Financial Accounting (Canadian) 8th edition Kimmel Test Bank

SKU: 9781119594574-TEST-BANK

CHAPTER 1

THE PURPOSE AND USE OF FINANCIAL STATEMENTS

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	K	F	AN	13.	2	E	K	F	AN	25.	4	M	K	F	AN
2.	1	E	C	F	AN	14.	2	E	K	F	AN	26.	4	M	K	F	AN
3.	1	E	C	F	AN	15.	2	M	K	F	AN	27.	4	E	K	F	AN
4.	1	E	K	F	AN	16.	2	E	K	F	AN	28.	4	M	K	F	AN
5.	1	E	K	F	AN	17.	3	E	K	F	AN	29.	4	E	K	F	AN
6.	1	E	K	F	AN	18.	3	E	K	F	AN	30.	4	M	C	F	AN
7.	1	M	C	F	AN	19.	3	M	K	F	AN	31.	4	E	C	F	AN
8.	1	M	C	F	AN	20.	3	E	K	F	AN	32.	4	E	K	F	AN
9.	1	M	C	F	AN	21.	3	M	K	F	AN	33.	4	M	C	F	AN
10.	1	M	C	F	AN	22.	3	E	C	F	AN	34.	4	E	K	F	AN
11.	1	M	C	F	AN	23.	4	M	K	F	AN						
12.	2	E	K	F	AN	24.	4	E	K	F	AN						
Multiple Choice Questions																	
35.	1	E	K	F	AN	60.	3	E	C	F	AN	85.	4	E	C	F	AN
36.	1	E	K	F	AN	61.	3	E	C	F	AN	86.	4	E	K	F	AN
37.	1	M	K	F	AN	62.	3	M	C	F	AN	87.	4	E	C	F	AN
38.	1	M	K	F	AN	63.	3	M	K	F	AN	88.	4	H	AP	F	AN
39.	1	E	K	F	AN	64.	3	M	K	F	AN	89.	4	M	AP	F	AN
40.	1	E	K	F	AN	65.	3	M	C	F	AN	90.	4	M	AP	F	AN
41.	1	E	K	F	AN	66.	3	E	K	F	AN	91.	4	M	AP	F	AN
42.	1	E	K	F	AN	67.	3	E	C	F	AN	92.	4	M	K	F	AN
43.	1	E	K	F	AN	68.	3	E	C	F	AN	93.	4	M	C	F	AN
44.	1	E	C	F	AN	69.	3	E	K	F	AN	94.	4	M	K	F	AN
45.	1	M	C	F	AN	70.	3	E	K	F	AN	95.	4	E	K	F	AN
46.	1	E	K	F	AN	71.	3	E	K	F	AN						
47.	2	E	K	F	AN	72.	3	E	K	F	AN						
48.	2	M	K	F	AN	73.	3	M	C	F	AN	96.	4	M	K	F	AN
49.	2	M	K	F	AN	74.	3	E	C	F	AN	97.	4	M	C	F	AN
50.	2	M	K	F	AN	75.	4	E	C	F	AN	98.	4	M	K	F	AN
51.	2	E	K	F	AN	76.	4	M	K	F	AN	99.	4	E	K	F	AN
52.	2	E	K	F	AN	77.	4	M	C	F	AN	100.	4	E	C	F	AN
53.	2	E	C	F	AN	78.	4	E	K	F	AN	101.	4	E	K	F	AN
54.	2	E	K	F	AN	79.	4	E	C	F	AN	102.	4	E	C	F	AN
55.	2	M	K	F	AN	80.	4	M	K	F	AN	103.	4	E	C	F	AN
56.	2	E	C	F	AN	81.	4	H	C	F	AN	104.	4	H	C	F	AN
57.	2	M	K	F	AN	82.	4	E	K	F	AN	105.	4	M	C	F	AN
58.	3	E	K	F	AN	83.	4	M	C	F	AN	106.	4	M	C	F	AN
59.	3	M	C	F	AN	84.	4	E	C	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting CM = Communication
AACSB: AN = Analytic E = Ethics

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SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
107.	2	M	C	F	AN	117.	4	E	AP	F	AN	127.	4	E	C	F	AN
108.	2	M	C	F	AN	118.	4	M	AP	F	AN	128.	4	E	C	F	AN
109.	3	M	C	F	AN	119.	4	E	AP	F	AN	129.	4	E	AP	F	AN
110.	3	M	C	F	AN	120.	4	E	C	F	AN	130.	4	E	C	F	AN
111.	3	H	AP	F	AN	121.	4	M	AP	F	AN	131.	4	M	AP	F	AN
112.	3	M	AP	F	AN	122.	4	H	AP	F	AN	132.	4	E	AP	F	AN
113.	3	E	C	F	AN	123.	4	E	C	F	AN	133.	4	M	AP	F	AN
114.	4	E	K	F	AN	124.	4	H	AP	F	AN	134.	4	H	AP	F	AN
115.	4	H	AP	F	AN	125.	4	E	AP	F	AN						
116.	4	M	AP	F	AN	126.	4	E	C	F	AN						
Matching																	
135.	1-4	E,M	K	F	AN												
Short-Answer Essay																	
136.	1	E	C	F	AN	140.	2	E	K	F	AN	144.	4	E	C	F	AN
137.	1	E	C	F	AN	141.	4	H	C	F	AN	145.	4	M	C	F,CM	AN
138.	1	H	C	F	AN	142.	4	E	C	F	AN	146.	4	E	C	F	AN
139.	1,2	M	AP	F	AN, E	143.	4	M	C	F	AN						
CPA Questions																	
147.	1	M	C	F	AN	149.	2	M	K	F	AN	151.	4	M	AN	F	AN
148.	2	M	K	F	AN	150.	4	E	K	F	AN						

