Financial Accounting 10th edition Hoggett Test Bank

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Testbank

to accompany

Financial accounting

10th edition

by
Hoggett et al.

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Chapter 2: Financial statements for decision making

Multiple-choice questions

1. The three main types of business entities are:

    a. Trust, sole proprietorship and not-for-profit.
    b. Not-for-profit, partnership and company.
    c. Sole proprietorship, company and trust.
    *d. Company, partnership and sole proprietorship.

Correct answer: *d*
Learning Objective 2.1 ~ identify the common types of business entities.

2. Which of the following statements is correct?

    *a. A shareholder's liability to contribute to the debts of an insolvent company is limited.
    b. The owner of a sole proprietorship is not legally liable for its debts.
    c. Special legal requirements must be met when forming a partnership.
    d. A partnership is a separate legal entity.

Correct answer: *a*
Learning Objective 2.1 ~ identify the common types of business entities.

3. In order to avoid disputes it is preferable for partners to:

    a. confirm their agreement with a handshake.
    b. share profits and losses equally.
    *c. have a written agreement.
    d. work as 'silent' partners.

Correct answer: *c*
Learning Objective 2.1 ~ identify the common types of business entities.

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4. Maintaining a satisfactory relationship between an entity's resource inputs and its outputs of products or services is referred to as:

   a. directing.
   *b. efficiency.
   c. controlling.
   d. effectiveness.

Correct answer: *b*
Learning Objective 2.2 ~ discuss the functions carried out by managers.

5. The concept of 'management by exception' is part of which management function?

   a. planning.
   b. directing.
   *c. controlling.
   d. organising.

Correct answer: *c*
Learning Objective 2.2 ~ discuss the functions carried out by managers.

6. An entity's financial performance is represented by which financial statement?

   a. balance sheet.
   *b. income statement.
   c. statement of changes in equity.
   d. statement of cash flows.

Correct answer: b
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

7. A balance sheet:

   a. reports the financial position of an entity.
   b. is in the format of Assets = Liabilities + Equity.
   c. is reported as at a specific date.
   *d. All of these options.

Correct answer: d
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

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8. A financial statement headed 'for the year ended 30 June 2018' would be:

a. the balance sheet.
b. the income statement.
c. the statement of changes in equity.
*d. either the income statement or the statement of changes in equity.

Correct answer: d
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

9. Which of the following statements concerning the statement of cash flows is *not* correct?

a. It classifies cash flows into operating, investing and financing activities.
*b. It reports on the entity's cash flow position at a specific point in time.
c. It reports on the entity's cash flow performance over a period of time.
d. When compared with the income statement, the statement of cash flows shows how well the entity's profits are represented by cash inflows from operating activities.

Correct answer: b
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

10. The statement of changes in equity serves as a connecting link between which other financial statements?

a. balance sheet and statement of cash flows.
b. income statement and expenses statement.
*c. income statement and balance sheet.
d. statement of cash flows and income statement.

Correct answer: c
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11. Oakey & Associates had the following assets and liabilities. The total for equity equals:

	$
Cash at bank	5 000
Mortgage	25 000
Creditors	9 000
Inventory	3 800
Debtors	12 200
Office equipment	8 600
Loan from Dalby Ltd	7 000
Motor vehicles	19 000

*a. $ 7 600.
b. $ 1 200.
c. $39 600.
d. $25 600.

Correct answer: a
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

12. The following balances were taken from the accounts of Ceduna Enterprises.

	30 June 2017	30 June 2018
Assets	$550 000	$720 000
Liabilities	320 000	380 000

Assuming there were no drawings or contributions of capital, profit for 2018 must have been:

a. $170 000.
b. $340 000.
*c. $110 000.
d. $ 60 000.

Correct answer: c
Feedback: Net assets at end less net assets at start.
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13. The assets of Mitchell's business increased by $60 000 and the liabilities increased by $20 000 during the current year. If the profit for this period was $48 000, what additional contribution or withdrawal was made by the owner? (Assume only a withdrawal or a contribution was made.)

    a. Drawings $12 000
    b. Contribution $12 000
    c. Contribution $8000
    *d. Drawings $8000

Correct answer: d
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

14. Omega Company reports the following balance sheet information for 2018.

	1 January 2018	31 December 2018
Assets	$80 000	$90 000
Liabilities	$32 000	$38 000

Assuming the capital contributed by the owner during the year was $10 000 and owner withdrawals totalled $15 000, profit for 2018 must have been:

    a. $21 000.
    *b. $9 000.
    c. $4 000.
    d. $None of the above, Omega Company did not make a profit in 2018.

