Cash Flows For the Year Ended December 31,2008	
Cash flows from operating activities	
Cash collected from customers	<u>A</u>
Cash paid to suppliers and employees	<u>B</u>
Cash paid for other operating activities	<u>C</u>
Net cash flow from operating activities	
Cash flows from investing activities	
Cash paid to purchase equipment and other assets	<u>D</u>
Cash received from selling equipment and other assets	<u>E</u>
Net cash flow from investing activities	
Cash flows from financing activities	
Cash paid on notes payable	<u>F</u>
Cash paid for dividends	<u>G</u>
Net cash flow from financing activities	
Net change in cash during the year	
Cash at beginning of year	
Cash at end of year	

In the statement of cash flows which letters represent cash inflows?

A. B, C, D, F and G.

B. A, E and G.

C. B, C, E and F.

D. A and E.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

73. Assets are listed on the balance sheet in order of:

- A. date acquired.
- B. liquidity.**
- C. estimated replacement date.
- D. value.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

74. In the statement of cash flows, the company's payment of a \$1,900 electric bill would be classified as:

- A. an operating cash outflow.**
- B. a financing cash outflow.
- C. an investing cash inflow.
- D. an operating cash inflow.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

75. In Canada, Generally Accepted Accounting Principles (GAAP) are established:

- A. by the Chartered Professional Accountants of Canada (CPA Canada)**
- B. by the Public Company Accounting Oversight Board.
- C. by the Financial Accounting Standards Board.
- D. by the International Accounting Standards Board

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

76. The purpose of a statement of retained earnings is to:

- A. estimate the current value of a company's assets.
- B.** report how the profits of a company have been distributed to shareholders or retained in the business.
- C. show where the money is flowing into and out of a company.
- D. explain the specific revenues and expenses arising during the period.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-13 The Statement of Retained Earnings

77. Which of the following is a publicly accountable profit-oriented enterprise?

- A.** A publicly traded corporation
- B. A crown corporation
- C. A sole proprietorship
- D. A partnership

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Learning Objective:

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-04 Corporation

78. In which of the following business organization the owners could only lose the money they invested in the business?

- A. A Crown corporation.
- B. A sole proprietorship.
- C.** A corporation.
- D. A partnership.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-04 Corporation

Chapter 01 - Business Decisions and Financial Accounting

79. If a company uses \$50,000 of its cash to buy an asset then:

- A. assets and liabilities will be unchanged.
- B. assets will rise \$50,000 as will liabilities.
- C. assets will rise \$50,000 as will shareholders' equity.
- D. assets will fall \$50,000 and liabilities will rise \$50,000.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

80. During 2007, a company's assets rise \$56,000 and its liabilities rise \$38,000. If no dividend is paid and no further capital is contributed, shareholders' equity would:

- A. rise \$56,000.
- B. rise \$18,000.
- C. fall \$38,000.
- D. fall \$94,000.

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

81. Which of the following is **not** an expense?

- A. Wages of employees.
- B. Interest incurred on a loan the company had taken out.
- C. Dividends.
- D. Corporate income tax.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

82. Which of the following is **incorrect** about the notes to the financial statements:
- A. explain what accounting policies were used to prepare the financial statements.
 - B. provide additional information about what is included in the financial statements.
 - C. provide additional information about financial matters that are not included in the financial statements.
 - D.** certify to the fact that the statements have been audited.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-16 Notes to the Financial Statements

83. Every financial statement should have "who, what, and when" in its heading. These are:
- A. the name of the person preparing the statement, the type of financial statement, and when the financial statement was reported to the Stock Exchange.
 - B. the name of the person preparing the statement, the name of the company, and the date the statement was prepared.
 - C.** the name of the company, the type of financial statement, and the time period from which the data were taken.
 - D. the name of the company, the purpose of the statement, and when the financial statement was reported to the Canada Revenue Agency.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-11 Financial Statements

84. Notes payable are like accounts payable **except** that they:
- A. Charge interest
 - B. Can be outstanding for long periods (more than one year)
 - C. Are documented using formal documents called notes
 - D.** All of the above