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SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	6.	TF	11.	TF	39.	MC	44.	MC	137.	SAE		
2.	TF	7.	TF	35.	MC	40.	MC	45.	MC	138.	SAE		
3.	TF	8.	TF	36.	MC	41.	MC	46.	MC	139.	SAE		
4.	TF	9.	TF	37.	MC	42.	MC	135.	Ma	147.	CP		
5.	TF	10.	TF	38.	MC	43.	MC	136.	SAE				
Learning Objective 2													
12.	TF	16.	TF	50.	MC	54.	MC	107.	Ex	140.	SAE		
13.	TF	47.	MC	51.	MC	55.	MC	108.	Ex	148.	CP		
14.	TF	48.	MC	52.	MC	56.	MC	135.	Ma	149.	CP		
15.	TF	49.	MC	53.	MC	57.	MC	139.	SAE				
Learning Objective 3													
17.	TF	22.	TF	62.	MC	67.	MC	72.	MC	111.	Ex		
18.	TF	58.	MC	63.	MC	68.	MC	73.	MC	112.	Ex		
19.	TF	59.	MC	64.	MC	69.	MC	74.	MC	113.	Ex		
20.	TF	60.	MC	65.	MC	70.	MC	109.	Ex	135.	Ma		
21.	TF	61.	MC	66.	MC	71.	MC	110.	Ex				
Learning Objective 4													
23.	TF	34.	TF	85.	MC	96.	MC	114.	Ex	125.	Ex	141.	SAE
24.	TF	75.	MC	86.	MC	97.	MC	115.	Ex	126.	Ex	142.	SAE
25.	TF	76.	MC	87.	MC	98.	MC	116.	Ex	127.	Ex	143.	SAE
26.	TF	77.	MC	88.	MC	99.	MC	117.	Ex	128.	Ex	144.	SAE
27.	TF	78.	MC	89.	MC	100.	MC	118.	Ex	129.	Ex	145.	SAE
28.	TF	79.	MC	90.	MC	101.	MC	119.	Ex	130.	Ex	146.	SAE
29.	TF	80.	MC	91.	MC	102.	MC	120.	Ex	131.	Ex	150.	CP
30.	TF	81.	MC	92.	MC	103.	MC	121.	Ex	132.	Ex	151.	CP
31.	TF	82.	MC	93.	MC	104.	MC	122.	Ex	133.	Ex		
32.	TF	83.	MC	94.	MC	105.	MC	123.	Ex	134.	Ex		
33.	TF	84.	MC	95.	MC	106.	MC	124.	Ex	135.	Ma		

Note: TF = True-False
MC = Multiple Choice
Ma = Matching
Ex = Exercise
CP = CPA Questions
SAE = Short-Answer Essay

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CHAPTER LEARNING OBJECTIVES

1. ***Identify the uses and users of accounting information.*** The purpose of accounting is to provide useful information for decision-making. There are two types of decision makers who use accounting information: internal users and external users. The primary internal users are managers, who work for the business and need internal accounting information to manage and run its operations. The primary external users are investors and lenders and other creditors. Investors (existing and potential shareholders) use accounting information to help decide whether to buy, hold, or sell shares. Lenders (such as bankers) and other creditors (such as suppliers) use accounting information to evaluate the risk of lending money or granting credit to a business. Other external users include non-management employees, customers, regulators, and taxing authorities.

2. ***Describe the primary forms of business organization.*** There are three types of business organizations: proprietorships, partnerships, and corporations. A proprietorship is a business owned by one person. A partnership is a business owned by two or more people. A corporation is a separate legal entity whose shares provide evidence of ownership. Corporations can be public, which means their shares trade on a stock exchange, or private, which means their shares are closely held and do not trade on a stock exchange.

   Generally accepted accounting principles are a common set of guidelines that are used to record and report economic events. These can differ depending on the form of business organization. Public corporations follow International Financial Reporting Standards (IFRS) and private corporations have the choice of using Accounting Standards for Private Enterprises (ASPE) or IFRS. Proprietorships and partnerships generally use ASPE.

3. ***Explain the three main types of business activity.*** Financing activities involve obtaining the necessary funds (through the issue of equity or the assumption of debt) to support the business. Repayments of debt, the declaration and payment of dividends, and share repurchases are also financing activities. Investing activities primarily involve purchasing the long-term assets (such as property, plant, and equipment) that are needed to run the business, but also include the disposition of these items. Operating activities involve putting the resources of the business into action to generate net income. These involve the day-to-day activities of the business as it earns revenues and incurs expenses doing so.

4. ***Describe the purpose and content of each of the financial statements.*** The statement of income presents the revenues and expenses of a company for a specific period of time. The statement of changes in equity summarizes the changes in shareholders' equity that have occurred for a specific period of time including those related to the issue of shares, generation of net income, and distribution of dividends. The statement of financial position reports the assets, liabilities, and shareholders' equity of a business at a specific date. The statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time. Notes to the financial statements add explanatory detail where required. The financial statements are included in an annual report, along with the management discussion and analysis (MD&A), the auditor's report, and the notes to the financial statements.

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TRUE-FALSE STATEMENTS

1. Accounting identifies and records economic events of a business.

2. High standards of ethics are *not* required for preparers of financial information.

3. Accounting information is *not* important to marketing managers.

4. Authorities, such as the Canada Revenue Agency, want to know whether a business complies with the tax laws.

5. Accounting communicates financial information about a business to both internal and external users.

6. Two internal users of accounting information are investors and managers.

7. Accounting provides financial comparisons of operating alternatives, projections of income from new sales campaigns, analyses of sales costs, and forecasts of cash needs for external users.
Feedback: Accounting provides financial comparisons of operating alternatives, projections of income from new sales campaigns, analyses of sales costs, and forecasts of cash needs for internal users.

8. Companies present summarized financial information in the form of financial statements for both internal and external use.

9. Anyone who works for a company but does not necessarily have access to accounting information to assist them in managing and operating the company is still considered to be an internal user.
Feedback: Anyone who works for a company but does not necessarily have access to accounting information to assist them in managing and operating the company is considered to be an external user.

10. Potential employees who use annual reports to learn about the company and evaluate job prospects are regarded as external users.

11. As labour unions represent employees they are also regarded as internal users.
Feedback: Labour unions who represent employees are regarded as external users.

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12. A partnership is a business organized as a separate legal entity.

13. A proprietor has unlimited liability.

14. The liability of corporate shareholders is limited to the amount of their investment.

15. The users of private company financial statements do not have access to financial information beyond that available to the users of public company financial statements.

16. A proprietorship is usually operated by the owner.

17. Expenses are the cost of assets consumed or services used in the process of generating revenue.

18. Assets are resources owned by a business that provide current services or benefits to the business.

19. Economic resources that are owned by a business are called shareholders' equity.

20. Payments to shareholders are called dividends.

21. Expenses are identified by the type of liability associated with them.

22. Depreciation is the cost of certain long-lived assets allocated to expense for each period.

23. Net income for the period is determined by subtracting total expenses and dividends declared from revenues.

24. Net income is another term for revenue.

25. The issue of shares and distribution of dividends are used in determining net income.

26. Financial statement users are interested in net income because it may be a predictor of future net income.

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27. The statement of cash flows shows how cash was used during the period.

