Accounting Principles Volume 1 (Canadian) 8th edition Weygandt Test Bank

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CHAPTER 1

ACCOUNTING IN ACTION

CHAPTER LEARNING OBJECTIVES

1. ***Identify the use and users of accounting and the objective of financial reporting.*** Accounting is the information system that identifies, records, and communicates the economic events of an organization to a wide variety of interested users. Good accounting is important to people both inside and outside the organization. Internal users, such as management, use accounting information to plan, control, and evaluate business operations. External users include investors and creditors, among others. Accounting data are used by investors (owners or potential owners) to decide whether to buy, hold, or sell their financial interests. Creditors (suppliers and bankers) evaluate the risks of granting credit or lending money based on the accounting information. The objective of financial reporting is to provide useful information to investors and creditors to make these decisions. Users need information about the business's ability to earn a profit and generate cash. For our economic system to function smoothly, reliable and ethical accounting and financial reporting are critical.

2. ***Compare the different forms of business organization.*** The most common examples of business organization are proprietorships, partnerships, and corporations. Proprietorships and partnerships are not separate legal entities but are separate entities for accounting purposes; income taxes are paid by the owners and owners have unlimited liability. Corporations are separate legal entities as well as separate entities for accounting purposes; income taxes are paid by the corporation and owners of the corporation have limited liability.

3. ***Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.*** Generally accepted accounting principles are a common set of guidelines that are used to prepare and report accounting information. The conceptual framework outlines some of the body of theory used by accountants to fulfill their goal of providing useful accounting information to users. Ethical behaviour is fundamental to fulfilling the objective of financial accounting. The reporting entity concept requires the business activities of each reporting entity to be kept separate from the activities of its owner and other economic entities. The going concern assumption presumes that a business will continue operations for enough time to use its assets for their intended purpose and to fulfill its commitments. The periodicity concept requires businesses to divide up economic activities into distinct periods of time. Qualitative characteristics include fundamental and enhancing characteristics that help to ensure accounting information is useful.
Only events that cause changes in the business's economic resources or changes to the claims on those resources are recorded. Recognition is the process of recording items and measurement is the process of determining the amount that should be recognized. The historical cost concept states that assets should be recorded at their historical (original) cost. Fair value may be a more appropriate measure for certain types of resources. Generally, fair value is the amount the resource could be sold for in the market. The monetary unit concept requires that only transactions that can be expressed as

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an amount of money be included in the accounting records, and it assumes that the monetary unit is stable.
The revenue recognition principle requires companies to recognize revenue when a performance obligation(s) is satisfied. The matching concept requires that costs be recognized as expenses in the same period as revenue is recognized when there is a direct association between the cost incurred and revenue recognized.
In Canada, there are two sets of standards for profit-oriented businesses. Publicly accountable enterprises must follow International Financial Reporting Standards (IFRS) and private enterprises have the choice of following IFRS or Accounting Standards for Private Enterprises (ASPE).

4. ***Describe the components of the financial statements and explain the accounting equation.***
Assets, liabilities, and owner's equity are reported in the balance sheet. Assets are present economic resources controlled by the business as a result of past events and have the potential to produce economic benefits. Liabilities are present obligations of a business to transfer an economic resource as a result of past events. Owner's equity is the owner's claim on the company's assets and is equal to total assets minus total liabilities. The balance sheet is based on the accounting equation: Assets = Liabilities + Owner's equity.
The Income statement reports the profit or loss for a specified period of time. Profit is equal to revenues minus expenses. Revenues are the increases in assets, or decreases in liabilities, that result from business activities that are undertaken to earn profit. Expenses are the cost of assets consumed or services used in a company's business activities. They are decreases in assets or increases in liabilities, excluding withdrawals made by the owners, and result in a decrease to owner's equity.
The statement of owner's equity summarizes the changes in owner's equity during the period. Owner's equity is increased by investments by the owner and profits. It is decreased by drawings and losses. Investments are contributions of cash or other assets by owners. Drawings are withdrawals of cash or other assets from the business for the owner's personal use. Owner's equity in a partnership is referred to as partners' equity and in a corporation as shareholders' equity.
A cash flow statement summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

5. ***Analyze the effects of business transactions on the accounting equation.*** Each business transaction must have a dual effect on the accounting equation. For example, if an individual asset is increased, there must be a corresponding (1) decrease in another asset, (2) increase in a liability, and/or (3) increase in owner's equity.

6. ***Prepare financial statements.*** The income statement is prepared first. Expenses are deducted from revenues to calculate the profit or loss for a specific period of time. Then the statement of owner's equity is prepared using the profit or loss reported in the income statement. The profit is added to (losses are deducted from) the owner's equity at the beginning of the period. Drawings are then deducted to calculate owner's equity at the end of the period. A balance sheet reports the assets, liabilities, and owner's equity of a business as at the end of the accounting period. The owner's equity at the end of the period, as calculated in the statement of owner's equity, is reported in the balance sheet in the owner's equity section.

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TRUE-FALSE STATEMENTS

1. Accounting is the information system that identifies, records, and communicates the economic events of an organization to a wide variety of interested users.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

2. A working knowledge of accounting can be useful to doctors or lawyers.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

3. The main objective of financial statements is to provide useful information to management.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

4. Sales managers are an example of an external user of accounting information.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy

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Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

5. Creditors are an example of an internal user of accounting information.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

6. Accounting information is used only by external users with a direct financial interest in a company.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

7. In a proprietorship, there may be two or more owners.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

8. One of the disadvantages of a proprietorship is that there is unlimited liability for the owner.

Answer: True
Bloomcode: Knowledge

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Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

9. Under the proprietorship form of business organization, no legal distinction is made between the business as an economic unit and its owner.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

10. A partnership must have at least two people in the partnership.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

11. In a partnership, all of the partners will generally have unlimited liability for the debts of the partnerships.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

12. A corporation may only be formed under federal legislation.

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Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

13. A corporation is only subject to the federal laws of corporations.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

14. A corporation may be formed under either provincial legislation or federal legislation.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

15. A corporation's ownership is divided into transferable shares.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

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16. One of the main advantages of a corporation is limited liability for the shareholders of the corporation.
Answer: True

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

17. Owners of a corporation are responsible for reporting the business profits on their personal income taxes.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

18. An advantage of the corporation is that the shares of the corporation are easily transferable.

Answer: True

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

19. Ethics are critical in the preparation of accounting information.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles

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CPA: Professional and Ethical Behaviour
AACSB: Ethics
20. Only the accountants should be concerned with ethics when the financial statements are being prepared.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Professional and Ethical Behaviour
AACSB: Ethics

21. In a situation with an ethical consideration, there is only one ethical course of action which can be followed.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Professional and Ethical Behaviour
AACSB: Ethics

22. A private company is one that issues shares to the public.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

23. GAAP stands for Generally Accepted Accounting Principles.

Answer: True

Bloomcode: Knowledge

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Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

24. In Canada, the main standard setting board is the Accounting Standards Board.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

25. Corporations incorporated under provincial legislation report under ASPE and corporations incorporated under federal legislation report under IFRS.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

26. Publicly traded corporations can choose to report under either ASPE or IFRS.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

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27. Both IFRS and ASPE are considered “principles-based” as opposed to “rules-based” standards.

Answer: True

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

28. The going concern assumption is the assumption that a company will continue to operate in the foreseeable future.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

29. The going concern assumption is the assumption that a company will NOT be successful in the foreseeable future.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

30. The reporting entity concept requires that an entity’s business activities be combined with the activities of its owner for financial reporting purposes.

Answer: False

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Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

31. Recognition is the process of recording a transaction in the accounting records.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

32. Measurement is the process of determining the amount that should be recognized.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

33. Fair value measurements are always more relevant to users of the financial statements.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
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34. The cost and fair value of an asset are the same at the time of acquisition and in all subsequent periods.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

35. The monetary unit concept assumes that all transactions will take place in Canadian dollars.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

36. The monetary unit concept prevents some relevant information from being recorded in the accounting records.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

37. Assets are present obligations, arising from past events, to make a future payment or to provide services.

Answer: False

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Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

38. Liabilities are the resources controlled by a business that are expected to provide future economic benefits.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

39. Accounts payable is the asset created when a company sells services or products to customers who promise to pay cash in the future.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

40. An obligation to pay cash to a supplier in the future is called accounts payable.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model

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CPA: Financial Reporting
AACSB: Analytic

41. The owner's claim on the assets of the company is known as owner's equity.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

42. Owner's claims to total business assets take precedence over the claims of creditors because owners invest assets in the business and are liable for losses.

Answer: False

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

43. Expenses are the costs of assets that are consumed or services used in ordinary business activities.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

44. A balance sheet presents the revenues and expenses, and the resulting profit or loss for a specific period of time.

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Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

45. Profit results when a company's expenses are higher than its revenues.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting

46. A balance sheet reports the assets, liabilities, and owner's equity at a specific date.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

47. An Income statement will give the answer to the question – "where did all the cash get used during this month?"

Answer: False
Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting

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AACSB: Analytic

48. A cash flow statement is organized into three categories: operating, financing, and investing activities of the company.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

49. Revenues decrease owner's equity and expenses increase owner's equity.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

50. A balance sheet can also be called a statement of financial position.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

51. An accounting transaction occurs when assets, liabilities, or owner's equity items change as the result of some economic event.

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Answer: True

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

52. Purchasing supplies on credit will result in an increase in assets and an increase in liabilities.

Answer: True

Bloomcode: Application
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

53. The annual report is a document that includes both financial and non-financial information.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

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MULTIPLE CHOICE QUESTIONS

54. An external user could be
a) production manager.
b) marketing manager.
c) Canada Revenue Agency.
d) the human resource director.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

55. An external user would NOT include
a) a creditor of the company.
b) Canada Revenue Agency.
c) human resources personnel.
d) the company's bank.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

56. Which of the following would NOT be considered an internal user of accounting information for the ABC Company?
a) president of the company
b) production manager
c) merchandise inventory clerk
d) president of the employees' labour union

Answer: d

Bloomcode: Knowledge

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Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

57. The main objective of the financial statements is
a) to show the profit of a company.
b) to allow customers to determine whether a company will honour its product warranties.
c) to provide useful information to investors and creditors to make decisions about a business.
d) to determine how many employees the company can afford to hire each year.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

58. Which of the following would be considered an internal user of accounting information for the ABC Company?
a) president of the company
b) production manager
c) merchandise inventory clerk
d) all of the above

Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

59. Which of the following would NOT be considered an external user of accounting information for the ABC Company?
a) Bank of Montreal
b) Canada Revenue Agency
c) president of the company
d) customers

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Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

60. The proprietorship form of business organization
a) must have at least three owners in most provinces.
b) is characterized by having a limited life.
c) combines the records of the business with the personal records of the owner.
d) is characterized by a legal distinction between the business as an economic unit and the owner.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

61. A business organized as a corporation
a) is not a separate legal entity in most provinces.
b) requires that shareholders be personally liable for the debts of the business.
c) is owned by its shareholders.
d) terminates when one of its original shareholders dies.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

62. The partnership form of business organization
a) is a separate legal entity.
b) is a common form of organization for service-type businesses.
c) enjoys an unlimited life.

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d) has limited liability.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

63. Which of the following is NOT an advantage of the corporate form of business organization?
a) limited liability of shareholders
b) transferability of ownership
c) unlimited personal liability for shareholders
d) unlimited life

Answer: c

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Compare different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

64. Judy and Marilyn met at law school and decide to start a small law practice after graduation. They agree to split revenues and expenses evenly. The most common form of business organization for a business such as this would be a
a) not-for-profit organization.
b) partnership.
c) corporation.
d) proprietorship.

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Compare different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

65. Which of the following forms of business organizations typically have their shares listed on the

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Toronto Stock Exchange?
a) proprietorships
b) private corporations
c) public corporations
d) partnerships

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

66. In regards to the corporate form of business organization, which of the following is true?
a) Corporations can only have one owner or many owners.
b) Corporate businesses are generally smaller in size than partnerships and proprietorships.
c) The revenues of corporations are always greater than the combined revenues of partnerships and proprietorships.
d) Corporations are separate legal entities organized exclusively under federal law.