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

85. On the balance sheet, inventories are reported as:

- A. a liability, because goods in inventory are tying up a company's money without earning income.
- B. an asset, because goods in inventories are owned by the company.**
- C. an expense, because goods in inventory have been paid for but not yet sold.
- D. a revenue, because goods in inventory will be sold in the future.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

86. The WC Company borrowed \$26,500 from a bank during 2007.

- A. This would be listed as (\$26,500) under investing activities on the statement of cash flows.
- B. This would be listed as (\$26,500) under operating activities on the statement of cash flows.
- C. This would be listed as \$26,500 under investing activities on the statement of cash flows.
- D. This would be listed as \$26,500 under financing activities on the statement of cash flows.**

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

87. Which of the following is **not** an alternative term used for the income statement?

- A. Statement of Income.
- B. Statement of Financial Position.**
- C. Statement of Earnings.
- D. Profit and Loss Statement.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

88. A investor might look at a company's financial statements to determine if the:

- A. company is likely to have the resources to repay its debts.
- B. company's stock is likely to fall, signalling a good time to sell.
- C. company's stock is likely to rise, signalling a good time to buy.
- D. company is likely to pay a good dividend.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-03 Explain how financial statements are used by decision makers.

Topic: 01-18 Using Financial Statements

89. An creditor might look at a company's financial statements to determine if the company's:

- A. earnings are rising or falling.
- B. stock is likely to fall, signalling a good time to sell.
- C. stock is likely to rise, signalling a good time to buy.
- D. company has enough assets to cover its liabilities.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-03 Explain how financial statements are used by decision makers.

Topic: 01-18 Using Financial Statements

90. What would a financial statement user learn from reading the auditors' report?

- A. Whether the financial statements present a fair picture of the company's financial results.
- B. Whether the financial statements are prepared by the auditors.
- C. Whether the financial statements are prepared in accordance with GAAP.
- D. Whether the financial statements are accurate picture of the company's financial results.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-03 Explain how financial statements are used by decision makers.

Topic: 01-19 Useful Financial Information

91. In which of the following business organization is the business considered separate from the owners:

- A. A state-owned entity.
- B. A sole proprietorship.
- C. A corporation.
- D. A partnership.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-04 Corporation

92. Internal financial statement users include:

- A. investors interested in the company.
- B. creditors of the company.
- C. management of the company.
- D. stock exchanges.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-06 Accounting For Business Decisions

93. Investors are often interested in the amount of net income distributed as dividends. In which section of the financial statements would investors look to find this amount?

- A. Statement of retained earnings.
- B. Balance sheet.
- C. Notes to the financial statements.
- D. Income statement.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-13 The Statement of Retained Earnings

94. A company's quarterly income statements show that in the last three quarters both sales revenue and net income have been growing. Which of the following statements is **not** true?

- A. Creditors are likely to conclude that the risk of lending to the company is falling and be willing to accept a lower interest rate on loans.
- B. Investors are likely to conclude that the stock price is likely to rise, making the company more attractive as a potential investment.
- C. Investors are likely to conclude that the company will be better able to pay dividends in the future, making it more attractive as a potential investment.
- D.** Creditors are likely to conclude that the risk of lending to the company is rising and higher interest rate is needed.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-03 Explain how financial statements are used by decision makers.

Topic: 01-12 The Income Statement

95. Investors and creditors look at the balance sheet to see whether the company:

- A. is profitable.
- B.** owns enough assets to pay what it owes to creditors.
- C. has had a positive cash flow from operations.
- D. is paying sufficient dividends to shareholders.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Learning Objective: 01-03 Explain how financial statements are used by decision makers.

Topic: 01-18 Using Financial Statements

96. Generally Accepted Accounting Principles (GAAP) in Canada were established by:

- A. an Italian monk in 1494.
- B. the Canadian Parliament.
- C.** CPA Canada
- D. IFRS.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

97. To determine whether Generally Accepted Accounting Principles were followed in the preparation of financial statements, an examination of:

- A. tax documents would be examined by the Canada Revenue Agency.
- B. the annual report would be examined by the Toronto Stock Exchange.
- C.** the financial statements and related documents would be examined by an independent auditor.
- D. the financial statements and related documents would be examined by CPA Canada.