28. Claims of creditors and shareholders on the assets of a business are called liabilities.

29. Shareholder's equity consists of at least two parts: share capital and retained earnings.

30. Any deficiency in cash from operating activities must be made up by issuing shares.

31. The statement of changes in equity is *not* dependent on the results from the statement of income.

32. The statement of financial position is always the first statement prepared and presented.

33. The reasons for a decrease in cash can be determined by examining the statement of income.

34. A negative balance in retained earnings is called a deficit.

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ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	7.	F	13.	T	19.	F	25.	F	31.	F
2.	F	8.	T	14.	T	20.	T	26.	T	32.	F
3.	F	9.	F	15.	F	21.	F	27.	T	33.	F
4.	T	10.	T	16.	T	22.	T	28.	F	34.	T
5.	T	11.	F	17.	T	23.	F	29.	T		
6.	F	12.	F	18.	F	24.	F	30.	F		

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MULTIPLE CHOICE QUESTIONS

35. The world's economic systems depend on financial reporting that is
(a) highly transparent.
(b) accurate.
(c) reliable.
(d) all of the above

36. Which of the following is the most appropriate definition of accounting?
(a) the information system that identifies, records, and communicates the economic events of an organization to interested users
(b) a means of collecting information
(c) the interconnected network of subsystems necessary to operate a business
(d) electronic collection, organization, and communication of vast amounts of information

37. Which of the following would *not* be considered an internal user of accounting data for XYZ Inc.?
(a) the company president
(b) production manager
(c) purchasing clerk
(d) receptionist of the employees' labour union

38. Which of the following groups uses accounting information primarily to ensure the company is operating within prescribed rules?
(a) taxing authorities
(b) regulatory agencies
(c) labour unions
(d) management

39. Which of the following uses accounting information to determine whether a company can pay its obligations?
(a) shareholders
(b) marketing managers
(c) creditors
(d) Canada Revenue Agency

40. Which of the following uses accounting information to determine whether a company's net income will result in a share price increase?
(a) shareholders
(b) marketing managers
(c) creditors
(d) Chief Financial Officer

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41. Which of the following uses accounting information to determine whether a marketing proposal will be cost effective?
(a) shareholders
(b) marketing managers
(c) creditors
(d) Human Resource managers

42. Which of the following would *not* be considered an external user of accounting data?
(a) Canada Revenue Agency
(b) management
(c) creditors
(d) customers

43. Which of the following would *not* be considered an internal user of accounting data?
(a) the president of a company
(b) the controller of a company
(c) a creditor of a company
(d) a sales manager of a company

44. External users want answers to all of the following questions *except*
(a) Is the company earning satisfactory income?
(b) Will the company be able to pay its debts as they come due?
(c) How many employees can the company hire this year?
(d) How does the company compare in profitability with competitors?

45. Which of the following statements regarding external users is true?
(a) Shareholders and creditors are the only people who need accounting information.
(b) Canada Revenue Agency is the primary external user of financial information.
(c) External users of accounting information include the managers who plan, organize, and run a business.
(d) The information needs and questions of external users vary considerably.

46. An internal user
(a) is not involved in managing a company.
(b) does not have access to internal accounting information.
(c) is any employee in the company.
(d) includes company officers.

47. The reporting entity concept applies to
(a) sole proprietorships only.
(b) partnerships only.
(c) corporations only.
(d) all three forms of business organizations.

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48. The proprietorship form of business organization
(a) in most provinces, must have at least two owners.
(b) is often chosen for single owner operated businesses.
(c) is difficult to set up.
(d) is classified as a separate legal entity.

49. 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) has income tax disadvantages over a proprietorship or partnership.

50. 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.
(d) has limited liability.

51. Which form of business would have its shares listed on a stock exchange?
(a) proprietorship
(b) partnership
(c) private corporation
(d) public corporation

52. A business organized as a separate legal entity is a
(a) corporation.
(b) proprietorship.
(c) government unit.
(d) partnership.

53. The concept that economic activity, which can be identified with a particular company must be kept separate and distinct from the owner(s) and from all other economic entities is known as
(a) the separation concept.
(b) the reporting entity concept.
(c) the economic concept.
(d) the business organization concept.

54. An advantage of the corporate form of business is that
(a) it has limited life.
(b) its shareholders' personal resources are at stake.
(c) its ownership is easily transferable via the sale of shares.
(d) it is simple to establish.

55. A corporation has which of the following set of characteristics?

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(a) shareholder control, income tax disadvantages, increased skills and resources
(b) simple to set up and maintains control with founder
(c) harder to raise funds and gives shareholders control
(d) easier to transfer ownership and raise funds, limited liability

56. A small neighbourhood barber shop that is operated by its owner would likely be organized as a
(a) public corporation.
(b) partnership.
(c) private corporation.
(d) proprietorship.

57. Which of the following statements is *not* true?
(a) Public corporations must use International Financial Reporting Standards.
(b) Private corporations can choose to use either International Financial Reporting Standards (IFRS) or Accounting Standards for Private Enterprises (ASPE).
(c) Both public and private corporations issue shares.
(d) All private corporations are small.

58. The liability created by a business when it purchases coffee beans and coffee cups on credit from suppliers is called a(n)
(a) account payable.
(b) account receivable.
(c) revenue.
(d) expense.

59. The right to receive money in the future is called a(n)
(a) account payable.
(b) account receivable.
(c) liability.
(d) deferred revenue.

60. Which of the following is *not* a principal type of business activity?
(a) operating
(b) investing
(c) financing
(d) marketing

61. Which of the following activities involves raising the necessary funds to support the business?
(a) operating
(b) investing
(c) financing
(d) marketing

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62. If a company borrows funds and subsequently ceases operations,
(a) shareholders have immediate claim on the assets of the corporation.
(b) shareholders have no claim on the assets of the corporation.
(c) shareholders have to pay all debt first before claiming the assets of the corporation.
(d) shareholders have only a residual claim on the assets of the corporation.

63. Cost of goods sold is a(n)
(a) liability.
(b) financing activity.
(c) asset.
(d) expense.

64. Allocating and recording the cost of using property, plant & equipment over its useful life is called
(a) allocation expense.
(b) depreciation expense.
(c) a general expense.
(d) amortization expense.

65. Which of the following would create a cash inflow?
(a) issue common shares
(b) cash dividends paid
(c) repurchase common shares
(d) purchase of equipment

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

67. Expenses are incurred
(a) only on rare occasions.
(b) to produce assets.
(c) to produce liabilities.
(d) to generate revenues.