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

67. Which of the following is NOT a characteristic of the corporate form of business organization?
a) shares are transferable
b) unlimited liability
c) separate legal entity
d) responsible for paying its own income taxes

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting

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AACSB: Analytic

68. All of the following are steps used to analyze ethical dilemmas EXCEPT
a) using the organization's code of ethics to identify ethical situations.
b) using personal ethics to identify ethical situations.
c) identifying potential stakeholders.
d) discussing the ethical dilemma with co-workers in the lunchroom.

Answer: d

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Professional and Ethical Behaviour
AACSB: Ethics

69. Canadian accounting standards allow a choice of whether or not to use International Financial Reporting Standards for which type of company?
a) public corporations
b) only small private corporations
c) banks
d) all private corporations in Canada

Answer: d

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

70. ASPE requires less information on the financial statements of private corporations than IFRS requires because
a) private corporations are smaller than public corporations.
b) users of private corporation financial statements have the ability to obtain additional information from the corporation if required.
c) public corporations have their information available on the Internet.
d) public corporations may report in different foreign currencies.
Answer: b

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Bloomcode: Application
Difficulty: Medium
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

71. Generally accepted accounting principles are
a) income tax regulations.
b) standards that act as guidelines for reporting economic events.
c) theories that are based on physical laws of the universe.
d) principles that have been proven correct by academic researchers.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

72. GAAP stands for
a) Generally Accepted Auditing Procedures.
b) Generally Accepted Accounting Principles.
c) Generally Accepted Auditing Principles.
d) Generally Accepted Accounting Procedures.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

73. Which of the following would violate the reporting entity concept?
a) reporting amounts owed to the company's suppliers as a liability on the balance sheet

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b) reporting equipment owned and used in the business as an asset on the balance sheet
c) reporting withdrawals by the owner as a drawing in the statement of owner's equity
d) reporting the owner's personal sailboat as an asset on the balance sheet

Answer: d

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

74. The International Accounting Standards Board
a) works to reduce differences in accounting practices across countries.
b) promotes unique accounting applications.
c) works to increase differences in accounting practices across countries.
d) only operates in countries that speak English.

Answer: a

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

75. The going concern assumption
a) states that a company will not operate long enough to utilize assets and fulfill obligations.
b) assumes the company will continue to operate in the foreseeable future.
c) is inconsistent with the historical cost measurement method.
d) states that net worth is the most appropriate value at which to record assets.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting

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AACSB: Analytic

76. Which of the following requires that the activities of a business be kept distinct from those of its owner(s)?
a) reporting entity concept
b) going concern assumption
c) monetary unit concept
d) cost principle

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

77. Mel Green is the proprietor (owner) of Green's, a retailer of athletic apparel. When recording the financial transactions of Green's, Mel does not record an entry for a car he purchased for personal use. Mel took out a personal loan to pay for the car. What accounting assumption guides Mel's behaviour in this situation?
a) going concern assumption
b) reporting entity concept
c) periodicity concept
d) monetary unit concept

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

78. Emily Hogan recently opened a new business. The business has been very successful and as a reward for all her hard work Emily spent a day at the local spa. Emily paid for the spa using a company credit card and charged the amount to the expense account called Repairs and Maintenance expense. Emily's actions violated which of the following?
a) the going concern assumption

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b) the monetary unit concept
c) the historical cost measurement method
d) the reporting entity concept

Answer: d

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Generally Accepted Accounting Principles
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

79. The historical cost measurement method requires that when assets are acquired, they be recorded at
a) appraisal value.
b) the amount paid.
c) the amount the asset could be sold for.
d) list price.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

80. The monetary unit concept requires a Canadian company reporting in Canada to use
a) differing exchange rates for business transactions.
b) several measures of economic activities.
c) the Canadian dollar as the common unit of measure for all Canadian business transactions.
d) estimates in measuring an economic event.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the

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conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

81. Recognition in accounting means
a) recognizing the difference between assets and liabilities.
b) recognizing the difference between income and expenses.
c) recognizing that initially transactions are recorded at fair value.
d) the process of recording a transaction in the accounting records.

Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

82. Which of the following is NOT considered an enhancing qualitative characteristic?
a) relevance
b) comparability
c) timeliness
d) understandability

Answer: a

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

83. Withdrawal of cash from a business by the owner for personal reasons will NOT affect which financial statement?
a) Balance sheet
b) Income statement
c) Statement of owner's equity
d) Cash flow statement

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Answer: b

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

84. Which of the following is true when considering the accounting equation?
a) An increase in an asset must always equal a decrease in a liability.
b) For every transaction, an asset and a liability must be affected.
c) An increase in a liability must equal a decrease in owner's equity.
d) An increase in an asset may result in a decrease in another asset.

Answer: d

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

85. The common characteristic possessed by all assets is
a) long life.
b) great monetary value.
c) tangible nature.
d) potential future economic benefit.

Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

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86. The accounting equation, for a proprietorship, may be expressed as
a) Assets = Liabilities + Shareholders' Equity.
b) Assets – Liabilities = Partners' Equity.
c) Assets = Liabilities + Owner's Equity.
d) all of these

Answer: c

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

87. The accounting equation, for a corporation, is best expressed as
a) Assets = Liabilities + Shareholders' Equity.
b) Assets – Liabilities = Partner’s Equity.
c) Assets = Liabilities + Owner's Equity.
d) all of these

Answer: a

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

88. An account receivable is recorded in the accounting records as a(n)
a) liability.
b) expense.
c) asset.
d) revenue.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.

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Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

89. Spade Company has total liabilities of $ 10,000 and total assets of $ 15,000. Based on this information, Spade Company's owner's equity must be
a) $ 10,000.
b) $ 0.
c) $ 5,000.
d) $ 15,000.

Answer: c

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

90. Liabilities
a) are future economic benefits.
b) are current or long-term obligations arising from past events.
c) possess service potential.
d) are things of value used by the business in its operation.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

91. Which of the following would best be described as an ownership claim on a company's assets?
a) expenses
b) account receivable from the owner
c) owner's equity
d) liabilities
Answer: c

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Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

92. Jack Smith owns and operates Jack's Pizza Express. Jack should record the cost of wages paid to store employees as a(n)
a) revenue.
b) expense.
c) liability.
d) asset.

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

93. Owner's equity is sometimes referred to as
a) residual equity.
b) leftovers.
c) spoils.
d) a second equity.

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

94. In a proprietorship, owner's equity is affected by all of the following EXCEPT

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a) the investment of cash by the owners.
b) the purchase of a personal automobile by the owner using personal funds.
c) the purchase of a computer for the owner's son using cash generated by the business.
d) the sale of goods by the business.

Answer: b

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

95. When an owner, in a proprietorship or partnership, withdraws cash or other assets from a business for personal use, these withdrawals are termed
a) expenses.
b) salary.
c) drawings.
d) a credit line.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

96. Revenues would NOT result from
a) sale of merchandise.
b) initial investment of cash by owner.
c) performance of services.
d) rental of property to a tenant.

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.

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Section Reference: The Accounting Model
CPA: Financial Reporting
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97. Increases to owner's equity, in a proprietorship, will result from
a) additional investments by owners.
b) purchases of merchandise.
c) withdrawals by the owner.
d) sale of share capital.

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

98. The basic accounting equation, in a proprietorship, CANNOT be restated as
a) Assets – Liabilities = Owner's Equity.
b) Assets – Owner's Equity = Liabilities.
c) Owner's Equity + Liabilities = Assets.
d) Assets + Liabilities = Owner's Equity.

Answer: d

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

99. Owner's equity, in a proprietorship, is increased by
a) drawings.
b) revenues.
c) expenses.
d) liabilities.

Answer: b

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Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

100. Owner's equity, in a proprietorship, is decreased by
a) assets.
b) revenues.
c) expenses.
d) liabilities.

Answer: c

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

101. Revenues, in a proprietorship, are
a) the cost of assets consumed during the period.
b) the gross increases in owner's equity resulting from business activities.
c) the cost of services used during the period.
d) actual or expected cash outflows.

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

102. Profit results when
a) Assets > Liabilities.

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b) Revenues = Expenses.
c) Revenues > Expenses.
d) Revenues < Expenses.

Answer: c

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

103. A balance sheet, in a proprietorship, shows
a) revenues, liabilities, and owner's equity.
b) expenses, drawings, and owner's equity.
c) revenues, expenses, and drawings.
d) assets, liabilities, and owner's equity.

Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

104. An income statement
a) summarizes the changes in owner's equity for a specific period of time.
b) reports the cash receipts and payments over for a specific period of time.
c) reports the assets, liabilities, and owner's equity at a specific date.
d) presents the revenues and expenses for a specific period of time.

Answer: d

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting

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AACSB: Analytic

105. The income statement is sometimes referred to as
a) a statement of earnings.
b) the statement of financial position.
c) the cash flow statement.
d) the statement of owner's equity.

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

106. The primary purpose of the cash flow statement is to report
a) a company's investing transactions.
b) a company's financing transactions.
c) information about cash inflows and cash outflows of a company.
d) the net increase or decrease in cash.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

107. Which of the following is considered a decrease to owner’s equity?
a) sales revenues
b) investments by owner
c) drawings by owner
d) service revenue

Answer: c

Bloomcode: Knowledge

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Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

108. Which of the following questions would NOT be answered by presenting the statement of cash flows?
a) What was the change in the cash balance during the period?
b) What amount of accounts receivable was considered uncollectible?
c) What was the cash used for during the period?
d) Where did the cash come from during the period?

Answer: b

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

109. Which of the following accounts would NOT be found on the balance sheet?
a) Cash
b) Drawings
c) Equipment
d) Accounts Payable.

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Learning Objective: Prepare financial statements.
Section Reference: The Accounting Model
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

110. Which of the following would NOT affect owner's equity?

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a) a cash receipt from a customer in payment of account
b) payment of an expense
c) services provided for cash
d) withdrawal of funds for personal use

Answer: a

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

111. Which of the following is an example of an economic event that should be recorded as an accounting transaction?
a) the purchase of supplies
b) the signing of a contract to build a new corporate headquarters
c) the appointment of a new Chief Executive Officer
d) the launch of a new marketing strategy

Answer: a

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

112. Which of the following transactions would NOT affect Cash?
a) payment to a supplier on account
b) purchase of supplies on account
c) payment of salaries for the week
d) prepaying an insurance premium

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

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113. An investment by a company's owner increases a company's cash and
a) reduces its liabilities.
b) reduces a company's total assets.
c) increases owner's equity.
d) increases the company's net earnings in the year in which the investment is made.

Answer: c

Bloomcode: Application
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

114. Partners' equity, in a partnership, is decreased by
a) payment of dividends.
b) drawings.
c) owner's investments.
d) revenues.

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

115. Shareholders' equity, in a corporation, is increased by
a) an expense.
b) shareholder purchase of newly issued common shares.
c) payment of dividends.
d) liabilities.

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis

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CPA: Financial Reporting
AACSB: Analytic

116. If total liabilities increased by $ 5,000, then
a) assets must have decreased by $ 5,000.
b) owner's equity must have increased by $ 5,000.
c) assets must have increased by $ 5,000, or owner's equity must have decreased by $ 5,000.
d) assets and owner's equity each increased by $ 2,500.

Answer: c

Bloomcode: Application
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

117. The collection of a $ 600 Accounts Receivable
a) increases an asset $ 600; decreases an asset $ 600.
b) increases an asset $ 600; decreases a liability $ 600.
c) decreases a liability $ 600; increases owner's equity $ 600.
d) decreases an asset $ 600; decreases a liability $ 600.

Answer: a

Bloomcode: Application
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

118. If an individual asset, in a proprietorship, is increased, then
a) there may be an equal decrease in a specific liability.
b) there may be an equal decrease in owner's equity.
c) there may be an equal decrease in another asset.
d) None of these is possible.

Answer: c

Bloomcode: Application
Difficulty: Medium

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Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

119. If services are provided for credit, in a proprietorship, then
a) assets will decrease.
b) liabilities will increase.
c) owner's equity will increase.
d) liabilities will decrease.

Answer: c

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

120. If expenses, in a proprietorship, are paid in cash, then
a) assets will increase.
b) liabilities will decrease.
c) owner's equity will increase.
d) assets will decrease.