Correct answer: b
Feedback: Net assets at end less net assets at start less capital contribution plus drawings.
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

15. Which of the following statements is correct with regards to the statement of cash flows?

    a. Financing activities include net cash from the sale and purchase of the entity's assets.
    b. Investing activities include investments made by the owners of the entity.
    *c. Financing activities include amounts borrowed from financial institutions.
    d. Investing activities include the cash received from customers.

Correct answer: c
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16. Which of the following statements is *not* correct?

*a. Income decreases equity.
b. Expenses represent decreases in economic benefits.
c. Equity represents the owners' claims on the assets after deducting all liabilities.
d. Assets are resources controlled by the entity.

Correct answer: a
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

17. A business transaction creating an outflow of net assets resulting from the purchase of supplies is a(n):

a. cash disbursement.
b. equity transaction.
*c. expense transaction.
d. income transaction.

Correct answer: c
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

18. On 2 May 2018 Viva Corp sells goods to Nashi and requests payment be made within 30 days. On the balance sheet for Viva Corp at 2 May 2018 the amount owing from Nashi would be reported as:

a. an overdue customer account.
*b. accounts receivable.
c. accounts payable.
d. an expense.

Correct answer: b
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19. Jensen Paints had the following transactions during October. Which transaction represents an expense?

a. Purchased office furniture for $1800 on account.
b. Paid $500 in settlement of a loan obtained six months earlier.
c. Received $200 cash for services provided to a client.
*d. Purchased stationery for $120 cash.

Correct answer: d
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20. Which of the following statements about the narrative form of a balance sheet is true?

    a. It resembles a T-shaped ledger account.
    *b. All elements of the balance sheet are listed in one column.
    c. In Australia, the narrative form of balance sheet is less common than the account form.
    d. It shows the accounting equation as Assets = Liabilities + Equity.

Correct answer: b
Feedback: The account form balance sheet does not list all elements in one column.
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21. If an entity has liabilities of $170 000 and equity of $300 000 its assets are:

    a. $370 000.
    b. $230 000.
    c. $130 000.
    *d. $470 000.

Correct answer: d
Feedback: Assets equals liabilities plus equity. ($$170 000 + $300 000) = $470 000.
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22. If total sales is $90 000, office expenses is $30 000 and rent expense is $15 000, profit or loss is which of the following?

    *a. $45 000 profit
    b. $45 000 loss
    c. $75 000 loss
    d. $75 000 profit

Correct answer: a
Feedback: Profit equals $45 000 = ($90 000 – $30 000 – $15 000).
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23. _____ is/are obligations of an entity arising from past events, the settlement of which is expected to result in an outflow of economic benefits.

a. Assets
*b. Liabilities
c. Equity
d. Income

Correct answer: b
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24. Which of these is *not* recognised as income?

a. Provision of services.
b. Interest received.
*c. Capital contributed by the owner.
d. Sale of goods.

Correct answer: c
Feedback: Additional capital contributed by the owner is equity.
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25. Which of these is not a liability?

a. Wages payable
b. Bank overdraft
c. Accounts payable
*d. Rent paid

Correct answer: d
Feedback: Rent paid is not a liability, it is an expense.
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26. An entity's _____ is represented by its control over economic resources, financial structure, capacity for adaptation and solvency.

a. financial performance
*b. financial position
c. equity
d. accounting equation

Correct answer: b
Feedback: Financial position is an entity's control over economic resources, financial structure, capacity for adaptation and solvency.
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27. If the loss for the period is $38 000 and total expenses are $110 000, total income for the period is:

*a. $ 72 000.
b. $138 000.
c. $148 000.
d. $ 62 000.

Correct answer: a
Feedback: ($38 000) = Income - $110 000. Therefore, income is $72 000.
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28. Governments and not-for-profit entities will prepare a(an) _____ statement to report their financial performance for a specific period of time.

a. equity
*b. operating
c. financial
d. balance

Correct answer: b
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29. Which of these is *not* an alternative term for equity?

a. Accumulated funds
b. Owners' equity
c. Capital
*d. Overdraft

Correct answer: d
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30. Which of the following statements is *not* true?

a. The profit of an entity is calculated as income less expenses.
b. A withdrawal of cash for private use by the owner is shown as a reduction of equity in the balance sheet.
*c. Equity can be thought of as the owner's claim to the income of the entity after deducting all liabilities.
d. Income can be measured not only be cash, but by receipt of other assets.