68. The cost of assets consumed or services used is also known as a(n)
(a) revenue.
(b) expense.
(c) liability.
(d) asset.

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69. Resources owned by a corporation are referred to as
(a) shareholders' equity.
(b) liabilities.
(c) assets.
(d) revenues.

70. Debt and obligations of a business are referred to as
(a) assets.
(b) equities.
(c) liabilities.
(d) expenses.

71. Liabilities:
(a) are future economic benefits.
(b) are debts and obligations.
(c) possess service potential.
(d) are things of value owned by a business.

72. Liabilities of a company are owed to
(a) debtors.
(b) owners.
(c) creditors.
(d) shareholders.

73. Which of the following is true regarding the statement of cash flows?
(a) Financing activities for corporations include lending money and buying shares.
(b) Investing activities involve collecting the necessary funds to operate the business.
(c) The purchase of equipment is an example of a financing activity.
(d) Revenues are increases in economic resources that result from a business's operating activities.

74. When an expense is incurred
(a) an asset increases.
(b) a liability decrease.
(c) an asset will decrease or a liability will increase.
(d) an asset will increase or a liability will decrease.

75. The statement of cash flows does not provide information related to
(a) the cash used during the period.
(b) the change in the cash balance during the period.
(c) the change in income during the period.
(d) where cash came from during the period.

76. Dividends declared are reported on

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(a) the statement of income.
(b) the statement of changes in equity.
(c) the statement of financial position.
(d) both the statement of income and statement of financial position.

77. Dividends declared
(a) increase assets.
(b) increase expenses.
(c) decrease revenues.
(d) decrease retained earnings.

78. The financial statement that summarizes the changes in common shares and retained earnings for a specific period of time is the
(a) statement of financial position.
(b) statement of income.
(c) statement of cash flows.
(d) statement of changes in equity.

79. Net income results when
(a) Assets > Liabilities.
(b) Assets < Liabilities.
(c) Revenues > Expenses.
(d) Revenues < Expenses.

80. Retained earnings at the end of the period is equal to
(a) retained earnings at the beginning of the period plus net income minus liabilities.
(b) retained earnings at the beginning of the period plus net income minus dividends declared.
(c) net income for the period.
(d) assets plus liabilities.

81. A company's policy toward dividends and growth could best be determined by examining the
(a) statement of financial position.
(b) statement of income.
(c) statement of changes in equity.
(d) statement of cash flows.

82. A statement of income
(a) summarizes the changes in retained earnings for a specific period of time.
(b) reports the changes in assets, liabilities, and shareholders' equity over a period of time.
(c) reports the assets, liabilities, and shareholders' equity at a specific date.
(d) reports the revenues and expenses for a specific period of time.

83. If the retained earnings account increases from the beginning of the year to the end of the

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year, then
(a) net income is greater than dividends declared.
(b) a loss is less than dividends declared.
(c) additional investments are less than reported losses.
(d) dividends were received.

84. The statement of changes in equity would *not* show
(a) the beginning retained earnings balance.
(b) revenues and expenses.
(c) dividends declared.
(d) the ending retained earnings balance.

85. Which financial statement is prepared first?
(a) Statement of financial position
(b) Statement of income
(c) Statement of changes in equity
(d) Statement of cash flows

86. A statement of financial position shows
(a) revenues, liabilities, and shareholders' equity.
(b) expenses, dividends declared, and shareholders' equity.
(c) revenues, expenses, and dividends declared.
(d) assets, liabilities, and shareholders' equity.

87. The accounting equation may be expressed as
(a) Assets = Shareholders' Equity – Liabilities.
(b) Assets = Liabilities + Shareholders' Equity.
(c) Assets + Liabilities = Shareholders' Equity.
(d) Assets + Shareholders' Equity = Liabilities.

Use the following information for questions 88–89.

Plumbers-on-the-Go Ltd. started the year with total assets of $120,000 and total liabilities of $75,000. During the year, the business recorded $82,000 in service revenues, $45,000 in expenses, and paid dividends of $2,500.

88. Shareholders' equity at the end of the year was
(a) $79,500.
(b) $45,000.
(c) $82,000.
(d) $77,000.
Feedback: Opening shareholders' equity: $120,000 – $75,000 = $45,000; Closing shareholders' equity: $45,000 + $82,000 – $45,000 – $2,500 = $79,500.

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89. The net income reported for the year was
(a) $34,500.
(b) $37,000.
(c) $45,000.
(d) $82,000.
Feedback: $82,000 – $45,000 = $37,000

90. If total liabilities increased by $18,000 and shareholders' equity increased by $21,000 during a period of time, then total assets must change by what amount and direction (increase or decrease) during that same period?
(a) $18,000 increase
(b) $21,000 increase
(c) $39,000 decrease
(d) $39,000 increase
Feedback: $18,000 + $21,000 = $39,000 increase

91. If total liabilities decreased by $134,000 during a period of time and shareholders' equity increased by $103,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)
(a) $134,000 increase.
(b) $103,000 increase.
(c) $31,000 decrease.
(d) $31,000 increase.
Feedback: ($134,000) + $103,000 = ($31,000) decrease

92. The statement of financial position
(a) summarizes the changes in shareholders' equity for a specific period of time.
(b) reports the changes in assets, liabilities, and shareholders' equity over a period of time.
(c) reports the assets, liabilities, and shareholders' equity at a specific date.
(d) presents the revenues and expenses for a specific period of time.

93. Which of the following financial statements is concerned with the company at a point in time?
(a) Statement of financial position
(b) Statement of income
(c) Statement of changes in equity
(d) Statement of cash flows

94. Shareholders' equity can be described as claims of
(a) creditors on total assets.
(b) owners on total assets.
(c) customers on total assets.
(d) debtors on total assets.

95. Payments to shareholders are called

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(a) expenses.
(b) liabilities.
(c) dividends.
(d) shares.

96. Common shares are reported on
(a) the statement of financial position.
(b) the statement of changes in equity.
(c) both the statement of financial position and the statement of income.
(d) both the statement of changes in equity and the statement of financial position.

97. Shareholders' equity is usually comprised of
(a) common shares and dividends declared.
(b) common shares and retained earnings.
(c) dividends declared and retained earnings.
(d) net income and retained earnings.

98. Common shares represent
(a) the creditors' claims on the company.
(b) the total net income of the company to date.
(c) the amount paid by investors for ownership in the company.
(d) the owners' claims on the company.