Answer: d

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

121. If an owner makes a withdrawal of cash from a proprietorship, then
a) there has been a violation of accounting principles.
b) assets will decrease and owner's equity will increase.
c) assets will decrease and owner's equity will decrease.
d) assets will decrease and liabilities will increase.

Answer: c

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Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

122. If store rent has been paid in cash for the month, then
a) a liability will increase.
b) an asset will increase.
c) owner's equity will decrease.
d) owner's equity will increase.

Answer: c

Bloomcode: Application
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

123. Two or more items could be affected by a transaction. Which of the following statements is INCORRECT?
a) An increase in an asset may result in a decrease in another asset.
b) An increase in an asset may result in a decrease in an asset and increase in a liability.
c) An increase in a liability may result in a decrease in an asset.
d) An increase in a liability may result in a decrease in owner’s equity.

Answer: c

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting

124. The cost of advertising purchased for the current month is considered an expense, NOT an asset because
a) the expense will generate future benefits.
b) the advertising will generate future cash inflows.
c) the benefits of the expense have already been used.
d) the expense has not yet been used.

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Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

125. Expenses do not have to be paid in cash at the time they are incurred. When payment is made on a later date, the liability accounts payable account will decrease and the asset
a) cash will increase.
b) cash will decrease.
c) will not be affected.
d) accounts receivable will increase.

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

126. Payment of a liability for an expense that has been previously recorded
a) does not affect the owner's equity account.
b) only affects the liability accounts.
c) does not affect the asset accounts.
d) only affects the asset accounts.

Answer: a

Bloomcode: Application
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

127. Rock Support Ltd. and Pool Equipment Rentals Company sign a contract to rent equipment in the next two years. What is the impact of this event on the accounting equation for Rock?

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a) Assets increase and liabilities increase.
b) Assets decrease and liabilities decrease.
c) No impact on the accounting equation.
d) Owner's equity increases and assets increase.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

128. Which of the following accounts would be affected by the transaction "purchase supplies on credit"?
a) Office Expense and Accounts Payable
b) Office Expense and Cash
c) Supplies and Cash
d) Supplies and Accounts Payable

Answer: d

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

129. Owner's equity, in a proprietorship, at the end of the period is equal to
a) owner's capital at the beginning of the period plus profit minus liabilities.
b) owner's capital at the beginning of the period plus profit minus drawings.
c) profit.
d) assets plus liabilities.

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

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130. Shareholders' equity, in a corporation, at the end of the period is equal to
a) shareholders' equity at the beginning of the period plus profit minus liabilities.
b) share capital plus retained earnings.
c) share capital plus dividends.
d) share capital plus this year's profit.

Answer: b

Bloomcode: Application
Difficulty: Medium
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

131. If the owner's equity account increases from the beginning of the year to the end of the year, the best explanation for this change is
a) profit is less than owner drawings.
b) a loss is less than owner drawings.
c) additional owner investments are less than a loss.
d) profit is greater than owner drawings.

Answer: d

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

132. Max’s Small Engine Repair Shop, a proprietorship, started the year with total assets of $ 60,000 and total liabilities of $ 40,000. During the year, the business recorded $ 100,000 in repair revenues, $ 55,000 in expenses, and Max Freelandt , the owner, withdrew $ 10,000. Max’s capital balance at the end of the year was
a) $ 55,000.
b) $ 35,000.
c) $ 65,000.
d) $ 45,000.

Answer: a

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Bloomcode: Application
Difficulty: Medium
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

133. Joe's Small Engine Repair Shop, a proprietorship, started the year with total assets of $ 60,000 and total liabilities of $ 40,000. During the year, the business recorded $ 100,000 in repair revenues, $ 55,000 in expenses, and Joe Asus , the owner, withdrew $ 10,000. The profit reported by Joe's Small Engine Repair Shop for the year was
a) $ 35,000.
b) $ 45,000.
c) $ 20,000.
d) $ 90,000.

Answer: b

Bloomcode: Application
Difficulty: Medium
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

134. Brian's Small Engine Repair Shop, a proprietorship, started the year with total assets of $ 60,000 and total liabilities of $ 40,000. During the year, the business recorded $ 100,000 in repair revenues, $ 55,000 in expenses, and Brian Simpson, the owner, withdrew $ 10,000. Brian's capital balance changed by what amount from the beginning of the year to the end of the year?
a) $ 10,000.
b) $ 45,000.
c) $ 20,000.
d) $ 35,000.

Answer: d

Bloomcode: Application
Difficulty: Medium
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

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135. In terms of the expanded accounting equation, the income statement is prepared from the data in the
a) assets column.
b) liabilities column.
c) owner's equity column.
d) liabilities and owner's equity column.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

136. In regards to the order of preparing financial statements, which of the following statements is correct?
a) Income statement, balance sheet, statement of changes in owner's equity, cash flow statement
b) Balance sheet, income statement, cash flow statement, statement of changes in owner's equity
c) Income statement, statement of changes in owner's equity, balance sheet, cash flow statement
d) Income statement, statement of changes in owner's equity, cash flow statement, balance sheet

Answer: c

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

137. The income statement is always prepared first in order to determine
a) the total assets to be reported on the balance sheet.
b) the cash outflow of the company.
c) the profit or loss which is then reported in the statement of changes in owner's equity.
d) the amount of investments or withdrawals used in the statement of changes in owner's equity.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements

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CPA: Financial Reporting
AACSB: Analytic

138. If a company reported a loss in the first month of operations, the loss would reduce owner's capital and would be
a) added in the same section as owner's investments.
b) deducted in the same section as owner's investments.
c) deducted in the same section as owner's drawings.
d) added in the same section as owner's drawings.

Answer: c

Bloomcode: Application
Difficulty: Medium
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

139. The heading of a balance sheet must identify the
a) company, statement, and time period.
b) statement and date.
c) company, statement, and date.
d) company and date.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

140. Which of the following would NOT be considered non-financial information disclosed in an annual report?
a) company's mission statement
b) company's market position
c) company's goals and objectives
d) company's key performance ratios

Answer: d
Bloomcode: Knowledge

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Difficulty: Easy
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

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MATCHING QUESTIONS

Match the items below by entering the appropriate code letter in the space provided.

A.	Codes of conduct	F.	Corporation
B.	Profit	G.	Assets
C.	Partnership	H.	Equity
D.	Proprietorship	I.	Expenses
E.	Reporting Entity Concept	J.	Transactions

141. Rules for ethical business practices ____

Answer: A

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Professional and Ethical Behaviour
AACSB: Ethics

142. Ownership is limited to one person ____

Answer: D

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

143. A separate legal entity under federal or provincial laws ____

Answer: F

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization

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CPA: Financial Reporting
AACSB: Analytic

144. Reflective of two or more owners ____

Answer: C

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

145. Economic events can be identified with a particular reporting entity ____

Answer: E

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

146. Consumed assets or services ____

Answer: I

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

147 Ownership claims against the assets of the business ____

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Answer: H

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

148. Results when revenues exceed expenses _____

Answer: B

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

149. Resources controlled by a business with the potential for future economic benefit _____

Answer: G

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

150. Economic events that cause changes in the business's economic resources _____

Answer: J

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.

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Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

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CHAPTER 1

ACCOUNTING IN ACTION

CHAPTER LEARNING OBJECTIVES

1. ***Identify the use and users of accounting and the objective of financial reporting.*** Accounting is the information system that identifies, records, and communicates the economic events of an organization to a wide variety of interested users. Good accounting is important to people both inside and outside the organization. Internal users, such as management, use accounting information to plan, control, and evaluate business operations. External users include investors and creditors, among others. Accounting data are used by investors (owners or potential owners) to decide whether to buy, hold, or sell their financial interests. Creditors (suppliers and bankers) evaluate the risks of granting credit or lending money based on the accounting information. The objective of financial reporting is to provide useful information to investors and creditors to make these decisions. Users need information about the business's ability to earn a profit and generate cash. For our economic system to function smoothly, reliable and ethical accounting and financial reporting are critical.

2. ***Compare the different forms of business organization.*** The most common examples of business organization are proprietorships, partnerships, and corporations. Proprietorships and partnerships are not separate legal entities but are separate entities for accounting purposes; income taxes are paid by the owners and owners have unlimited liability. Corporations are separate legal entities as well as separate entities for accounting purposes; income taxes are paid by the corporation and owners of the corporation have limited liability.

3. ***Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.*** Generally accepted accounting principles are a common set of guidelines that are used to prepare and report accounting information. The conceptual framework outlines some of the body of theory used by accountants to fulfill their goal of providing useful accounting information to users. Ethical behaviour is fundamental to fulfilling the objective of financial accounting. The reporting entity concept requires the business activities of each reporting entity to be kept separate from the activities of its owner and other economic entities. The going concern assumption presumes that a business will continue operations for enough time to use its assets for their intended purpose and to fulfill its commitments. The periodicity concept requires businesses to divide up economic activities into distinct periods of time. Qualitative characteristics include fundamental and enhancing characteristics that help to ensure accounting information is useful.
Only events that cause changes in the business's economic resources or changes in the claims on those resources are recorded. Recognition is the process of recording items and measurement is the process of determining the amount that should be recognized. The historical cost concept states that economic resources should be recorded at their historical (original) cost. Fair value may be a more appropriate measure for certain types of resources. Generally, fair value is the amount the resource could be sold for in the market. The monetary unit concept requires that only transactions that can be expressed as an

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amount of money be included in the accounting records, and it assumes that the monetary unit is stable. The revenue recognition principle requires companies to recognize revenue when a performance obligation(s) is satisfied. The matching concept requires that costs be recognized as expenses in the same period as revenue is recognized when there is a direct association between the cost incurred and revenue recognized.
In Canada, there are two sets of standards for profit-oriented businesses. Publicly accountable enterprises must follow International Financial Reporting Standards (IFRS) and private enterprises have the choice of following IFRS or Accounting Standards for Private Enterprises (ASPE).

4. ***Describe the components of the financial statements and explain the accounting equation.*** Assets, liabilities, and owner's equity are reported in the balance sheet. Assets are present economic resources controlled by the business as a result of past events and have the potential to produce economic benefits. Liabilities are present obligations of a business to transfer an economic resource as a result of past events. Owner's equity is the owner's claim on the company's assets and is equal to total assets minus total liabilities. The balance sheet is based on the accounting equation: Assets = Liabilities + Owner's equity.
The Income statement reports the profit or loss for a specified period of time. Profit is equal to revenues minus expenses. Revenues are the increases in assets, or decreases in liabilities, that result from business activities that are undertaken to earn profit. Expenses are the cost of assets consumed or services used in a company's business activities. They are decreases in assets or increases in liabilities, excluding withdrawals made by the owners, and result in a decrease to owner's equity.
The statement of owner's equity summarizes the changes in owner's equity during the period. Owner's equity is increased by investments by the owner and profits. It is decreased by drawings and losses. Investments are contributions of cash or other assets by owners. Drawings are withdrawals of cash or other assets from the business for the owner's personal use. Owner's equity in a partnership is referred to as partners' equity and in a corporation as shareholders' equity.
A cash flow statement summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

5. ***Analyze the effects of business transactions on the accounting equation.*** Each business transaction must have a dual effect on the accounting equation. For example, if an individual asset is increased, there must be a corresponding (1) decrease in another asset, (2) increase in a liability, and/or (3) increase in owner's equity.

6. ***Prepare financial statements.*** The income statement is prepared first. Expenses are deducted from revenues to calculate the profit or loss for a specific period of time. Then the statement of owner's equity is prepared using the profit or loss reported in the income statement. The profit is added to (losses are deducted from) the owner's equity at the beginning of the period. Drawings are then deducted to calculate owner's equity at the end of the period. A balance sheet reports the assets, liabilities, and owner's equity of a business as at the end of the accounting period. The owner's equity at the end of the period, as calculated in the statement of owner's equity, is reported in the balance sheet in the owner's equity section.

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EXERCISES

Exercise 1

Mike Homes is a business owned by Mike Smith. The accounting for this business is done by Mike's sister Leigh. Leigh is currently preparing the 2021 year-end financial statements which Mike will use for three purposes:

1. to submit with his tax returns;
2. to support a loan application; and
3. to help him evaluate the success of the business.