Correct answer: c
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31. From the point of view of a business entity, a person or business from which a debt is owing is known as a:

*a. debtor.
b. creditor.
c. debitor.
d. bank.

Correct answer: a
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32. The income statement reports the financial:

a. position of an entity at a specific period of time.
b. position of an entity over a specified period of time .
c. performance of an entity at a specific period of time.
*d. performance of an entity over a specified period of time.

Correct answer: d
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33. The statement that measures an entity's financial position is the:

a. statement of changes in equity.
b. statement of cash flows.
*c. balance sheet.
d. income statement.

Correct answer: c
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34. Which of these does not fit the accounting definition of an asset?

a. Goodwill
*b. Employee skills and experience
c. Land
d. Accounts receivable

Correct answer: b
Feedback: Employee skills and experience do not fit the accounting definition of an asset as they are not controlled by the firm and have not arisen as a result of a past transaction.
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35. Jacob's opening capital at 1 July 2017 was $75 000, his profit for the year was $22 000 and his drawings were $8 000. What is the final balance of his capital at the end of the year?

*a. $89 000
b. $105 000
c. $53 000
d. $45 000

Correct answer: a
Feedback: The final capital balance is $89 000 = ($75 000 +$22 000 – $8 000).
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36. In order to assess an entity's cash performance it is common to classify its activities into operating, investing and financing. For a local soccer club, which of the following would be an operating activity?

    *a. Receipt of membership fees from players.
    b. Purchasing new soccer goals for all fields and age groups.
    c. Repaying a loan for the clubhouse.
    d. Purchasing a new coffee machine for the clubhouse.

Correct answer: a
Feedback: Receiving membership fees from members is an operating activity.
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

37. In order to assess an entity's cash performance it is common to classify its activities into operating, investing and financing. For a small medical practice which of the following would be a financing activity?

    a. Paying for medical supplies.
    *b. Borrowing $20 000 from a financial institution.
    c. Billing a patient for a consultation.
    d. Adding an extension to allow for 2 additional consultation rooms.

Correct answer: b
Feedback: Borrowing $20 000 from a financial institution is a financing activity as it is associated with providing funds to carry out the entities operating and investing activities.
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

38. A balance sheet would normally balance at:

    *a. net assets and total equity.
    b. total liabilities and total equity.
    c. the bank balance.
    d. total assets and total equity.

Correct answer: a
Feedback: A balance sheet would normally be shown balancing at either net assets (assets less liabilities) = total equity OR total assets = total liabilities plus total equity.
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39. An income statement can also be referred to as a(an):

    a. Profit report
    b. Profit and loss statement
    *c. All of these options
    d. Operating statement

Correct answer: c

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40. On 31 May 2018 Creature Comforts Ltd purchases gas heaters from their supplier and agrees to pay for them within 45 days. Assuming the amount is still owing at 30 June 2018, the balance sheet of Creature Comforts Ltd will report the amount owing as:

    *a. accounts payable.
    b. accounts receivable.
    c. cash at bank.
    d. debtors.

Correct answer: a
Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

41. The basis upon which the personal assets of the owner are excluded from the business's balance sheet is referred to as which assumption?

    a. Materiality
    *b. Accounting entity
    c. Accrual basis
    d. Going concern

Correct answer: b
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

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42. Which assumption requires transactions to be recognised in the accounting reports when they occur and not when the cash is received or paid?

a. faithful representation.
b. accounting period.
*c. accrual basis.
d. accounting entity.

Correct answer: c
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

43. The assumption which assumes that the entity is able to pay its debts when they fall due for the near future is the:

a. reliability.
*b. going concern.
c. accounting entity.
d. accrual basis.

Correct answer: b
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

44. Bright Electronics divides their economic activities into time-frames of three months and prepares their financial statements for interested parties at the end of each time-frame. The accounting assumption being applied by Bright Electronics is:

a. Accounting entity
b. Going concern
c. Reliability
*d. Accounting period

Correct answer: d
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

45. The two fundamental qualitative characteristics of accounting information are:

a. relevance and reliability.
*b. relevance and faithful representation.
c. reliability and consistency.
d. faithful representation and comparability.