99. Retained earnings are
(a) the shareholders' claim on total assets.
(b) equal to cash.
(c) equal to revenues.
(d) the amount of net income kept in the corporation for future use.

100. Which financial statement would indicate whether the company relies more on debt or on shareholders' equity to finance its assets?
(a) Statement of cash flows
(b) Statement of changes in equity
(c) Statement of income
(d) Statement of financial position

101. The primary purpose of the statement of cash flows is to report
(a) a company's investing transactions.
(b) a company's financing transactions.
(c) information about cash receipts and cash payments of a company.
(d) the net increase or decrease in cash.

102. The statement of changes in equity is dependent on the results from
(a) the statement of cash flows.

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(b) the statement of financial position.
(c) the statement of income.
(d) a company's share capital.

103. The statement of financial position and statement of changes in equity are related because
(a) the total assets on the statement of financial position is reported on the statement of changes in equity.
(b) the ending amount on the statement of changes in equity is reported on the statement of financial position.
(c) the ending amount on each statement is transferred to the statement of cash flows.
(d) both contain information for the corporation.

104. The statement of cash flows and the statement of financial position are interrelated because
(a) the ending amount of cash on the statement of cash flows must agree with the amount on the statement of income.
(b) the ending amount of cash on the statement of cash flows must agree with the amount in the statement of changes in equity.
(c) the ending amount of cash on the statement of cash flows must agree with the amount in the statement of financial position.
(d) both disclose the corporation's net income.

105. Which one of the following statements is false?
(a) The basic accounting equation does not subdivide liabilities into two categories: claims of creditors and claims of the Canada Revenue Agency.
(b) The accounting equation can be expressed as: Assets – Shareholders' Equity = Liabilities.
(c) The accounting equation can be expressed as: Assets + Liabilities = Shareholders' Equity.
(d) If the assets owned by a business total $100,000 and liabilities total $52,000, shareholders' equity must total $48,000.

106. Which of the following is false regarding financial statements?
(a) The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments of a business for a specific period of time.
(b) The statement of financial position reports assets and claims against those assets at a specific point in time.
(c) The statement of changes in equity covers a different time period than that covered by the statement of income.
(d) Creditors use the statement of financial position as another source of information to determine the likelihood they will be repaid.

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ANSWERS TO MULTIPLE CHOICE QUESTIONS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
35.	d	47.	d	59.	b	71.	b	83.	a	95.	c
36.	a	48.	b	60.	d	72.	c	84.	b	96.	d
37.	d	49.	c	61.	c	73.	d	85.	b	97.	b
38.	b	50.	b	62.	c	74.	c	86.	d	98.	c
39.	c	51.	d	63.	d	75.	c	87.	b	99.	d
40.	a	52.	a	64.	b	76.	b	88.	a	100.	d
41.	b	53.	b	65.	a	77.	d	89.	b	101.	c
42.	b	54.	c	66.	d	78.	d	90.	d	102.	c
43.	c	55.	d	67.	d	79.	c	91.	c	103.	b
44.	c	56.	d	68.	b	80.	b	92.	c	104.	c
45.	d	57.	d	69.	c	81.	c	93.	a	105.	c
46.	d	58.	a	70.	c	82.	d	94.	b	106.	c

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EXERCISES

Ex. 107
For each of the following identify which combination of characteristics reflect a proprietorship, partnership or corporation and why.

1. economic resources and skills are shared; unlimited liability; income from the company is reported as self-employment income.
2. indefinite life; owner(s) not personally liable for debt of the business.
3. business organization simple to set up; income from the company is reported as self-employment income; unlimited liability.
4. separate legal entity; business organization complex to set up.
5. control over the business; definite life.

Solution 107

1. **Partnerships** are often formed because one person does not have enough economic resources to start or expand the business, or because partners bring unique skills or other resources to the partnership. Each partner generally has unlimited liability for all debts of the partnership, even if one of the other partners created the debt. The income of the partnership is reported as self-employment income and taxed on each partner's personal income tax return.

2. Since a **corporation** is a separate legal entity, its life is indefinite. Shareholders are not responsible for corporate debts unless they have provided a personal guarantee to the lender for them. Most shareholders enjoy limited liability since their risk of loss is limited to the amount they have invested in the company's shares.

3. The **proprietorship** form of business organization is simple to set up and gives the owner control over the business. The business income is reported as self-employment income and taxed on the owner's personal income tax return. The owner receives any income, suffers any losses, and is personally liable (responsible) for all debts of the business. This is known as unlimited liability.

4. A **corporation** is a business organized as a separate legal entity owned by shareholders and is the most complex form of business to establish.

5. The **proprietorship** form of business organization gives the owner control over the business. The life of the proprietorship is limited to the life of the owner.

Ex. 108
For each of the below statements, indicate whether it is true or false for a private corporation, public corporation, both, or neither:

	Private Corp.	Public Corp.	Both	Neither
1. Issues "closely held" shares				
2. Shares listed on a stock exchange				
3. May follow ASPE when preparing internal use financial statements				
4. Seldom distribute financial statements publicly				

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5. Required to report on a quarterly basis
6. Can choose to follow IFRS or ASPE
7. Required to follow IFRS
8. Business formed as a corporation

Solution 108

	Private Corp.	Public Corp.	Both	Neither
1. Issues "closely held" shares	True			
2. Shares listed on a stock exchange		True		
3. May follow ASPE when preparing internal use financial statements				True
4. Seldom distribute financial statements publicly	True			
5. Required to report on a quarterly basis		True		
6. Can choose to follow IFRS or ASPE	True			
7. Required to follow IFRS		True		
8. Business formed as a corporation			True	

Ex. 109

Classify each of the following items as investing, financing, or operating activity:

1. Cash sale of merchandise
2. Repayment of bank loan
3. Purchase of inventory
4. Sale of equipment for cash
5. Payment of commission to a salesperson
6. Payment of dividends
7. Receipt of interest on accounts receivable
8. Payment for insurance for the current year
9. Purchase of shares in another company as a long-term investment
10. Issue of debt

Solution 109 (6 min.)

1. Operating

2. Financing

3. Operating

4. Investing

5. Operating

6. Financing

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7. Operating

8. Operating

9. Investing

10. Financing

Ex. 110
Indicate in the space provided by each item whether it would appear on the statement of cash flows as a(n): (O) operating activity, (I) investing activity, or (F) financing activity.
_____ 1. Cash receipts from customers
_____ 2. Issue of common shares for cash
_____ 3. Payment of cash dividends
_____ 4. Cash purchase of equipment
_____ 5. Cash payments to suppliers
_____ 6. Sale of old machine for cash

Solution 110 (5 min.)
O 1.