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

98. Which of the following statements is *false*?

- A. When choosing between a company that pays steady dividends and one that retains its earnings to support future growth, investors will always choose the company that pays steady dividends.
- B. Companies can develop reputations for honest financial reporting even when conveying bad news.
- C. Trends in a company's net income from year to year can provide clues about its future earnings, which can help investors to decide whether to buy stock in the company.
- D. Information in the notes to the financial statements can influence a user's interpretation of balance sheet and income statement information.

Blooms: Create

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Hard

Learning Objective: 01-03 Explain how financial statements are used by decision makers.

Topic: 01-19 Useful Financial Information

99. Which of the following Is *not* required to use IFRS?

- A. Private enterprise
- B. Publically traded company
- C. Crown corporation
- D. All businesses are required to use IFRS

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

100. Which of the following are the two fundamental **characteristics** financial information must possess to be judged useful to decision makers?

- A. Relevance and faithful representation
- B. Truthful and clarity
- C. Complete and relevant
- D. Elaborate and faithful representation

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

101. When is the financial information **relevant**?

- A. If it makes a difference in decision making.
- B. Meets the requirement of Toronto Stock Exchange.
- C. If it fully depicts the economic substance of business activities.
- D. If it allows management the discretion when to release it to investors and general public.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-19 Useful Financial Information

102. When is the financial information a **faithful representation**?

- A. If it fully depicts the economic substance of business activities
- B. If it allows management to be faithful to its shareholders
- C. Meets the requirements of the stock exchanges
- D. If it makes a difference in decision making

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

Chapter 01 - Business Decisions and Financial Accounting

103. Which one of the following does **not** enhance **the usefulness** of financial information?

- A. timeliness
- B. Verifiability
- C. Integrity**
- D. Comparability

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

104. Which of the following is an external user?

- A. Investor**
- B. Management
- C. Employees
- D. President of the company

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-03 Explain how financial statements are used by decision makers.

Topic: 01-18 Using Financial Statements

105. Which of the following are **assumptions** of accounting?

- A. Unit of measure, separate entity**
- B. Cost, revenue recognition, matching, full disclosure
- C. Cost-benefit, materiality, industry practices
- D. Unit of measure, industry practices

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

106. Which of the following are the ***principles*** of accounting?
- A. Unit of measure, cost-benefit, materiality, industry practices
 - B. Unit of measure, separate entity, going concern, time period
 - C. Cost, revenue recognition, expense recognition, full disclosure**
 - D. Cost-benefit, materiality, industry practices

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

107. Which of the following are ***elements*** to be measure and reported?
- A. Assets, liabilities, shareholders equity, revenues, expenses, dividends**
 - B. Unit of measure, separate entity, going concern, time period
 - C. Cost, revenue recognition, matching, full disclosure
 - D. Cost-benefit, materiality, industry practices

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-19 Useful Financial Information

108. To make sure that managers have followed GAAP rules in producing financial statements, all public companies must:
- A. Hire independent auditors to scrutinize their financial records.**
 - B. Hire independent detectives to scrutinize the background of all their accountants.
 - C. let the government regulators scrutinize their financial records.
 - D. let their shareholders check their financial records.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

109. Auditors while examining the financial records must follow:

- A. International Financial Reporting Standards
- B. Canadian Auditing standards**
- C. Canadian Accounting standards for auditing
- D. International Auditing standards

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

110. The effects of net income and its distribution on the financial position of the company is reported in:

- A. Balance sheet
- B. Income statement
- C. Statement of retained earnings**
- D. Statement of cash flows

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-13 The Statement of Retained Earnings

111. Which of the following enhance the usefulness of financial information with reference to financial statements?

- A. Comparability to prior periods and other companies, verifiability, timeliness, and understandability.**
- B. Integrity, relevance, faithfulness and comparability to prior periods and other companies.
- C. Clarity, integrity, relevance and faithfulness.
- D. Verifiability, relevance and faithfulness.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-19 Useful Financial Information