Instructions

a) For each of the three purposes identified, describe the information needs the user will fulfill based on Mike Home's financial statements.

b) Leigh has suggested that she can help Mike out by recording some January 2022 revenue in December 2021. She feels this is reasonable because it is just a slight timing difference and so "not really dishonest." Comment on the ethical implications of this suggestion and explain how each of the three users' needs may be affected if Leigh implements her suggestion.

Solution Exercise 1 (10 min.)

a) Information needs for each of the three users:

   1. The tax department will want to know whether the company respects the tax laws.
   2. The bank's loans officer will evaluate the risk of granting credit or lending money.
   3. Mike will be able to assess whether the business is earning him the amount of profit he is expecting in comparison with other similar businesses.

b) Leigh's action would be unethical because it would be misrepresenting the true results of the business operations for 2021. It would violate the trust each financial statement user places in the accounting information. The effect on each of the needs identified in part a) would be:

   1. The tax department might assess higher taxes than are really warranted.
   2. The bank might lend more money to Mike than they would otherwise, based on expectations of higher future profits than can actually be achieved because the bank's projections are based on incorrect historical information.
   3. Mike might assume that past projects were more profitable than they really were. He might therefore reject new projects based on the assumption that he does not need to increase his sales above current levels in order to earn target profit levels.

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
CPA: Problem-Solving and Decision-Making
CPA: Professional and Ethical Behaviour
AACSB: Ethics

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Exercise 2
The following are six questions that users of accounting information might ask about Agusta Auto Towing.

Instructions
For each question, indicate who the decision maker is and whether it is an external or internal user.

	Decision	**Decision maker**	**External or internal**
a)	Can Agusta's operations generate sufficient cash to make payments on a term loan?		
b)	Does Agusta have sufficient assets to provide security for a mortgage loan?		
c)	Should Agusta continue its current business, or look for more profitable opportunities in a different line of business?		
d)	Were the profit-sharing bonuses paid to unionized employees equal to the percentage of profit stated in the employment contract?		
e)	Was the amount of harmonized sales taxes (HST) that Agusta remitted to the tax department equal to 13% of its revenue, as required by law?		
f)	Does Agusta have enough money in the bank to pay out drawings to the owner?		

Solution Exercise 2 (10 min.)

	Decision	**Decision maker**	**External or internal**
a)	Can Agusta's operations generate sufficient cash to make payments on a term loan?	Banker	External
b)	Does Agusta have sufficient assets to provide security for a mortgage loan?	Banker/lender	External
c)	Should Agusta continue its current business, or look for more profitable opportunities in a different line of business?	Management	Internal
d)	Were the profit-sharing bonuses paid to unionized employees equal to the percentage of profit stated in the employment contract?	Employee union	External
e)	Was the amount of harmonized sales taxes (HST) that Agusta remitted to the tax department equal to 13% of its revenue, as required by law?	Tax assessor (Canada Revenue Agency)	External
f)	Does Agusta have enough money in the bank to pay out drawings to the owner?	Owner	Internal

Bloomcode: Comprehension
Difficulty: Easy

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Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

Exercise 3

MGS Company recently released its first set of financial statements. Below is a list of potential users of the financial statements:

1. Labour union
2. Customers
3. Canadian Imperial Bank of Commerce
4. CRA
5. Potential shareholders/ investors
6. Sales Manager
7. Marketing Manager
8. Economic planners
9. Provincial securities commission
10. Human Resource Director

Instructions

a) For each user, identify whether the user is an external or internal user.
b) Provide a brief explanation as to the difference between external and internal users.

Solution Exercise 3 (15 min.)

a)

1. external
2. external
3. external
4. external
5. external
6. internal
7. internal
8. external
9. external
10. internal

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b) External users do not work for the company and may use the information to base future decisions about the company (i.e., loans, invest, or future profitability) or in the case of governments and regulators whether the company is respecting laws and regulations.
Internal users plan, organize, and run the company. They use the information to create or alter future budgets, projects, or for detailed comparisons.

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

Exercise 4
The following is a list of users of accounting information:
A) Managers
B) Regulators
C) Employees
D) Shareholders
E) Lenders
F) Suppliers
G) External auditors

Instructions
Match the most appropriate user to the following user objectives. (Note: Each user should only be applied once.)

_____(1) The accuracy of the internal budgeted financial information
_____(2) Verification that the financial statements are fairly presented
_____(3) Compliance with income tax laws
_____(4) The ability of a company to repay its loans
_____(5) Fairness of wages
_____(6) Ensuring orders received are filled and shipped as quickly as possible
_____(7) The company's ability to generate profits and provide a return on investment

Solution Exercise 4 (5 min.)
___A___(1) The accuracy of the internal budgeted financial information

___G___(2) Verification that the financial statements are fairly presented

___B___(3) Compliance with income tax laws

___E___(4) The ability of a company to repay its loans

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___C___(5) Fairness of wages

___F___(6) Ensuring orders received are filled and shipped as quickly as possible

___D___(7) The company's ability to generate profits and provide a return on investment

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

Exercise 5
The following is a list of users of accounting information:
a) Managers
b) Regulators
c) Employees
d) Shareholders
e) Lenders
f) Suppliers
g) External auditors

Instructions
Identify the above users as internal (I) or external (E) using the following format:
_____(a) Managers
_____(b) Regulators
_____(c) External auditors
_____(d) Shareholders
_____(e) Lenders
_____(f) Suppliers

Solution Exercise 5 (5 min.)
___I___(a) Managers

___E__(b) Regulators

___E___(c) External auditors

___E__(d) Shareholders

___E__(e) Lenders

___E__(f) Suppliers

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Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Identify the use and users of accounting and the objective of financial reporting.
Section Reference: Why Is Accounting Important?
CPA: Financial Reporting
AACSB: Analytic

Exercise 6

Listed below are various types of business organizations:

1. Three individuals created a law practice. The law practice does not pay its own taxes.
2. Two individuals bought shares of a company as an investment.
3. A single mother opens her own hair salon. The hair salon pays its own taxes
4. Husband and wife decide to open a daycare business. The wife will operate and maintain the daycare while the husband works his normal full-time job. The daycare income will be reported solely on the wife's personal tax return.
5. A public company with 100 shareholders.
6. Two friends create a chocolate company business. All profits will be on their personal returns.

Instructions

a) For each of the six situations, identify the type of business organization.
b) For each of the six situations, identify the owner's liability.

Solution Exercise 6 (10 min.)

	a)	b)
1.	Partnership	Unlimited
2.	Corporation	Limited
3.	Corporation	Limited
4.	Proprietorship	Unlimited
5.	Corporation	Limited
6.	Partnership	Unlimited

Bloomcode: Application
Difficulty: Easy
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting

Exercise 7

Listed below are various situations relating to business organizations:

1. Paul's Woodworking does not have a separate legal existence apart from the one person who owns

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it.

2. Luke and Sheri own Wise Financial Inc., a financial and personal taxation services provider. Neither Luke nor Sheri has personal responsibility of the debts of Wise Financial Inc.
3. Lucky Snacks is owned by Ray Umber, who is personally liable for the debts of the business.
4. Ownership of Tractor and Wheels is divided into thousands of shares.
5. Chris and Melissa own Chris' Curiosity, a restaurant. Both Chris and Melissa are personally liable for the debts of the business.
6. Torby Technologies has two owners and does not pay income taxes.

Instructions
Determine whether the situation described above refers to a proprietorship, partnership, or corporation.

Solution Exercise 7 (5 min.)
1. Proprietorship

2. Corporation

3. Proprietorship

4. Corporation

5. Partnership

6. Partnership

Bloomcode: Application
Difficulty: Medium
Learning Objective: Compare the different forms of business organization.
Section Reference: Forms of Business Organization
CPA: Financial Reporting
AACSB: Analytic

Exercise 8
Each of the following independent situations represents a violation of accounting principles:
1. It is now the end of 2021 and Stella Co. is preparing its annual financial statements. The company has been experiencing severe financial difficulties and management anticipates that the company will cease operations in 2022 but this is not disclosed in the financial statements.
2. Fritz Schmitz runs a small business. All receipts from the business are deposited into Fritz's personal bank account and all Fritz's expenses, both personal and business, are paid out of this same account. Fritz makes no attempt to maintain separate records for the business.
3. Dean has a mining company that is very profitable. Over the past few years, Dean has been very good at maintaining his business records and books. However, Dean's wife has recently been using the company account to pay for her personal expenses. She informed Dean that since he owns the company all the money earned will go to him anyway and therefore using the company account or their personal bank account makes no difference.

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Instructions
For each of the situations listed above, fill in the appropriate letter to indicate which of the following accounting principles has been violated:

a) Going concern assumption
b) Reporting entity concept

Solution Exercise 8 (5 min.)

1. a

2. b

3. b

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

Exercise 9

1. Explain the going concern assumption. How is it relevant in accounting for a business that may be going through temporary financial difficulties?
2. Explain how the reporting entity concept applies when a business is owned and operated by a sole proprietor.

Solution Exercise 9 (10 min.)

1. The going concern assumption states that one assumes that the business will continue its operations for the foreseeable future. This means that even though a business may be experiencing financial difficulties, assets and liabilities are still presented as though the assets will continue to be used in the business and liabilities will be honoured. If it becomes apparent that the business will discontinue operations, it is necessary to report in the financial statements that the company is not a going concern.

2. The reporting entity concept requires that only the events and transactions of a business be reported in the financial statements of a business. Therefore, although an unincorporated business is not a separate legal entity in the same sense that a corporation is, the accountant must still ensure that personal transactions, assets, and liabilities of the business owner are not reported in the business's financial statements.

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting

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AACSB: Analytic

Exercise 10

Each of the following independent situations represents a departure from generally accepted accounting principles:

1. Strad Music Supplies is a proprietorship owned and operated by Giuseppe Amati. Giuseppe started the business with funds given to him by his uncle. He gives his uncle a copy of Strad's financial statements each year so that his uncle will see this was a good investment. In 2020 both Giuseppe and his uncle were disappointed that sales had decreased from the prior year. When Giuseppe wins $ 50,000 in a lottery during 2021, he decides to record the amount as revenue in the financial statements of the business to avoid disappointing his uncle even further.
2. Xavier Quinn, the owner of Quinn's Travel, is thinking of retiring in two years because the business is not as successful as he had hoped. Xavier has always been very careful to ensure that all assets and liabilities are recorded correctly. However, since he is thinking of retiring, Xavier decides that generally accepted accounting principles are no longer relevant, so he does not double check his work as carefully as he did previously.

Instructions

For each situation listed above:

a) Identify which principle, concept, or assumption has been violated
b) Describe what the correct accounting treatment would be, and
c) Explain why the correct treatment provides better information.

Solution Exercise 10 (10 min.)

1. The reporting entity concept has been violated. Giuseppe should record only transactions related to the business in Strad's financial statements. By including personal income, a correct evaluation of the business's performance cannot be made.

2. The going concern assumption is violated. The assets and liabilities should be accounted for as though the business were going to continue, so the accuracy of all amounts continues to be as relevant as they were before.

Bloomcode: Application
Difficulty: Medium
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
CPA: Professional and Ethical Behaviour
AACSB: Analytic

Exercise 11

You were auditing the accounting records of Aldi Tool Company, owned and operated by Chad Fleming, and noticed the following events:

1. Chad deals with foreign suppliers who invoice the company in U.S. dollars. Chad normally records

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the amounts in the accounting records as displayed in the invoice since the exchange rate is often similar to the Canadian dollar.

2. Chad often receives deposits for contracts to be completed in the following fiscal year. He reports all deposits as revenue once the cash is received.
3. Chad wrote a cheque for $ 900 to Little Hugs Day Care Centre. The amount relates to child care service for Chad's daughter Gabrielle.

Instructions
Identify the accounting principle, concept, or assumption violated in each of the events described above.

Solution Exercise 11 (5 min.)
1. Monetary unit concept

2. Revenue recognition principle

3. Reporting entity concept

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

Exercise 12
The following is a list of fundamental and enhancing qualitative characteristics:
a) relevance
b) faithful representation
c) neutral
d) comparability
e) consistency
f) verifiability
g) timeliness
h) understandability

Instructions
Using the list of qualitative characteristics stated above, identify the appropriate qualitative characteristic being described in each of the statements below. (Note: a characteristic cannot be used more than once.)
a) Characteristic that requires that information cannot be selected to favour one set of interested parties over another.
b) Characteristic requiring information be available to decision-makers before it loses its ability to influence decisions.
c) Characteristic requiring that numbers and descriptions in financial statements represent what really

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existed or happened.

d) Information that is capable of making a difference in a decision is said to have this qualitative characteristic.

e) Characteristic being employed when companies in the same industry use the same accounting principles from year to year.