F 2.

F 3.

I 4.

O 5.

I 6.

Ex. 111
For each of the following transactions, identify how they would be classified on the cash flow statement and whether it is a cash outflow (O) or cash inflow (I). If none are applicable indicate an "X" under the N/A (not applicable) column.

	Operating	Investing	Financing	N/A
Cash paid for employee salaries				
Cash dividends declared				
Repurchased shares				
Cash paid for new equipment				
Issued bonds				
Recorded depreciation expense				
Cash received from customers				
Paid interest expense on bonds payable				
Cash paid for the purchase of ABC company shares				

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Purchased land in exchange for common shares

Solution 111

	Operating	Investing	Financing	N/A
Cash paid for employee salaries	O			
Cash dividends declared				X
Repurchased shares			O	
Cash paid for new building		O		
Issued bonds			I	
Cash received for sale of computer equipment		I		
Cash received from customers	I			
Paid interest expense on bonds payable*	O		O	
Cash paid for the purchase of ABC company shares			O	
Purchased land in exchange for common shares				X

*Interest paid on borrowed funds can be classified as operating or financing under IFRS.

Ex. 112

Use the following information to prepare the statement of cash flows for Arlinton Limited for the year ended October 31, 2022:

Collected cash from customers	$150,750
Repaid long-term debt	37,500
Cash dividends paid	7,500
Purchased inventory for cash	52,500
Purchased computer equipment for cash	30,000
Cash, November 1, 2021	16,300
Cash, October 31, 2022	31,800

Solution 112

ARLINTON LIMITED
Statement of Cash Flows
Year Ended October 31, 2022

Operating activities		
Cash collected from customers	$150,750	
Cash paid for inventory	(52,500)	
Net cash provided by operating activities		$98,250
Investing activities		
Cash paid for new computer equipment		(30,000)
Financing activities		

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Repayment on long-term debt	$(37,500)	
Cash dividends paid	(7,500)	
Net cash provided by financing activities		(45,000)
Net increase (decrease) in cash		23,250
Cash, November 1		24,450
Cash, October 31		$47,700

Ex. 113
Given the three types of business activities on a cash flow statement, complete the below table by identifying how interest and dividend payments can be treated under IFRS and whether these items are cash inflows or outflows.

ITEM	ACTIVITY	INFLOW/OUTFLOW
Payment of interest on borrowed funds	_____	_____
Payment of dividends	_____	_____

Solution 113 (5 min.)

ITEM	ACTIVITY	INFLOW/OUTFLOW
Payment of interest on borrowed funds	financing or operating	outflow
Payment of dividends	financing or operating	outflow

Ex. 114
Identify the order in which financial statements must be prepared by placing a 1 for the first statement through to a 4 for the last statement in the below table.

STATEMENT	ORDER
Statement of financial position	_____
Statement of cash flows	_____
Statement of changes in equity	_____
Statement of income	_____

Solution 114

STATEMENT	ORDER
Statement of financial position	2
Statement of cash flows	4
Statement of changes in equity	3
Statement of income	1

Ex. 115
The following questions are unrelated:
1. You know that net income is $62,000, opening retained earnings $80,000, dividends declared $25,000, common shares $15,000, current assets $37,000 and total liabilities are

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$45,000. What is the amount of total assets?

2. Cash provided by operating activities is $38,000, cash used in investing activities is $26,000 and cash used in financing activities is $4,500. The ending cash balance is $18,700. What is the beginning cash balance?

Solution 115 (10 min.)

1.	Opening retained earnings	$80,000
	Add: Net income	62,000
	Less: dividends declared	(25,000)
	Ending retained earnings	$117,000
	Retained earnings	$117,000
	Common shares	15,000
	Total liabilities	45,000
	Total liabilities and shareholders' equity	$177,000
	Total assets	$177,000
2.	Cash provided by operating activities	$38,000
	Cash used in investing	(26,000)
	Cash used in financing	(4,500)
	Net change in cash	7,500
	Cash beginning	X
	Cash ending	$18,700

Solving for X, cash beginning is $18,700 – $7,500 = $11,200.

Ex. 116

Prepare an statement of income, a statement of changes in equity, and a statement of financial position for Norman Rae Ltd., a service business, from the items listed below for the month of October, 2022:

Accounts payable	$10,000
Accounts receivable	14,000
Cash	10,000
Common shares	28,000
Dividends paid	6,000
Income tax expense	4,500
Equipment	30,000
Supplies	2,800
Supplies expense	3,500
Rent expense	3,000
Retained earnings, October 1	15,000
Salaries expense	7,000
Service revenue	28,500
Utilities expense	700

Solution 116 (30 min.)

NORMAN RAE LTD.
Income Statement
Month Ended October 31, 2022

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Revenues		
Service revenue		$28,500
Expenses		
Salaries expense	$7,000	
Supplies expense	3,500	
Rent expense	3,000	
Utilities expense	700	
Total expenses		14,200
Income before income tax		14,300
Income tax expense		4,500
Net income		$ 9,800

NORMAN RAE LTD.
Statement of Changes in Equity
Month Ended October 31, 2022

	Common Shares	Retained Earnings	Total Equity
Balances, October 1	$28,000	$15,000	$43,000
Net income		9,800	9,800
Dividends declared		(6,000)	(6,000)
Balances, October 31	$28,000	$18,800	$46,800

NORMAN RAE LTD.
Statement of Financial Position
October 31, 2022

Assets		
Cash		$10,000
Accounts receivable		14,000
Supplies	2,800	
Equipment		30,000
Total assets		$56,800
Liabilities and Shareholders' Equity		
Liabilities		
Accounts payable		$10,000
Shareholders' equity		
Common shares	$28,000	
Retained earnings	18,800	
Total shareholders' equity		46,800
Total liabilities and shareholders' equity		$56,800

Ex. 117
Use the following information to calculate for the year ended December 31, 2022:
(a) net income,
(b) ending retained earnings, and

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(c) total assets.