Correct answer: b
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

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46. The four enhancing qualitative characteristics of accounting information are:

*a. comparability, verifiability, timeliness and understandability.
b. consistency, timeliness, relevance and understandability.
c. materiality, comparability, economic substance and verifiability.
d. reliability, comparability, materiality, and timeliness.

Correct answer: a
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

47. The assurance that the accounting information presented to users is complete, without bias or undue error, and neutral is knows as:

a. consistency.
b. verifiability.
*c. faithful representation.
d. relevance.

Correct answer: c
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

48. Which of the following statements concerning the costs and benefits of financial reporting information is correct?

a. The benefits include better investment, credit and similar economic decisions.
b. The benefits result in more efficient markets and greater benefits for the economy as a whole.
c. The major constraint on reporting the absolute best information is the cost of generating that information and assuring that it is faithfully represented.
*d. All of these options are correct.

Correct answer: d
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

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49. Which accounting concept relates to the extent to which information can be omitted, misstated or grouped with other information without misleading the users of that information in their decision-making?

a. Verifiability
b. Relevance
*c. Materiality
d. Economic substance

Correct answer: c
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

50. Information that is _____ has a predictive role and a confirmatory or feedback role.

a. subjective
*b. relevant
c. reliable
d. material

Correct answer: b
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

51. _____ is enhanced when information is classified, characterised, and presented clearly and concisely.

*a. Understandability
b. Consistency
c. Verifiability
d. Reliability

Correct answer: a
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

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52. When management plans the sale or liquidation of an entity, the going concern assumption is set aside and the financial statements are prepared on the:

a. accrual basis
b. cash basis
*c. basis of estimated sales or liquidation values
d. basis of estimated expenses

Correct answer: c
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

53. Which qualitative characteristic improves the usefulness of financial reporting information by enabling the users to identify similarities in and differences between two sets of economic data?

a. relevance.
b. timeliness.
c. economic substance.
*d. comparability.

Correct answer: d

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

54. On 1 September 2018 Streak-Free Window Cleaning pays $1800 in cash for supplies purchased on 22 July 2018. Assuming the business prepares monthly financial reports using the accrual basis, what effect does this payment have on the accounting equation?

*a. Decrease in cash at bank $1800; decrease in liability accounts payable $1800.
b. Decrease in cash at bank $1800; increase in liability accounts payable $1800.
c. Decrease in cash at bank $1800; decrease in equity $1800.
d. Decrease in cash at bank $1800; increase in equity $1800.

Correct answer: a
Feedback: The effect on the accounting equation is a decrease in cash at bank of $1800 and a decrease in liability accounts payable of $1800 (there was an increase in accounts payable and a recognition of expense (decrease in equity) back in July 2018 when the supplies were purchased).
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

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55. Which of the following is the most important consideration in ensuring that information is relevant for decision making?

a. A high degree of accuracy
*b. Timeliness
c. Accrual basis
d. Materiality

Correct answer: b
Feedback: Timeliness is the most important of the considerations listed in ensuring that information is relevant for consideration. Users may be satisfied with less than perfect information if it is provided in a timely manner.
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

56. Which accounting assumption requires an accountant to be able to clearly identify the transactions to be recorded, classified and summarised into an entity's financial statements?

a. accrual basis assumption.
b. going concern assumption.
c. accounting equation assumption.
*d. accounting entity assumption.

Correct answer: d
Feedback: The entity assumption gives rise to the equity element in the accounting equation as it assumes that the organisation is separate from its owner and therefore owes funds back to its owner.
Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

57. Which of the following is *not* a possible effect on the accounting equation from a single transaction of $1000?

a. Assets increase by $1000; Equity increases by $1000.
b. Assets decrease by $1000; Liabilities decrease by $1000.
c. Liabilities increase by $1000; Liabilities decrease by $1000.
*d. Liabilities decrease by $1000; Equity decreases by $1000.

Correct answer: d
Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

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58. Helen decides to open her own ice-cream store and deposits $25 000 into her new business bank account on 1 October. The effect of this transaction on the accounting equation is:

*a. Assets increase by$25 000; Equity increases by $25 000.
b. Assets increase by $25 000; Equity decreases by $25 000.
c. Assets increase by $25 000; Liabilities increase by $25 000.
d. Assets decrease by $25 000; Equity decreases by $25 000.