Solution Exercise 12 (5 min.)

a) neutral

b) timeliness

c) faithful representation

d) relevance

e) consistency

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

Exercise 13

In each of the following situations, the accountant for Stan Design Services (Stan) must decide how to record the information in the financial statements. Stan is a proprietorship owned and operated by Maria Steinwald.

1. Maria would like to borrow money from the bank to expand the business. Since she owns a house that can be pledged as security for a bank loan, she asks the accountant to ensure that the house is shown on Stan's balance sheet.
2. The accountant is confident that with a new contract that was signed, Stan will be a successful business for many years to come. However, before that was finalized, he was curious whether there would be any effect on accounting for the assets and liabilities of the business if its ongoing viability had been in doubt.

Instructions

For each of the situations, identify which generally accepted accounting principle would guide the accountant in deciding how to report the situation, and describe the correct treatment.

Solution Exercise 13 (5 min.)

1. The reporting entity concept requires that no personal assets are recorded in the records of the business, and therefore the house should not be included on Stan's balance sheet.

2. The going concern assumption applies. In accordance with this assumption, accounting for the

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business should be based on the assumption that it will continue for the foreseeable future, so there is no difference in the accounting in this situation.

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

Exercise 14

Listed below are various types of organizations:

1. publicly accountable enterprise
2. bank or credit unions
3. private corporation
4. security broker
5. Canadian partnership

Instructions

a For each organization, identify the appropriate accounting standards the organization should follow (ASPE or IFRS).

b) If applicable, identify if any organization has the option to follow both standards.

Solution Exercise 14 (5 min.)

a)

1. IFRS

2. IFRS

3. ASPE

4. IFRS

5. ASPE

b) Canadian private companies including corporations have the option to adopt IFRS or ASPE. Therefore 3. and 5. can adopt either set of standards.

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

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Exercise 15

For the items listed below, fill in the appropriate code letter to indicate whether the item is an Asset (A), Liability (L), or Owner's Equity (OE) item.

_____	1.	Rent Expense	_____	6.	Cash
_____	2.	Office Equipment	_____	7.	Accounts Receivable
_____	3.	Accounts Payable	_____	8.	L. Landry, Drawings
_____	4.	L. Landry, Capital	_____	9.	Service Revenue
_____	5.	Insurance Expense	_____	10.	Notes Payable

Solution Exercise 15 (5 min.)

1. OE
2. A
3. L
4. OE
5. OE
6. A
7. A
8. OE
9. OE
10. L

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

Exercise 16

1. What is meant by the historical cost measurement method? Explain why the method is used primarily when accounting for assets used in a business.
2. Explain the monetary unit concept. Explain how a business may have competitive advantage(s) that are not reported in the financial statements due to this principle, and provide an example.

Solution Exercise 16 (10 min.)

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1. Cost is the amount paid for an asset. Cost is definite and verifiable as it can be measured by fact. Users will be more comfortable with this measurement as it is objective.

2. The monetary unit concept states that only events that can be measured in a monetary unit are reported in the financial statements, and that the same monetary unit should be used to report all transactions. However, the business may have a particularly talented workforce in comparison to competitors'. Because the value of this extra talent cannot be measured in monetary terms, it is not recorded as an asset in the financial statements. [Other examples might include inventions or internally developed technology.]

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

Exercise 17
Each of the following independent situations represents a departure from generally accepted accounting principles:

1. Homer Properties owns a number of apartment buildings. In April 2021 a new building was purchased for $ 1,000,000. Because of the rapid increase in real estate prices, by the time Homer's accountant recorded the purchase in July 2021, the estimated value of the property had increased to $ 1,200,000. The accountant decided to record the new building at $ 1,200,000.
2. Expat Imports International purchases products in the United States for resale in Canada. The goods they buy in the U.S. are paid for in U.S. dollars. In Expat's financial statements, each amount is identified as being in either U.S. or Canadian dollars, for example as follows:

Sales	$ 40,000	(Canadian $)
Cost of goods sold	(25,000)	(U.S. $)
Wages expense	(7,000)	(Canadian $)
Freight expense	(2,000)	(U.S. $)
Profit	$ 6,000	

Instructions
For each situation, (i) identify which principle, concept, or assumption has been violated, (ii) describe what the correct accounting treatment would be, and (iii) why the correct treatment provides better information.

Solution Exercise 17 (15 min)

1. The historical cost measurement method has been violated. The accountant should have recorded the building at $ 1,000,000. Cost is more verifiable than estimated fair values. Fair values are not relevant because the building is not being sold.

2. The monetary unit concept has been violated. The transactions should all be recorded in the equivalent Canadian dollars. By combining different currencies, the amount of profit is not

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meaningful.

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

Exercise 18

In each of the following situations, the accountant for Meg Design Services (Meg) must decide how to record the information in the financial statements. Meg is a proprietorship owned and operated by Petra Smith.

1. In April, Meg purchased some furniture that will be used in a client's newly designed office. Meg paid $ 4,000 for the furniture, and the client will pay Meg $ 5,600 when it is delivered and assembled in May. The accountant wants to know at which amount the furniture should be reported on the April 30 balance sheet.
2. In June, Meg signed a long-term contract with a hotel chain to review all of their hotels' décor annually and recommend updates as fashions change. The fees will be based on the amount of time spent on the annual review. The first location will be evaluated starting in September. The accountant believes this contract is of great value to Meg even though no money has changed hands yet, and wonders how it can be shown in the June 30 financial statements.

Instructions

For each of the situations, identify which generally accepted accounting principle would guide the accountant in deciding how to report the situation, and describe the correct treatment.

Solution Exercise 18 (10 min.)

1. The historical cost measurement method states that the transaction should be reported at its cost, which is $ 4,000.

2. The monetary unit assumption states that only transactions that can be measured in monetary terms should be recorded. Since no funds have changed hands, and the benefit cannot be measured until it is known how many hours are to be spent, there is no transaction that can be measured in monetary terms.

Bloomcode: Application
Difficulty: Medium
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

Exercise 19

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For each of the situations listed below, indicate which of the following generally accepted accounting principles have been violated:

a) Monetary unit concept

b) Historical cost measurement method

1. Cheers International revalues its financial statements each year to take into consideration the effects of inflation. The company justifies its decision by stating the "inflation adjusted statements more fully reflect the purchasing power of the company's earnings."
2. Bert began operations 11 years ago and purchased land for $ 200,000. Bert has since built a manufacturing plant on this land to use in daily operations. Today Bert has appraised the value of his land to be $ 1.5 million. He increases the value of the land to be reported on the financial statements to $ 1.5 million.

Solution Exercise 19 (5 min.)

1. Monetary unit concept

2. Historical cost measurement method

Bloomcode: Application
Difficulty: Medium
Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.
Section Reference: Generally Accepted Accounting Principles
CPA: Financial Reporting
AACSB: Analytic

Exercise 20

From the following list of selected accounts taken from the records of Miller Clinic, identify which accounts would appear on the balance sheet.

a)	Jane Miller, Capital	f)	Accounts Payable
b)	Patient Revenue	g)	Cash
c)	Land	h)	Rent Expense
d.	Wages Expense	i)	Medical Supplies
e)	Notes Payable	j)	Utilities Expense

Solution Exercise 20 (5 min.)

a) Jane Miller, Capital

c) Land

e) Notes Payable

f) Accounts Payable

g) Cash

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i) Medical Supplies

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 21

Carrie's Carpet Cleaning has the following accounts:

Van	Notes Payable
Accounts Payable	T. Carrie, Capital
Cash	T. Carrie, Drawings
Supplies	Equipment
Accounts Receivable	

Instructions

Identify which items are
a) Assets
b) Liabilities
c) Owner's Equity

Solution Exercise 21 (5 min.)

a) Assets—Van, Cash, Supplies, Accounts Receivable, Equipment

b) Liabilities—Accounts Payable, Notes Payable

c) Owner's Equity—T. Carrie, Capital, T. Carrie, Drawings

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 22

The following is a list of accounts and ending balances for Tony's Consulting Services.

Accounts payable	$ 4,200
Accounts receivable	9,000
Bank loan payable	60,000
Building	65,000

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Cash	13,000
A. Mercer, Drawings	12,000
Equipment	6,000
Expenses	23,800
Land	95,000
A. Mercer, Capital, beginning of year	25,000
Revenues	135,000
Supplies	400

Instructions

a) For each account, indicate whether it is classified as an Asset (A), Liability (L), or Owner's Equity (OE).

b) Calculate total assets, total liabilities, and total owner's equity. Use these amounts to show that the accounting equation is in balance.

Solution Exercise 22 (10 min.)

a)

Accounts payable	4,200	L
Accounts receivable	9,000	A
Bank loan payable	60,000	L
Building	65,000	A
Cash	13,000	A
A Mercer, Drawings	12,000	OE
Equipment	6,000	A
Expenses	23,800	OE
Land	95,000	A
A. Mercer, Capital, beginning of year	25,000	OE
Revenues	135,000	OE
Supplies	400	A

b) Total assets = $ 9,000 + $ 65,000 + $ 13,000 + $ 6,000 + $ 95,000 + $ 400 = $ 188,400
Total liabilities = $ 4,200 + $ 60,000 = $ 64,200
Total owner's equity = $ 25,000 + $ 135,000 – $ 23,800 – $ 12,000 = $ 124,200

Assets ($ 188,400) = Liabilities ($ 64,200) + Owner's equity ($ 124,200)

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 23

At the beginning of the year, Diskman Company had total assets of $ 700,000 and total liabilities of $

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300,000.

Instructions

Answer the following questions viewing each situation as being independent of the others:

a) If total assets increased $ 250,000 during the year, and total liabilities decreased $ 100,000, what is the amount of owner's equity at the end of the year?

b) During the year, total liabilities increased $ 340,000 and owner's equity decreased $ 130,000. What is the amount of total assets at the end of the year?

c) If total assets decreased $ 60,000 and owner's equity increased $ 190,000 during the year, what is the amount of total liabilities at the end of the year?

Solution Exercise 23 (5 min.)

a)

	Total Assets		Total Liabilities		Owner's Equity
Beginning	$ 700,000		$ 300,000		$ 400,000
Change	250,000		(100,000)		
Ending	$ 950,000	–	$ 200,000	=	$ 750,000

b)

	Total Assets		Total Liabilities		Owner's Equity
Beginning	$ 700,000		$ 300,000		$ 400,000
Change			340,000		(130,000)
Ending	$ 910,000	=	$ 640,000	+	$ 270,000

c)

	Total Assets		Total Liabilities		Owner's Equity
Beginning	$ 700,000		$ 300,000		$ 400,000
Change	(60,000)				190,000
Ending	$ 640,000	=	$ 50,000	+	$ 590,000

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 24

Calculate the missing amount in each category of the accounting equation.

	Assets	Liabilities	Owner's Equity
a)	$ 280,000	$?	$ 98,000
b)	$ 178,000	$ 63,000	$?
c)	$?	$ 202,000	$ 300,000

Solution Exercise 24 (5 min.)

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a) $ 182,000 ($ 280,000 – $ 98,000 = $ 182,000)

b) $ 115,000 ($ 178,000 – $ 63,000 = $ 115,000)

c) $ 502,000 ($ 202,000 + $ 300,000 = $ 502,000)

Bloomcode: Application
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 25
Below are three lists of accounting information with missing amounts. Each list is independent of the others.

Cash	$ 2,100	$ 550	$ 1,800
Accounts receivable	a)	100	1,200
Equipment	5,000	2,500	10,000
Bank loan payable	2,000	0	e)
Accounts payable	750	c)	1,500
J. Rodriguez, Capital, beginning of year	3,000	900	5,000
J. Rodriguez, Drawings	1,200	350	3,500
Revenues	10,000	6,000	15,000
Expenses	7,000	4,000	f)
J. Rodriguez, Capital, end of year	b)	d)	2,500

Instructions
Use the accounting equation to determine the missing amounts.