112. CPA Canada:

- A. has primary responsibility for setting the underlying rules of accounting in Canada.
- B. is an entity that regulates issuance of securities in Ontario.
- C. an independent body to develop and establish standards and guidance than govern financial accounting and reporting in Canada.
- D. is an examination of a company's financial statements by an independent auditor.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-19 Useful Financial Information

113. The AcSB:

- A. has primary responsibility for setting the underlying rules of accounting in Canada.
- B. is an entity that regulates issuance of securities in Ontario.
- C. An independent body supported by CPA Canada to develop and establish standards and guidelines that govern financial accounting and reporting in Canada.
- D. is an examination of a company's financial statements by an independent auditor.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-19 Useful Financial Information

114. A company is involved in **financing** activities when these:

- A. activities are directly related to running the core business to earn profits.
- B. activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and tools).
- C. activities involve borrowing from banks, repaying bank loans, receiving contributions from shareholders, or paying dividends to shareholders.
- D. activities involve buying and selling resources such as purchasing investments and lending to others.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

115. A company is involved in **operating** activities when these:

- A.** activities are directly related to running the core business to earn profits.
- B. activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and tools).
- C. activities involve borrowing from banks, repaying bank loans, receiving contributions from shareholders, or paying dividends to shareholders.
- D. activities involve buying and selling resources such as purchasing investments and lending to others.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose, structure, and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

116. A company is involved in **investing** activities when these:

- A. activities are directly related to running the core business to earn profits.
- B.** activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and tools), purchasing investments, and lending to others.
- C. activities involve borrowing from banks and repaying bank loans.
- D. activities involve borrowing from receiving contributions from shareholders, or paying dividends to shareholders.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose, structure, and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

117. To ensure that decisions are made in a professional and ethical manner, CPA Canada requires that all its members adhere to:

- A. IFRS
- B.** Code of Professional Conduct
- C. GAAP
- D. CAS

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose, structure, and content of the four basic financial statements.

Topic: 01-21 Ethical Conduct

118. The statement of cash flows is divided into three activities. They are, activities related to,

- A. liquidity, liabilities and equity.
- B. assets, liabilities and equity.
- C. operating, investing and financing.**
- D. operating, equity and debt.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

119. Under ASPE, an increase in cash dividends will have the following effect,

- A. An increase in retained earnings.
- B. A reduction in net income.
- C. $\text{Assets} > \text{Liabilities} + \text{Shareholders Equity}$ in the interim period.
- D. None of the choices are correct.**

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

120. Which of the following equations is correct?

- A. $\text{net income} - \text{expenses} = \text{revenues}$
- B. $\text{ending retained earnings} - \text{beginning retained earnings} = \text{net income} - \text{dividends}$**
- C. $\text{asset} = \text{liabilities} - \text{shareholder's equity}$
- D. none of the choices are correct

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-07 The Basic Accounting Equation

Short Answer Questions

121. The table shows financial data for Purrfect Pets, Inc. as of June 30, 2018.

Revenues	\$279,400
Accounts Receivable	419,200
Retained Earnings	117,900
Inventories	58,400
Other Assets	69,400
Accounts Payable	349,200
Property, Plant, and Equipment	118,500
Cash	732,600
Contributed Capital	662,100
Notes Payable	268,900
Rent expense	56,900
Interest expense	4,500

Prepare a balance sheet using this data

PURRFECT PETS, INC.	
BALANCE SHEET	
JUNE 30, 2018	
Assets	
Cash	\$732,600
Accounts Receivable	419,200
Inventories	58,400
Property, Plant, and Equipment	118,500
Other Assets	<u>69,400</u>
Total Assets	<u>\$1,398,100</u>
Liabilities	
Accounts Payable	\$349,200
Notes Payable	<u>268,900</u>
Total Liabilities	<u>618,100</u>
Shareholders' Equity	
Contributed Capital	662,100
Retained Earnings	<u>117,900</u>

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Total Equity	<u>780,000</u>
Total Liabilities and shareholders' Equity	<u>\$1,398,100</u>

Blooms: Analyze

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

122. The table shows financial data for Purrfect Pets, Inc. as of June 30, 2018.

Revenues	\$279,400
Accounts Receivable	419,200
Retained Earnings	117,900
Inventories	58,400
Other Assets	69,400
Accounts Payable	349,200
Property, Plant, and Equipment	118,500
Cash	732,600
Contributed Capital	662,100
Notes Payable	268,900
Rent expense	56,900
Interest expense	4,500

Fill in the missing items in the balance sheet.