Correct answer: a
Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

59. Jane is a painting contractor operating as a sole proprietor. On 15 May she completes a job for a client who pays her $1500 in cash. The effect of this transaction on the accounting equation is?

a. Cash at bank increases by $1500; Accounts payable decreases by $1500.
*b. Cash at bank increases by $1500; Equity increases by $1500.
c. Cash at bank increases by $1500; Accounts receivable decreases by $1500.
d. Cash at bank increases by $1500; Accounts payable increases by $1500.

Correct answer: b
Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

60. Henry is an accountant operating as a sole proprietor. On 10 April he performs work for a client to the value of $400 on credit. The effect of this transaction on the accounting equation is:

a. Cash at bank increases by $400; Accounts payable decreases by$400.
b. Equity increases by $400; Accounts payable increases by $400.
*c. Accounts receivable increases by $400; Equity increases by $400.
d. Cash at bank increases by$400; Equity decreases by $400.

Correct answer: c
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61. Genny is a small business owner. On 20 January she completes some work for a client on credit and sends the client an invoice for $250. On 10 February the client pays the account and Genny deposits the $250 into the business bank account. Assuming Genny prepares her financial statements each month, the receipt of cash on 10 February effects the accounting equation for Genny's business in the following way:

    a. Cash at bank increases by $250; Equity increases by $250.
    *b. Cash at bank increases by $250; Accounts receivable decreases by $250.
    c. Cash at bank increases by$250; Accounts receivable increases by $250.
    d. Cash at bank increases by$250; Equity decreases by $250.

Correct answer: b
Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

62. Lindy Jones withdrew $500 from her business bank account for personal use. The effect of this transaction on the accounting equation is:

    *a. Assets decrease by $500; Equity decreases by $500.
    b. Assets decrease by $500; Equity increases by$500.
    c. Assets decrease by $500; Liabilities decrease by $500.
    d. Assets decrease by $500; Assets increase by $500.

Correct answer: a
Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

63. On 28 February Harold's Speedy Dry Cleaning received $100 for dry cleaning services provided on the same day. The effect on the accounting equation is:

    *a. Assets increase by $100; Equity increases by $100.
    b. Assets increase by $100; Assets decrease by $100.
    c. Assets increase by $100; Liabilities decrease by $100.
    d. Assets decrease by $100; Equity decreases by $100.

Correct answer: a
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64. Kate's Mechanics purchased a delivery van for $8000 cash. The effect of this transaction on the accounting equation is:

a. Asset Cash at bank decreases by $8000; Equity decreases (via Motor Vehicles Expenses) by $8000.
b. Asset Cash at bank decreases by $8000; Equity increases (via Motor Vehicles Expenses) by $8000.
*c. Asset Cash at bank decreases by of $8000; Asset Vehicles increases by $8000.
d. Asset Cash at bank increases by $8000; Asset Vehicles decreases by $8000.

Correct answer: c
Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

65. Karl's Kebabs borrowed $5000 from the bank for kitchen renovations. The effect of this transaction on the accounting equation is:

a. Decrease assets $5000; decrease equity $5000.
b. Increase assets $5000; decrease assets $5000.
*c. Increase assets $5000; increase liabilities $5000.
d. Decrease liabilities $5000; decrease assets $5000.

Correct answer: c
Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

66. In January Mark purchases new furniture worth $1750 for his consulting office. The furniture is purchased on credit. The effect of this transaction on the accounting equation is?

*a. Increase in the asset furniture $1750; increase in the liability accounts payable $1750.
b. Increase in the asset furniture $1750; decrease in the asset accounts receivable $1750.
c. Increase in the asset furniture $1750; increase in equity $1750.
d. Increase in the asset furniture $1750; increase in the asset accounts receivable $1750.

Correct answer: a
Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

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67. On 14 February Mark pays $850 wages in cash to his receptionist for work performed during the first half of the month. The effect of this transaction on the accounting equation is:

a. Decrease in cash at bank $850; decrease in liability accounts payable $850.
b. Decrease in cash at bank $850; increase in liability accounts payable $850.
c. Decrease in cash at bank $850; increase in equity $850.
*d. Decrease in cash at bank $850; decrease in equity $850.

Correct answer: d
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