Solution Exercise 25 (10 min.)
a) $ 450

b) $ 4,800

c) $ 600

d) $ 2,550

e) $ 9,000

f) $ 14,000

Bloomcode: Application

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Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 26
Summaries of information from the balance sheets and income statements for four different proprietorships are provided below, with several amounts missing.

	Jordan Installations	Campus Cleaning	Millenium Sales	Ferrier Enterprises
Beginning of year				
Total assets	$ 50,000	$ 8,500	$ 124,000	$ 15,600
Total liabilities	24,300	c)	63,900	9,900
Total owner's equity	25,700	4,300	e)	5,700
End of year:				
Total assets	62,400	10,000	165,000	21,000
Total liabilities	25,900	5,600	69,900	g)
Total owner's equity	a)	4,400	95,100	h)
Changes in owner's equity:				
Investments	5,000	d)	10,000	1,000
Drawings	18,000	12,000	60,000	24,000
Total revenues	151,700	51,000	f)	140,000
Total expenses	b)	41,800	215,000	115,000

Instructions
Determine the missing amounts.

Solution Exercise 26 (10 min.)
a) $ 36,500

b) $ 127,900

c) $ 4,200

d) $ 2,900

e) $ 60,100

f) $ 300,000

g) $ 13,300

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h) $ 7,700

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 27
The following are six questions that users of accounting information might ask about Agusta Auto Towing (Agusta).

Instructions
For each question, determine which part of the financial statements (Income statement, balance sheet, or cash flow statement) would provide the information required.

	Decision	**Financial statement used**
1.	Can Agusta's operations generate sufficient cash to make payments on a term loan?	
2.	Does Agusta have sufficient assets to provide security for a mortgage loan?	
3.	Should Agusta continue its current business, or look for more profitable opportunities in a different line of business?	
4.	Were the profit-sharing bonuses paid to unionized employees equal to the percentage of profit stated in the employment contract?	
5.	Was the amount of harmonized sales taxes (HST) that Agusta remitted to the tax department equal to 13% of its revenue, as required by law?	
6.	Does Agusta have enough money in the bank to pay out drawings to the owner?	

Solution Exercise 27 (5 min.)

	Decision	**Financial statement used**
1.	Can Agusta's operations generate sufficient cash to make payments on a term loan?	Statement of cash flows
2.	Does Agusta have sufficient assets to provide security for a mortgage loan?	Balance sheet
3.	Should Agusta continue its current business, or look for more profitable opportunities in a different line	Income statement

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	of business?	
4.	Were the profit-sharing bonuses paid to unionized employees equal to the percentage of profit stated in the employment contract?	Income statement
5.	Was the amount of harmonized sales taxes (HST) that Agusta remitted to the tax department equal to 13% of its revenue, as required by law?	Income statement
6.	Does Agusta have enough money in the bank to pay out drawings to the owner?	Balance sheet

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 28
At the beginning of the year, Klitch Komatsu Co. had total assets of $ 1,650,000 and total liabilities of $ 990,000.
Instructions
Answer the following questions viewing each situation as being independent of the others:

a) If total assets decreased $ 416,000 during the year, and total liabilities increased $ 92,000, what is the amount of owner's equity at the end of the year?
b) During the year, total liabilities decreased $ 86,000 and owner's equity increased $ 51,000. What is the amount of total assets at the end of the year?
c) If total assets decreased $ 29,000 and owner's equity decreased $ 67,000 during the year, what is the amount of total liabilities at the end of the year?

Solution Exercise 28 (5 min.)
a)

	Total Assets		Total Liabilities		Owner's Equity
Beginning	$ 1,650,000		$ 990,000		$ 660,000
Change	(416,000)		92,000		
Ending	$ 1,234,000	–	$ 1,082,000	=	$ 152,000

b)

	Total Assets		Total Liabilities		Owner's Equity
Beginning	$ 1,650,000		$ 990,000		$ 660,000
Change			(86,000)		51,000
Ending	$ 1,615,000	=	$ 904,000	+	$ 711,000

c)

	Total Assets		Total Liabilities		Owner's Equity
Beginning	$ 1,650,000		$ 990,000		$ 660,000

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Change	(29,000)				(67,000)
Ending	$ 1,621,000	=	$ 1,028,000	+	$ 593,000

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 29
Calculate the missing amount in each category of the accounting equation.

	Assets	Liabilities	Owner's Equity
a)	$ 2,800,000	$?	$ 1,950,000
b)	$ 10,220,000	$ 3,660,000	$?
c)	$?	$ 4,100,000	$ 9,990,000

Solution Exercise 29 (5 min.)
a) $ 850,000 ($ 2,800,000 – $ 1,950,000 = $ 850,000)

b) $ 6,560,000 ($ 10,220,000 – $ 3,660,000 = $ 6,560,000)
c) $ 14,090,000 ($ 4,100,000 + $ 9,990,000 = $ 14,090,000)

Bloomcode: Application
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 30
Analyze the transactions described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (–) to indicate a decrease.

		Assets	=	Liabilities	+	Owner's Equity
1.	Purchased supplies paying cash.	_____		_____		_____
2.	Purchased supplies on credit.	_____		_____		_____
3.	Owner withdrew cash from company.	_____		_____		_____
4.	Performed services for cash.	_____		_____		_____
5.	Performed services on credit.	_____		_____		_____
6.	Paid wages to employees.	_____		_____		_____
7.	Paid for repairs and maintenance expenses.	_____		_____		_____

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8.	Collected amount owed from customer.	_____	_____	_____
9.	Owner invested cash in company.	_____	_____	_____
10.	Paid an amount owing to supplier.	_____	_____	_____

Solution Exercise 30 (10 min.)

		Assets	=	Liabilities	+	Owner's Equity
1.	Purchased supplies paying cash.	+				–
2.	Purchased supplies on credit.	+				+
3.	Owner withdrew cash from company.	–				–
4.	Performed services for cash.	+				+
5.	Performed services on credit.	+				+
6.	Paid wages to employees.	–				–
7.	Paid for repairs and maintenance expenses.	–				–
8.	Collected amount owed from customer.	+				–
9.	Owner invested cash in company	+				+
10.	Paid an amount owing to supplier.	–		–		

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

Exercise 31

Listed below are various accounts that can be found in the financial statements:

1. Cash
2. Unearned revenue
3. Delivery truck
4. Accounts receivable
5. Prepaid expenses
6. Rental income
7. Accounts payable

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8. Service revenue
9. Telephone expense
10. Bank loan payable
11. Supplies expense
12. Interest revenue
13. Sales
14. Salaries payable
15. Building
16. Note payable
17. Insurance expense
18. Owner's capital
19. Commission revenue
20. Owner's drawings

Instructions
For each account listed, identify the applicable financial statement on which the account will be presented (balance sheet, income statement or statement of owner's equity).

Solution Exercise 31 (10 min)
1. Balance sheet
2. Balance sheet
3. Balance sheet
4. Balance sheet
5. Balance sheet
6. Income statement
7. Balance sheet
8. Income statement
9. Income statement
10. Balance sheet
11. Income statement
12. Income statement
13. Income statement
14. Balance sheet

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15. Balance sheet

16. Balance sheet

17. Income statement

18. Balance sheet

19. Income statement

20. Statement of owner's equity

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 32
One item is omitted in each of the following summaries of balance sheet and income statement data for three different sole proprietorships, A, B, and C.

	Proprietorship		
	A	B	C
Beginning of the Year:			
Assets	$ 400,000	$ 150,000	$ 199,000
Liabilities	250,000	105,000	168,000
End of the Year:			
Assets	450,000	195,000	195,000
Liabilities	280,000	95,000	169,000
During the Year:			
Additional investment by the owner	?	79,000	80,000
Withdrawals by the owner	90,000	83,000	?
Revenue	195,000	?	187,000
Expenses	170,000	113,000	185,000

Instructions
Determine the amounts of the missing items, identifying each proprietorship by letter.

Solution Exercise 32 (10 min.)

Proprietorship A	$ 85,000	
Beginning Capital balance ($ 400,000 – $ 250,000)		$ 150,000
Additional investments ($ 260,000 – $ 150,000 – $ 25,000)		85,000
Profit for year ($ 195,000 – $ 170,000)		25,000
		260,000

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Less withdrawals	90,000
Ending Capital balance ($ 450,000 – $ 280,000)	$ 170,000

Proprietorship B $ 172,000	
Beginning Capital balance ($ 150,000 – $ 105,000)	$ 45,000
Additional investments	79,000
Profit for year ($ 183,000 – $ 45,000 – $ 79,000)	59,000
[Revenue = $ 172,000 ($ 113,000 + $ 59,000)]	183,000
Less withdrawals	83,000
Ending Capital balance ($ 195,000 – $ 95,000)	$ 100,000

Proprietorship C $ 87,000	
Beginning Capital balance ($ 199,000 – $ 168,000)	$ 31,000
Additional investments	80,000
Profit for year ($ 187,000 – $ 185,000)	2,000
	113,000
Less withdrawals ($ 113,000 – $ 26,000)	87,000
Ending Capital balance ($ 195,000 – $ 169,000)	$ 26,000

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 33
Indicate in the space provided by each item whether it would appear on the income statement (IS), balance sheet (BS), or statement of owner's equity (OE):

1.	____	Service Revenue	7.	_____	Accounts Receivable
2.	____	Utilities Expense	8.	_____	K. Brown, Capital
3.	____	Cash	9.	_____	Equipment
4.	____	Accounts Payable	10.	_____	Advertising Expense
5.	____	Office Supplies	11.	_____	K. Brown, Drawings
6.	____	Wage Expense	12.	_____	Notes Payable

Solution Exercise 33 (5 min.)
1. IS

2. IS

3. BS

4. BS

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5. BS

6. IS

7. BS

8. OE, BS

9. BS

10. IS

11. OE

12. BS

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 34
Indicate in the space provided by each item whether it would appear on the income statement (IS), balance sheet (BS), or statement of owner's equity (OE):

1.	____	Unearned Revenue	7.	_____	Notes Payable
2.	____	Prepaid Expense	8.	_____	D. Donovan, Capital
3.	____	Salaries Expense	9.	_____	Notes Receivable
4.	____	D. Donovan, Drawings	10.	_____	Insurance Expense
5.	____	Land	11.	_____	Accounts Receivable
6.	____	Service Revenue	12.	_____	Cash

Solution Exercise 34 (5 min.)
1. BS

2. BS

3. IS

4. OE

5. BS

6. IS

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7. BS

8. OE, BS

9. BS

10. IS

11. BS

12. BS

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 35
Calculate the missing amount in each category of the accounting equation.

	Assets	Liabilities	Owner's Equity
a)	$ 1,610,000	$?	$ 900,000
b)	$ 1,070,000	$ 295,000	$?
c)	$?	$ 822,000	$ 1,107,000

Solution Exercise 35 (5 min.)
a) $ 710,000 ($ 1,610,000 – $ 900,000 = $ 710,000)

b) $ 775,000 ($ 1,070,000 – $ 295,000 = $ 775,000)

c) $ 1,929,000 ($ 822,000 + $ 1,107,000 = $ 1,929,000)

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
CPA: Financial Reporting
AACSB: Analytic

Exercise 36
Analyze the transactions described below and indicate their effect on the basic accounting equation. Use

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a plus sign (+) to indicate an increase and a minus sign (–) to indicate a decrease.

		Assets	=	Liabilities	+	Owner's Equity
1.	Received cash for services performed.	_____		_____		_____
2.	Purchased office equipment on credit.	_____		_____		_____
3.	Paid employees' salaries.	_____		_____		_____
4.	Received cash from customer in payment on account.	_____		_____		_____
5.	Paid telephone bill for the month.	_____		_____		_____
6.	Paid for office equipment purchased in transaction 2.	_____		_____		_____
7.	Purchased office supplies on credit.	_____		_____		_____
8.	Proprietor withdrew cash for personal expenses.	_____		_____		_____
9.	Obtained a loan from the bank.	_____		_____		_____
10.	Billed customers for services performed.	_____		_____		_____

Solution Exercise 36 (10 min.)