PURRFECT PETS, INC. BALANCE SHEET SEPTEMBER 30, 2018	
Assets	
Cash	\$743,800
Accounts Receivable	?
Inventories	54,900
Property, Plant, and Equipment	119,300
Other Assets	<u>71,400</u>
Total Assets	<u>\$?</u>
Liabilities	
Accounts Payable	\$342,500
Notes Payable	<u>?</u>
Total Liabilities	<u>607,600</u>
Shareholders' Equity	
Contributed Capital	662,100
Retained Earnings	<u>?</u>
Total Equity	<u>789,400</u>
Total Liabilities and Shareholders' Equity	<u>\$?</u>
Equity	

PURRFECT PETS, INC. BALANCE SHEET SEPTEMBER 30, 2018	
Assets	
Cash	\$743,800
Accounts Receivable	407,600
Inventories	54,900
Property, Plant, and Equipment	119,300
Other Assets	<u>71,400</u>
Total Assets	<u>\$1,397,000</u>
Liabilities	
Accounts Payable	\$342,500
Notes Payable	<u>265,100</u>
Total Liabilities	<u>607,600</u>
Shareholders' Equity	

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Contributed Capital	662,100
Retained Earnings	<u>127,300</u>
Total Equity	<u>789,400</u>
Total Liabilities and shareholders' Equity	<u>\$1,397,000</u>

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Hard

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-14 The Balance Sheet

123. Calculate the net income for Green Thumb, Inc. Then, assuming the company had retained earnings of \$162,000 as of January 1, 2018, and paid out \$46,000 in dividends during the year, prepare its statement of retained earnings.

GREEN THUMB, INC.	
Income Statement	
For the Year Ended December 31, 20118	
Revenues	
Sales Revenue	<u>\$1,865,300</u>
Total Revenues	<u>1,865,300</u>
Expenses	
Wages Expense	724,800
Advertising and Promotion Expenses	262,500
Other Selling and Administrative Expenses	350,800
Interest Expense	43,900
Income Tax Expense	56,500
Other Expenses	<u>122,400</u>
Total Expenses	<u>1,560,900</u>
Net Income	<u>\$ ____ ?</u>

Net income is \$304,400 (or \$1,865,300 - \$1,560,900).

GREEN THUMB, INC.	
Statement of Retained Earnings	
For the Year Ended December 31, 2018	
Retained Earnings, January 1, 2008	\$162,000
Net Income for 2008	304,400
Dividends for 2008	<u>(46,000)</u>
Retained Earnings, December 31, 2008	<u>\$420,400</u>

Blooms: Analyze

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose, structure, and content of the four basic financial statements.

Topic: 01-12 The Income Statement

Topic: 01-13 The Statement of Retained Earnings

124. The Lady Luck Casino, Inc., had \$312,000 in cash at the beginning of the year (January 1, 2018). Using the data in the chart, prepare a statement of cash flows.

Cash paid for other operating activities	\$1,291,000
Cash paid for dividends	16,900
Cash received from selling equipment and other assets	16,300
Cash paid on notes payable	412,000
Cash paid to suppliers and employees	1,258,900
Cash collected from customers	3,840,700
Cash paid to purchase equipment and other assets	140,200

LADY LUCK CASINO, INC.	
Statement of Cash Flows	
For the Year Ended December 31,2018	
Cash flows from operating activities	
Cash collected from customers	\$3,840,700
Cash paid to suppliers and employees	(1,258,900)
Cash paid for other operating activities	(1,291,000)
Net cash flow from operating activities	<u>1,290,800</u>
Cash flows from investing activities	
Cash paid to purchase equipment and other assets	(140,200)
Cash received from selling equipment and other assets	<u>16,300</u>
Net cash flow from investing activities	<u>(123,900)</u>
Cash flows from financing activities	
Cash paid on notes payable	(412,000)
Cash paid for dividends	<u>(16,900)</u>
Net cash flow from financing activities	<u>(428,900)</u>
Net change in cash during the year	738,000
Cash at beginning of year	<u>312,000</u>
Cash at end of year	<u>\$1,050,000</u>