Accounts payable	11,000
Accounts receivable	6,000
Bank loan payable	2,000
Cash	20,000
Common shares	10,000
Dividends declared	3,000
Income tax expense	1,500
Equipment	3,500
Operating expenses	10,000
Retained earnings (beginning)	4,000
Revenues	18,500
Supplies	$ 1,500

Solution 117 (5 min.)
(a) $7,000 ($18,500 – $10,000 – $1,500)

(b) $8,000 ($4,000 + $7,000 – $3,000)

(c) $31,000 ($1,500 + $20,000 + $6,000 + $3,500)

Ex. 118
Use the following information to prepare, in good form, a statement of income, a statement of changes in equity, and a statement of financial position for Geelin Industries Ltd. for the month ended August 31, 2022:

Accounts payable	$ 9,375
Accounts receivable	5,500
Bank loan payable	13,750
Cash	58,750
Common shares	94,375
Dividends declared	6,250
Income tax expense	17,375
Insurance expense	2,125
Building	125,000
Retained earnings (beginning)	40,625
Revenues	78,750
Salaries expense	20,625
Supplies	1,250

Solution 118 (30 min.)

GEELIN INDUSTRIES LTD.
Income Statement
Month Ended August 31, 2022

Revenues		
Service revenue		$78,750
Expenses		
Salaries expense	$20,625	

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Insurance expense	2,125	
Total expenses		22,750
Income before income tax		56,000
Income tax expense		17,375
Net income		$ 38,625

GEELIN INDUSTRIES LTD.
Statement of Changes in Equity
Month Ended August 31, 2022

	Common Shares	Retained Earnings	Total Equity
Balances, July 1	$94,375	$40,625	$135,000
Net income		38,625	38,625
Dividends declared		(6,250)	(6,250)
Balances, July 31	$94,375	$73,000	$167,375

GEELIN INDUSTRIES LTD.
Statement of Financial Position
August 31, 2022

Assets		
Cash		$ 58,750
Accounts receivable		5,500
Supplies		1,250
Building	125,000	
Total assets		$190,500
Liabilities and Shareholders' Equity		
Liabilities		
Accounts payable	$ 9,375	
Bank loan payable	13,750	
Total liabilities		$ 23,125
Shareholders' equity		
Common shares	$94,375	
Retained earnings	73,000	167,375
Total liabilities and shareholders' equity		$190,500

Ex. 119
Listed below in alphabetical order is accounting information for Mellencamp Corp. at December 31, 2022. Prepare a statement of financial position in good format.

Accounts payable	$ 35,625
Accounts receivable	60,000
Building	187,500
Cash	78,750
Common shares	300,000
Land	112,500
Equipment	75,000

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Retained earnings 118,750

Solution 119 (10 min.)

MELLENCAMP CORP
Statement of Financial Position
December 31, 2022

Assets		
Cash		$ 78,750
Accounts receivable		60,000
Land		112,500
Building		187,500
Equipment		75,000
Total assets		$513,750
Liabilities and Shareholders' Equity		
Liabilities		
Accounts payable		$ 35,625
Shareholders' equity		
Common shares	$300,000	
Retained earnings	178,125	478,125
Total liabilities and shareholders' equity		$513,750

Ex. 120
Indicate in the space provided by each item whether it would appear on the Income statement (IS), Statement of financial position (SFP), and/or Statement of changes in equity (SCE):

1. ____ Service Revenue
2. ____ Utilities Expense
3. ____ Cash
4. ____ Accounts Payable
5. ____ Supplies
6. ____ Salaries Expense
7. ____ Accounts Receivable
8. ____ Common Shares
9. ____ Equipment
10. ____ Advertising Expense
11. ____ Dividends Declared
12. ____ Notes Payable

Solution 120 (5 min.)
1. IS
2. IS
3. SFP
4. SFP
5. SFP

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6. IS

7. SFP

8. SCE and SFP

9. SFP

10. IS

11. SCE

12. SFP

Ex. 121
Grayson Inc. was reviewing its business activities at the end of its fiscal year (November 30, 2022) and decided to prepare a statement of changes in equity. At the beginning of the year, its assets were $600,000, liabilities were $150,000, and common shares were $200,000. The net income for the year was $220,000. Dividends of $120,000 were paid during the year.

Instructions
Prepare a statement of changes in equity for the year ended November 30, 2022.

Solution 121 (10 min.)

GRAYSON INC.
Statement of Changes in Equity
Year Ended November 30, 2022

	Common Shares	Retained Earnings	Total Equity
Balances, Dec 1, 2021	$200,000	$250,000	$450,000
Net income		220,000	220,000
Dividends declared	_____	(120,000)	(120,000)
Balances, Nov 30, 2022	$200,000	$350,000	$550,000

(opening R/E = $600,000 – $150,000 – $200,000 = $250,000)

Ex. 122
At September 1, the statement of financial position accounts for GoodFood Restaurant Ltd. were as follows:

Accounts payable	$ 3,800
Accounts receivable	1,600
Bank loan payable	46,000
Building	68,000
Cash	5,000
Common shares	?
Equipment	18,700
Land	33,000

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Retained earnings	43,200
Supplies	4,600

The following transactions occurred during the next two days:
Shareholders invested an additional $32,000 cash in the business. The accounts payable were paid in full. (No payment was made on the bank loan payable.)

Instructions
Prepare a statement of financial position at September 3, 2022.

Solution 122 (10 min.)

GOODFOOD RESTAURANT LTD.
Statement of Financial Position
September 3, 2022

Assets		
Cash		$ 33,200
Accounts receivable		1,600
Supplies		4,600
Land		33,000
Building		68,000
Equipment		18,700
Total assets		$159,100
Liabilities and Shareholders' Equity		
Liabilities		
Notes payable		$ 46,000
Shareholders' equity		
Common shares	$69,900	
Retained earnings	43,200	113,100
Total liabilities and shareholders' equity		$159,100

Cash ($5,000 + $32,000 – $3,800) = $33,200
Accounts Payable ($3,800 – $3,800) = $0

Shareholders' Equity:	Beginning balance ($130,900 – $49,800)	$ 81,100
	Additional investment	32,000
	Ending balance	$113,100

Common Shares ($113,100 – $43,200) = $69,900

Ex. 123
From the following list of selected accounts taken from the records of Smiles Unlimited Clinic Inc., identify those that would appear on the statement of financial position:

(a) Common Shares
(b) Service Revenue
(c) Land
(d) Salaries Expense
(e) Notes Payable
(f) Accounts Payable
(g) Cash
(h) Supplies Expense
(i) Supplies
(j) Utilities Expense

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Solution 123 (5 min.)
(a), (c), (e), (f), (g), (i)

Ex. 124
One item is omitted in each of the following summaries of statement of financial position and statement of income data for three different corporations, X, Y, and Z.

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

	Corporation		
	X	Y	Z
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:			
Common shares issued by shareholders	?	79,000	78,000
Dividends declared	70,000	83,000	?
Revenue	195,000	?	187,000
Expenses, including income tax expense	155,000	113,000	185,000

Solution 124 (30 min.)