		Assets	=	Liabilities	+	Owner's Equity
1.	Received cash for services performed.	+				+
2.	Purchased office equipment on credit.	+		+		
3.	Paid employees' salaries.	–				–
4.	Received cash from customer for payment on account.	+,–				
5.	Paid telephone bill for the month.	–				–
6.	Paid for office equipment purchased in transaction 2.	–		–		
7.	Purchased office supplies on credit.	+		+		
8.	Proprietor withdrew cash for personal expenses.	–				–
9.	Obtained a loan from the bank.	+		+		
10.	Billed customers for services performed.	+				+

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.

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Section Reference: The Accounting Model
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

Exercise 37
Presented below is a balance sheet for the Marks Lawn Service at December 31, 2021.

MARKS LAWN SERVICE
Balance sheet
December 31, 2021

Assets		Liabilities and Owner's Equity	
Cash	$ 12,000	Liabilities	
Accounts receivable	7,000	Accounts payable	$ 8,000
Supplies	9,000	Notes payable	15,000
Equipment	11,000	Owner's equity	
		B. Marks, capital	16,000
Total assets	$ 39,000	Total liabilities & owner's equity	$ 39,000

The following additional information is available for the year that began on January 1, 2021: All expenses total $ 11,000. Profit for the year was $ 8,000 and drawings were $ 5,000.

Instructions
Determine the following: (Show all calculations.)

a) Service revenues for the year.
b) Bill Marks' capital balance on January 1.

Solution Exercise 37 (10 min.)

a) Calculation of Revenues:

Profit	$ 8,000
Plus: Total Expenses	11,000
Total Revenues	$ 19,000

b) Calculation of Bill Marks, Capital on January 1:

Capital, December 31	$ 16,000
Plus: Drawings	5,000
Less: Profit	(8,000)
Capital, January 1	$ 13,000

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting

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equation.
Section Reference: The Accounting Model
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

Exercise 38
The following items are taken from the December 31 financial statements of Scotia Rental Properties, a proprietorship owned by Leo DeRosier.

Accounts payable	$ 9,320
Accounts receivable	8,600
Building and equipment	246,000
Cash	15,000
L. DeRosier, drawings	12,000
Insurance expense	3,450
Interest expense	5,905
Interest payable	420
L. DeRosier, capital, beginning of year	40,695
Mortgage payable	210,000
Other assets	4,500
Prepaid insurance	510
Rental revenue	36,000
Repair expenses	2,300
Telephone expense	680
Wages expense	5,490

Additional information:

During the year, L. DeRosier invested $ 8,000 into the business.

Instructions
a) For each of the above items indicate in column a) whether the item is an Asset (A), Liability (L), Capital (C), Drawings (D), Revenue (R), or Expense (E) item.
b) For each of the above items indicate on which financial statement—income statement (IS), statement of owner's equity (OE), or balance sheet (BS)—each item would be reported.
c) Calculate total assets.
d) Calculate total liabilities.
e) Calculate profit.
f) Calculate total owner's equity.
g) Demonstrate that the accounting equation is in balance.

Solution Exercise 38 (20 min.)

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		a)	b)
Accounts payable	$ 9,320	L	BS
Accounts receivable	8,600	A	BS
Building and equipment	246,000	A	BS
Cash	15,000	A	BS
L. DeRosier, Drawings	12,000	D	OE
Insurance expense	3,450	E	IS
Interest expense	5,905	E	IS
Interest payable	420	L	BS
L DeRosier, capital, beginning of year	40,695	C	OE
Mortgage payable	210,000	L	BS
Other assets	4,500	A	BS
Prepaid insurance	510	A	BS
Rental revenue	36,000	R	IS
Repair expenses	2,300	E	IS
Telephone expense	680	E	IS
Wages expense	5,490	E	IS

c) Total assets: ($ 8,600 + $ 246,000 + $ 15,000 + $ 4,500 + $ 510) = $ 274,610

d) Calculate total liabilities: ($ 9,320 + $ 420 + $ 210,000) = $ 219,740

e) Calculate profit: ($ 36,000 – $ 3,450 – $ 5,905 – $ 2,300 – $ 680 – $ 5,490) = $ 18,175

f) Calculate total owner's equity: ($ 40,695 + $ 8,000 + $ 18,175 – $ 12,000) = $ 54,870

g) Accounting equation: $ 274,610 = $ 219,740 + $ 54,870

Bloomcode: Application
Difficulty: Medium
Learning Objective: Describe the components of the financial statements and explain the accounting equation.
Section Reference: The Accounting Model
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

Exercise 39

For each of the following, describe a transaction that will have the stated effect on the elements of the accounting equation.

1. Increase one asset and decrease another asset.
2. Increase an asset and increase a liability.
3. Decrease an asset and decrease a liability.
4. Increase an asset and increase owner's equity.

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5. Increase one asset, decrease another asset, and increase a liability.

Solution Exercise 39 (5 min.)

1. Receive cash from customers on account.
   Purchase supplies for cash.
   Purchase equipment for cash.

2. Purchase supplies on account.
   Purchase equipment and sign a note payable.
   Borrow money from bank.

3. Pay cash to reduce accounts payable.
   Pay cash to reduce a note payable.

4. Initial contribution by an owner
   Additional contributions by an owner
   Render services on account.
   Render services for cash.

5. Buy equipment with a cash down payment with the remainder financed by a note payable.

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

Exercise 40

The following transactions represent part of the activities of Lewis Company for the first month of its existence. Indicate the effect of each transaction upon the total assets of the business by one of the following phrases: increased total assets, decreased total assets, or no change in total assets.

1. The owner invested cash to start the business.
2. Purchased a computer for cash.
3. Purchased office equipment with money borrowed from the bank.
4. Paid the first month's utility bill.
5. Collected an accounts receivable.
6. Owner withdrew cash from the business.

Solution Exercise 40 (5 min.)

1. Increased total assets.

2. No change in total assets.

3. Increased total assets.

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4. Decreased total assets.

5. No change in total assets.

6. Decreased total assets.

Bloomcode: Application
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

Exercise 41
Selected transactions for Barkley Company are listed below:
1. Paid monthly utility bill.
2. Purchased new display case for cash.
3. Paid cash for repair work on security system.
4. Billed customers for services performed.
5. Received cash from customers billed in 4.
6. Withdrew cash for owner's personal use.
7. Incurred advertising expenses on account.
8. Paid monthly rent.
9. Received cash from customers when service was provided.

Instructions
List the number of the transaction and then describe the effect of each transaction on assets, liabilities, and owner's equity.
Sample: Made initial cash investment in the business. The answer would be: increase in assets and increase in owner's equity.

Solution Exercise 41 (5 min.)
1. Decrease in assets and decrease in owner's equity.

2. No net change in assets.

3. Decrease in assets and decrease in owner's equity.

4. Increase in assets and increase in owner's equity.

5. No net change in assets.

6. Decrease in assets and decrease in owner's equity.

7. Increase in liabilities and decrease in owner's equity.

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8. Decrease in assets and decrease in owner's equity.

9. Increase in assets and increase in owner's equity.

Bloomcode: Application
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

Exercise 42
There are ten transactions listed below:

1. Receive cash from customers on account.
2. Initial cash contribution by an owner.
3. Pay cash to reduce an accounts payable.
4. Purchase supplies for cash.
5. Pay cash to reduce a notes payable.
6. Purchase supplies on account.
7. Customers pay cash for services rendered.
8. Purchase equipment with a note payable.
9. Pay utilities with cash.
10. Owner withdraws money from the business for personal use.

Instructions
Match the transactions that have the identical effect on the accounting equation. You should end up with five matches. The first one has been completed for you with an explanation.
Example: 1. and 4. are a match because both of them include an increase in assets and a decrease in assets. The net effect of these transactions on the accounting equation is zero.

Solution Exercise 42 (10 min.)
Match #1 = 1, 4

Match #2 = 3, 5

Match #3 = 6, 8

Match #4 = 2, 7

Match #5 = 9, 10

Bloomcode: Evaluation
Difficulty: Hard
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis

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CPA: Financial Reporting

Exercise 43
Selected transactions for Peters Equipment Services are listed below:

1. Purchased a new lawn mower for $ 2,000, making a 10% down payment in cash, the remainder is on account.
2. Purchased $ 350 supplies for cash.
3. Billed customers $ 1,500 for lawn services completed.
4. Purchased used truck for $ 6,500, fully financed by a bank loan.
5. Collected $ 800 from customers for services previously billed.
6. Paid balance owing on lawn mower.
7. Incurred telephone expenses of $ 85 on account.
8. Completed services for customers who pay $ 440 cash.
9. Peter Willes, the owner, invests $ 7,000 of additional funds in the business.
10. Part of the funds invested is used to repay the full balance of the bank loan plus $ 65 in interest expense.
11. $ 1,250 in wages is paid to employees.
12. Peter withdrew $ 1,000 cash for personal use.

Instructions
For each transaction, state whether the transaction increases or decreases assets, liabilities, and/or owner's equity, and by what amount(s).

Solution Exercise 43 (10 min)

1. Increases assets and liabilities by $ 1,800 each.

2. Increase and decrease in assets by the same amount, no change in total assets.

3. Assets and owner's equity are each increased by $ 1,500.

4. Assets and liabilities each increase by $ 6,500.

5. Increase and decrease in assets by the same amount, no change in total assets.

6. Assets and liabilities are each decreased by $ 1,800.

7. Liabilities are increased by $ 85 and owner's equity decreased by the same amount.

8. Assets and owner's equity are each increased by $ 440.

9. Assets and owner's equity are each increased by $ 7,000.

10. Assets are decreased by $ 6,565, liabilities decreased by $ 6,500, and owner's equity decreased by $ 65.

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11. Assets and owner's equity are each decreased by $ 1,250.

12. Assets and owner's equity are each decreased by $ 1,000.

Bloomcode: Application
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

Exercise 44
A service proprietorship shows five transactions summarized below. The effect of each transaction on the accounting equation is shown.

	Cash	+	Accounts Rec.	+	Equip-ment	+	Land	+	Building	=	Accounts Payable	+	Capital	–	Drawings	+	Revenues	–	Expenses
	$ 5,000		$ 6,500		$ 10,000		$ 7,500		$ 50,000		$ 3,000		$ 66,000		$ 20,000		$ 35,000		$ 5,000
1.	–2,000										-2,000								
2.	+1,000		–1,000																
3.					+5,000						+5,000								
4.	+2,500																+2,500		
5.			+3,000														+3,000		
Totals	$ 6,500		$ 8,500		$ 15,000		$ 7,500		$ 50,000		$ 6,000		$ 66,000		$ 20,000		$ 40,500		$ 5,000

Instructions
For each transaction, write an explanation of the nature of the transaction.

Solution Exercise 44 (5 min.)
1. Paid cash to creditors.

2. Received cash from customers on account.

3. Bought equipment on account.

4. Services provided to customers for cash.

5. Services provided on account.

Bloomcode: Application
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

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Exercise 45

Pam's Custom Cakes shows five transactions summarized below. The effect of each transaction on the accounting equation is shown.

	Cash	+	Accounts Rec.	+	Equip-ment	+	Land	+	Building	=	Accounts Payable	+	Capital	–	Drawings	+	Revenues	–	Expenses
	$ 5,000		$ 6,500		$ 10,000		$ 7,500		$ 50,000		$ 3,000		$ 66,000		$ 20,000		$ 35,000		$ 5,000
1.	+6,000												+6,000						
2.	-7,500				+15,000						+7,500								
3.	-4,000														-4,000				
4.	+2,000		-2,000																
5.											+1,100								-1,100
Totals	$ 1,500		$ 4,500		$ 25,000		$ 7,500		$ 50,000		$ 11,600		$ 72,000		$ 24,000		$ 35,000		$ 6,100

Instructions

For each transaction, write an explanation of the nature of the transaction.

Solution Exercise 45 (5 min.)