Blooms: Analyze

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Hard

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

125. Use the following 2017 data to prepare an income statement for Kvass, Inc.

Other Selling and Administrative Expenses	\$1,050,300
Other Expenses	247,600
Sales Revenue	4,885,300
Advertising and Promotion Expenses	552,500
Wages Expense	2,524,400
Income Tax Expense	166,500
Interest Expense	113,900
Account Payable	
Account Receivable	
Interest Payable	

KVASS, INC.	
Income Statement	
For the Year Ended December 31, 2017	
Revenues	
Sales Revenue	<u>\$4,885,300</u>
Total Revenues	<u>4,885,300</u>
Expenses	
Wages Expense	2,524,400
Advertising and Promotion Expenses	552,500
Other Selling and Administrative Expenses	1,050,300
Interest Expense	113,900
Income Tax Expense	166,500
Other Expenses	<u>247,600</u>
Total Expenses	<u>4,655,200</u>
Net Income	<u>\$230,100</u>

Blooms: Analyze

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Hard

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-12 The Income Statement

126. Match the category of business activity to the specific business action.

- A. Operating activity.
- B. Investing activity.
- C. Financing activity.

- _____ 1. The purchase of a new line of assembly equipment.
- _____ 2. Company payment of a dividend.
- _____ 3. The purchase of office supplies.
- _____ 4. The purchase of advertising time by the company.
- _____ 5. The building of a new factory.
- _____ 6. Company payment on a bank loan.

B, C, A, A, B, C

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-15 The Statement of Cash Flows

127. Match the characteristic of the company with the description of the type of company.

- A. Partnership.
- B. Publicly traded corporation.
- C. Privately traded corporation.

- _____ 1. Issues shares of stock that are traded on a stock exchange such as the TSX.
- _____ 2. Owners are personally liable for the debts of the company.
- _____ 3. Shares of stock must be purchased directly from current owners.
- _____ 4. Can raise more financial capital by selling stock to the greatest number of investors.

B, A, C, B

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Topic: 01-01 Organizational Forms

128. Match the lettered terms to the blanks below to complete the relevant formula for each financial statement.

- A. Cash at beginning of year
- B. Net cash flow from operating activities
- C. Balance of retained earnings from previous year
- D. Net cash flow from investing activities
- E. Liabilities
- F. Net cash flow from financing activities
- G. Balance of retained earnings at end of year
- H. Net income
- I. Revenue
- J. Assets
- K. Shareholders' equity
- L. Expenses
- M. Cash at end of year
- N. Dividends paid

A letter may be used more than once. Use the blank on the left side of the equals sign for the "bottom line" number that is reported at the end of each financial statement. Rearrange the formula if necessary.

Balance Sheet		=		+					
Income Statement		=		-					
Statement of Retained Earnings		=		+		-			
Statement of Cash Flows		=		+		+		+	

Moderate $J = E + K$; $H = I - L$; $G = C + H - N$; $M = B + D + F + A$

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-07 The Basic Accounting Equation

129. Each item in the statement of retained earnings can appear on another financial statement. Match the letter of the financial statement with the item in the statement of retained earnings.

- A. Balance sheet at end of 2011
- B. Statement of cash flows for 2011
- C. Income statement for 2010
- D. Balance sheet at end of 2010
- E. Income statement for 2011

_____ Retained earnings, January 1, 2011
_____ Net income for 2011
_____ Dividends for 2011
_____ Retained earnings, December 31, 2011

D, E, B, A

Blooms: Apply

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.

Topic: 01-11 Financial Statements

130. Match the term and the explanation. (There are more explanations than terms.)

_____ investors
_____ audit
_____ balance sheet
_____ operating activity
_____ unit of measure concept
_____ retained earnings
_____ investing activity
_____ income statement

- A. An exchange of money between a company and its investors or creditors.
- B. An example of an internal user of financial statements.
- C. The idea that a company reports sales only after a payment has been received.
- D. Share of a company's earnings given to owners as dividends.
- E. A financial statement showing a company's assets, liabilities and shareholders' equity.
- F. When a company acquires money from investors.
- G. A financial statement that summarizes a company's past and current cash situation.
- H. An external user of financial statements.
- I. The idea that the financial statements of a company include the results of only that company's business activities.
- J. Day to day events involved in the production and sales of a company's goods or services.
- K. A financial statement that shows a company's revenues and expenses.
- L. Borrowing money from lenders.
- M. The total amount of profits that are held by the company since its inception.
- N. Companies should report financial data in the relevant currency.
- O. A procedure by which independent evaluators assess the accounting procedures and financial reports of a company.
- P. Purchase or sale of long-term assets, like property and equipment used in production process.

H, O, E, J, N, M, P, K

Blooms: Remember

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-01 Describe various organizational forms and business decision makers.

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-07 The Basic Accounting Equation

Topic: 01-17 Relationships among the Financial Statements

131. There are four basic financial reports that comprise financial statements. These will differ slightly depending upon whether the company is operating under IFRS or ASPE. List the names of these statements, in order of preparation, and categorize them as either ASPE or IFRS.

ASPE	IFRS
1. Income Statement	1. Statement of Comprehensive Income
2. Statement of Retained Earnings	2. Statement of Changes in Equity
3. Balance Sheet	3. Statement of Financial Position
4. Statement of Cash Flows	4. Statement of Cash Flows

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

132. When faced with an ethical dilemma, employees are encouraged to follow a three-step process. What are the three steps, in order, to this process?

1. Identify who will be affected by the situation;
2. Identify the alternative courses of action;
3. Choose the alternative that is the most ethical.

Blooms: Remember

Accessibility: Keyboard Navigation

Difficulty: Easy

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-21 Ethical Conduct

133. There are a number of key concepts for external financing reporting, whether the company is following ASPE or IFRS. To this end, there are six elements to be measured and reported, regardless of what accounting standards a company is following. List these six elements to be measured and reported.

Assets, Liabilities, Shareholders' Equity, Revenues, Expenses, and Dividends

Blooms: Understand

Accessibility: Keyboard Navigation

Difficulty: Medium

Learning Objective: 01-04 Describe factors that contribute to useful financial information.

Topic: 01-20 Generally Accepted Accounting Principles

134. For the month ending September 30, 2014, A/C Inc. has received \$10,000 from customers, \$30,000 in capital contributed from shareholders, and borrowed \$20,000 from the bank. The company also paid its employees \$5,000, bought equipment totaling \$40,000, and paid cash dividends of \$1,000 to shareholders. Assume beginning cash was zero. Produce a statement of cash flows to illustrate what ending cash is at the end of the month.

Cash flows from operating activities	
Cash received from customers	\$10,000
Cash paid to employees	<u>(5,000)</u>
Cash provided by operating activities	5,000
Cash flows from investing activities	
Cash used to buy equipment	<u>(40,000)</u>
Cash used in investing activities	(40,000)
Cash flows from financing activities	
Capital contributed by shareholders	30,000
Cash dividends paid to shareholders	(1,000)
Cash borrowed from the bank	<u>20,000</u>
Cash provided by financing activities	49,000
Change in cash	14,000

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Beginning cash, September 1, 2014	<u>0</u>
Ending cash, September 30, 2014	<u>14,000</u>

*Blooms: Understand**Accessibility: Keyboard Navigation**Difficulty: Medium**Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.**Topic: 01-15 The Statement of Cash Flows*

135. Over the past year Collins Company has issued \$200,000 in common shares and paid \$125,000 in cash dividends. The company started the year with retained earnings of \$500,000 and ended the year with \$700,000, while realizing \$1,550,000 in revenues. What were the expenses realized for Collins Co. for the year?

Net Income = $700,000 - 500,000 + 125,000 = 325,000$

Therefore, Expenses = $1,550,000 - 325,000 = 1,225,000$

*Blooms: Create**Accessibility: Keyboard Navigation**Difficulty: Hard**Learning Objective: 01-02 Describe the purpose; structure; and content of the four basic financial statements.**Topic: 01-17 Relationships among the Financial Statements*