1. Cash invested by owner.

2. Purchase of equipment by paying half with cash and the other half on account.

3. Owner withdrew cash from company.

4. Collect accounts receivable.

5. Made a purchase on credit.

Bloomcode: Application
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

Exercise 46

Russ Walls decides to open a cleaning and laundry service near the local college campus that will operate as a proprietorship. The transactions for the month of June are listed below:

1. Russ Walls invests $ 20,000 in cash to start a cleaning and laundry business on June 1.
2. Purchased laundry equipment for $ 5,000 paying $ 3,000 in cash and the remainder due in 30 days.
3. Purchased laundry supplies for $ 1,200 cash.
4. Received a bill from Campus News for $ 300 for advertising in the campus newspaper.
5. Provided $ 1,500 of cleaning and laundry services to customers for cash.
6. Paid salaries of $ 200 to student workers.
7. Billed the Tiger Football Team $ 100 for cleaning and laundry services.

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8. Paid $ 300 to Campus News for advertising that was previously billed in Transaction 4.
9. Russ Walls withdrew $ 700 from the business for living expenses.
10. Incurred utility expenses for month on account, $ 400.

Instructions

Analyze the transactions above in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (–) the dollar amount of each item affected. Total and balance the equation at the end of the month.

Trans-action	Cash	+	Accounts Rec.	+	Laundry Supplies	+	Laundry Equip.	=	Accounts Payable	+	R. Walls, Capital	–	R. Walls, Drawings	+	Revenues	–	Expenses
1.																	
2.																	
3.																	
4.																	
5.																	
6.																	
7.																	
8.																	
9.																	
10.																	
Totals																	

Solution Exercise 46 (20 min.)

Trans-action	Cash	+	Accounts Rec.	+	Laundry Supplies	+	Laundry Equip.	=	Accounts Payable	+	R. Walls, Capital	–	R. Walls, Drawings	+	Revenues	–	Expenses
1.	+$ 20,000										+$ 20,000						
2.	–3,000						+$ 5,000		+$ 2,000								
3.	–1,200				+$ 1,200												
4.									+300								–$ 300
5.	+1,500														+$ 1,500		
6.	–200																–200
7.			+$ 100												+100		
8.	–300								–300								
9.	–700												–$ 700				

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10.				+400				–400
Totals	$ 16,100	$ 100	$ 1,200	$ 5,000	$ 2,400	$ 20,000	–$ 700	$ 1,600	–$ 900

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis
CPA: Financial Reporting
AACSB: Analytic

Exercise 47

Amanda Mayne recently started a business, Mayne Events, that will provide promotion and advertising for fund raising events hosted by charities. She will operate the business as a proprietorship. The first month's transactions are listed below:

1. Invests $ 5,000 in the business out of her personal savings.
2. Transfers a computer valued at $ 3,000 to the business.
3. Purchases computer supplies for $ 400 cash.
4. Pays $ 550 for wages to an assistant.
5. Completes advertising brochures for a client, who pays $ 700 for the service.
6. Advertisements for Mayne Events are run in the local newspaper at a cost of $ 600 on account.
7. Provides services totaling $ 1,200 for several clients – one client whose bill is $ 200 pays cash, the remainder are on account.
8. Pays the amount owing to the newspaper for the advertisements described in 6.
9. Half the amount receivable from customers is collected.
10. Purchases additional computer equipment for $ 450, cash.
11. Withdraws $ 300 for personal use.

Instructions

a) For each of the above items, determine the accounts that will be affected and, in the table provided, set up the headings in the order of the accounting equation.
b) For each of the above items, record each transaction in the table provided.
c) Calculate total assets.
d) Calculate total liabilities.
e. Calculate profit.
f) Calculate owner's equity.
g) Demonstrate that the accounting equation is in balance.

Trans-action									
1.									
2.									
3.									
4.									

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5.									
6.									
7.									
8.									
9.									
10.									
11.									
Totals									

Solution Exercise 47 (20 min.)
a) and b)

Trans-action	Cash	A/R	Supplies	Computer equipment	Accounts payable	A. Mayne, Capital	A. Mayne, Drawings	Revenue	Expenses
1.	+$ 5,000					+$ 5,000			
2.				+$ 3,000		+$ 3,000			
3.	-$ 400		+$ 400						
4.	-$ 550								-$ 550
5.	+$ 700							+$ 700	
6.					+$ 600				-$ 600
7.	+$ 200	+$ 1,000						+$ 1,200	
8.	-$ 600				-$ 600				
9.	+$ 500	-$ 500							
10.	-$ 450			+$ 450					
11.	-$ 300						-$ 300		
Totals	$ 4,100	$ 500	$ 400	$ 3,450	$ 0	$ 8,000	-$ 300	$ 1,900	-$ 1,150

c) Total assets = $ 4,100 + $ 500 + $ 400 + $ 3,450 = $ 8,450

d) Total liabilities = -0-

e. Profit = $ 1,900 – $ 1,150 = $ 750

f) Owner's equity = $ 8,000 + $ 750 – $ 300 = $ 8,450

g) The accounting equation $ 8,450 = $ 0 + $ 8,450

Bloomcode: Synthesis
Difficulty: Hard
Learning Objective: Analyze the effects of business transactions on the accounting equation.
Section Reference: Transaction Analysis

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CPA: Financial Reporting
AACSB: Analytic

Exercise 48
Greg Stewart was reviewing his business activities at the end of the year (February 28, 2021) and needs your help to prepare a statement of owner's equity. At the beginning of the year, his assets were $ 500,000 and his liabilities were $ 150,000. At the end of the year the assets had grown to $ 950,000 but liabilities had also increased to $ 300,000. The profit for the year was $ 420,000. Greg had withdrawn $ 120,000 during the year for his personal use.

Instructions
Prepare a statement of owner's equity in good form.

Solution Exercise 48 (5 min.)

GREG STEWART
Statement of Owner's Equity
Year Ended February 28, 2021

G. Stewart, capital March 1, 2020	$ 350,000
Add: profit	420,000
	770,000
Less: drawings	120,000
G. Stewart, capital February 28, 2021	$ 650,000

Bloomcode: Application
Difficulty: Medium
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

Exercise 49
At September 1, 2021, the balance sheet accounts for Reggie's Restaurant, owned by Reggie Ray were as follows:

Accounts Payable	$ 3,800	Land	$ 33,000
Accounts Receivable	1,600	R. Ray, Capital	?
Building	68,000	Notes Payable	48,000
Cash	5,000	Supplies	6,600
Furniture	18,700		

The following transactions occurred during the next two days:
1. Reggie invested an additional $ 22,000 cash in the business.
2. The accounts payable were paid in full. (No payment was made on the notes payable.)

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Instructions
Prepare a balance sheet at September 3, 2021.

Solution Exercise 49 (10 min.)

REGGIE'S RESTAURANT
Balance Sheet
September 3, 2021

ASSETS

Cash	$ 23,200
Accounts receivable	1,600
Supplies	6,600
Furniture	18,700
Building	68,000
Land	33,000
Total assets	$ 151,100

LIABILITIES

Notes payable	$ 48,000

OWNER'S EQUITY

R. Ray, capital	103,100
Total liabilities and owner's equity	$ 151,100

Cash ($ 5,000 + $ 22,000 – $ 3,800) = $ 23,200
Accounts Payable ($ 3,800 – $ 3,800) = $ 0. Note that accounts with a zero balance are not normally reported in the financial statements.

R. Ray, Capital:	Beginning balance	$ 81,100
	Additional investment	22,000
	Ending balance	$ 103,100

Bloomcode: Application
Difficulty: Medium
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

Exercise 50
The dental practice of Pamela Bell, DDS has the following items for the month of September, 2021:

P. Bell, Capital (September 1)	$ 42,000

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Accounts payable	7,000
Equipment	30,000
Service revenue	25,000
P. Bell, Drawings	6,000
Dental supplies expense	3,500
Cash	8,000
Utilities expense	700
Dental supplies	2,800
Salaries expense	7,000
Accounts receivable	14,000
Rent expense	2,000

Instructions
Prepare an income statement, a statement of owner's equity, and a balance sheet for the dental practice in the following formats:

PAMELA BELL, DDS
Income Statement
Month Ended September 30, 2021

———————————————————————————————————

Revenues		$
Expenses		
	$	
Total expenses		
Profit		$

PAMELA BELL, DDS
Statement of Owner's Equity
Month Ended September 30, 2021

———————————————————————————————————

P. Bell, Capital, September 1	$
Add:	
Less:	
P. Bell, Capital, September 30	$

PAMELA BELL, DDS
Balance Sheet
September 30, 2021

———————————————————————————————————

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ASSETS

	$
Total assets	$

LIABILITIES AND OWNER'S EQUITY

Liabilities	
	$
Owner's equity	
Total liabilities and owner's equity	$

Solution Exercise 50 (15 min.)

PAMELA BELL, DDS
Income Statement
Month Ended September 30, 2021

Revenues		
Service revenue		$ 25,000
Expenses		
Salaries expense	$ 7,000	
Dental supplies expense	3,500	
Rent expense	2,000	
Utilities expense	700	
Total expenses		13,200
Profit		$ 11,800

PAMELA BELL, DDS
Statement of Owner's Equity
Month Ended September 30, 2021

P. Bell, capital, September 1	$ 42,000
Add: profit	11,800
	53,800
Less: drawings	6,000
P. Bell, capital, September 30	$ 47,800

PAMELA BELL, DDS
Balance Sheet
September 30, 2021

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ASSETS	
Cash	$ 8,000
Accounts receivable	14,000
Dental supplies	2,800
Equipment	30,000
Total Assets	$ 54,800
LIABILITIES AND OWNER'S EQUITY	
Liabilities	
Accounts payable	$ 7,000
Owner's equity	
P. Bell, capital	47,800
Total liabilities and owner's equity	$ 54,800

Bloomcode: Synthesis
Difficulty: Medium
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

Exercise 51

Listed below, in alphabetical order, are the balance sheet items of Solo Company at December 31, 2021:

Accounts Payable	$ 9,000
Accounts Receivable	15,000
Building	46,000
Cash	12,000
Land	52,000
Office Equipment	4,000
H. Solo, Capital	120,000

Instructions

Prepare a balance sheet and include a complete heading.

Solution Exercise 51 (5 min.)

SOLO COMPANY
Balance Sheet
December 31, 2021

ASSETS	
Cash	$ 12,000
Accounts receivable	15,000
Office equipment	4,000
Building	46,000
Land	52,000

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Total assets	$ 129,000
LIABILITIES	
Accounts payable	$ 9,000
OWNER'S EQUITY	
H. Solo, capital	120,000
Total liabilities and owner's equity	$ 129,000

Bloomcode: Application
Difficulty: Medium
Learning Objective: Prepare financial statements.
Section Reference: Preparing Financial Statements
CPA: Financial Reporting
AACSB: Analytic

Exercise 52
William Calvin owns and operates Sales Consulting, the business is not a corporation. The following information is based on December 31, 2021 year end balances for the firm. (All amounts are in 000s).

Accounts payable	$ 1,860
Accounts receivable	3,340
Cash	1,705
W. Calvin, Drawings	4,800
Fees earned	10,600
Insurance expense	900
Prepaid insurance	80
Supplies	120
Telephone expense	480
W. Calvin, capital, beginning of year	3,755
Wages expense	6,890
Wages payable	600

Additional information:
William invested $ 1,500 into the business during the year.

Instructions

a) Prepare the income statement for Sales Consulting.
b) Prepare the statement of owner's equity.
c) Prepare the balance sheet.

Solution Exercise 52 (20 min.)
a)

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Sales Consulting
Income Statement
Year Ended December 31, 2021

Revenue		
Fees earned		$ 10,600
Expenses		
Insurance expense	$ 900	
Telephone expense	480	
Wages expense	6,890	8,270
Profit		$ 2,330

b)

Sales Consulting
Statement of Owner's Equity
Year ended December 31, 2021

W. Calvin, January 1		$ 3,755
Add: investments	$ 1,500	
profit	2,330	3,830
		7,585
Less: W. Calvin, drawings		4,800
W. Calvin, December 31		$ 2,785

c)

Sales Consulting
Balance Sheet
December 31, 2021

ASSETS	
Cash	$ 1,705
Accounts receivable	3,340
Supplies	120
Prepaid insurance	80
Total assets	$ 5,245
LIABILITIES AND OWNER'S EQUITY	
Liabilities	
Accounts payable	$ 1,860
Wages payable	600
Total liabilities	$ 2,460
Owner's equity	
W. Calvin, capital	2,785
Total liabilities and owner's Equity	$ 5,245

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