Corporation X ($50,000)

Beginning shareholders' equity ($400,000 – $250,000)	$150,000
Common shares issued ($170,000 + $70,000 – $150,000 – $40,000)	50,000
Net income for year ($195,000 – $155,000)	40,000
	240,000
Less: dividends declared	70,000
Ending shareholders' equity ($450,000 – $280,000)	$170,000

Corporation Y ($172,000)

Beginning shareholders' equity ($150,000 – $105,000)	$ 45,000
Common shares issued	79,000
Net income for year ($183,000 – $45,000 – $79,000)	59,000
[Revenues = $172,000 ($113,000 + $59,000)]	183,000
Less: dividends declared	83,000
Ending shareholders' equity ($195,000 – $95,000)	$100,000

Corporation Z ($85,000)

Beginning shareholders' equity ($199,000 – $168,000)	$ 31,000
Common shares issued	78,000
Net income for year ($187,000 – $185,000)	2,000
	111,000
Less: dividends declared ($111,000 – $26,000)	85,000
Ending shareholders' equity ($195,000 – $169,000)	$ 26,000

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Ex. 125
Calculate the missing items.

Assets	=	Liabilities	+	Shareholders' Equity
$80,000	=	$32,000	+	(a)
(b)	=	$28,000	+	$90,000
$84,000	=	(c)	+	$65,000

Solution 125 (5 min.)
(a) $48,000

(b) $118,000

(c) $19,000

Ex. 126
Identify which of the following accounts appear on a statement of financial position:
(a) Service revenue
(b) Cash
(c) Common shares
(d) Accounts payable
(e) Rent expense
(f) Supplies
(g) Land

Solution 126 (5 min.)
(b), (c), (d), (f), (g)

Ex. 127
For the items listed below, fill in the appropriate code letter to indicate whether the item is an asset, liability, or shareholders' equity item.

	Code
Asset	A
Liability	L
Shareholders' Equity	SE

_____ 1. Rent expense
_____ 2. Equipment
_____ 3. Accounts payable
_____ 4. Common shares
_____ 5. Insurance expense
_____ 6. Cash
____ 7. Accounts receivable
____ 8. Retained earnings
____ 9. Service revenue
____ 10. Bank loan payable
____ 11. Dividends declared
____ 12. Deferred revenue

Solution 127 (5 min.)

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1. SE
2. A
3. L
4. SE
5. SE
6. A
7. A
8. SE
9. SE
10. L
11. SE
12. L

Ex. 128
Classify each of these items as an asset (A), liability (L), or shareholders' equity (SE).

_____ 1. Accounts receivable
_____ 2. Salaries payable
_____ 3. Common shares
_____ 4. Supplies
_____ 5. Retained earnings
_____ 6. Cash
_____ 7. Mortgage payable
_____ 8. Land
_____ 9. Dividends declared
_____ 10. Supplies expense

Solution 128 (5 min.)
1. A
2. L
3. SE
4. A
5. SE
6. A
7. L
8. A
9. SE

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10. SE

Ex. 129

At the beginning of the year, Hanover Limited had total assets of $600,000 and total liabilities of $300,000. Answer the following questions, viewing each situation as being independent of the others.

1. If total assets increased $225,000 during the year, and total liabilities decreased $100,000, what is the amount of shareholders' equity at the end of the year?
2. During the year, total liabilities increased $315,000 and shareholders' equity decreased $130,000. What is the amount of total assets at the end of the year?
3. If total assets decreased $60,000 and shareholders' equity increased $180,000 during the year, what is the amount of total liabilities at the end of the year?

Solution 129 (5 min.)

1. $625,000

	Total Assets		Total Liabilities		Shareholders' Equity
Beginning	$600,000		$300,000		$300,000
Change	225,000		(100,000)		325,000
Ending	$825,000	–	$200,000	=	$625,000 (1.)

2. $785,000

	Total Assets		Total Liabilities		Shareholders' Equity
Beginning	$600,000		$300,000		$300,000
Change	185,000		315,000		(130,000)
Ending	$785,000 (2.)	=	$615,000	+	$170,000

3. $60,000

	Total Assets		Total Liabilities		Shareholders' Equity
Beginning	$600,000		$300,000		$300,000
Change	(60,000)		(240,000)		180,000
Ending	$540,000	=	$ 60,000 (3.)	+	$480,000

Ex. 130

Rug Repairs Ltd. has the following statement of financial position items:

Accounts Payable
Accounts Receivable
Bank Loan Payable
Cash
Common Shares
Equipment
Retained Earnings
Deferred Revenue
Vehicles

Instructions

Identify which items are
(a) Assets
(b) Liabilities

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(c) Shareholders' Equity

Solution 130 (5 min.)
(a) Assets—Accounts Receivable; Cash; Equipment; Vehicles

(b) Liabilities—Accounts Payable; Bank Loan Payable; Deferred Revenue

(c) Shareholders' Equity—Common Shares; Retained Earnings

Ex. 131
On June 1, Archipelego Ltd. prepared a statement of financial position that shows the following:

Assets (no cash)	$350,000
Liabilities	210,000
Shareholders' Equity	140,000

Shortly thereafter, all of the assets were sold for cash.

Instructions
How would the statement of financial position appear immediately after the sale of the assets for cash for each of the following cases?

	Cash Received for the Assets	Balances Immediately After Sale			
		Assets	– Liabilities	=	Shareholders' Equity
Case A	$360,000	$_____	$_____		$_____
Case B	350,000	_____	_____		_____
Case C	325,000	_____	_____		_____

Solution 131 (5 min.)

	Cash Received for the Assets	Balances Immediately After Sale			
		Assets	– Liabilities	=	Shareholders' Equity
Case A	$360,000	$360,000	$210,000		$150,000
Case B	350,000	350,000	210,000		140,000
Case C	325,000	325,000	210,000		115,000

Ex. 132
Calculate the missing amount in each category of the accounting equation:

	Assets	Liabilities	Shareholders' Equity
(a)	$360,000	$?	$ 98,000
(b)	$178,000	$ 73,000	$?
(c)	$?	$302,000	$310,000

Solution 132 (5 min.)
(a) $262,000 ($360,000 – $98,000 = $262,000).

(b) $105,000 ($178,000 – $73,000 = $105,000).

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(c) $612,000 ($302,000 + $310,000 = $612,000).

Ex. 133
Use the following information to prepare the statement of cash flows for Santorini Corporation for the year ended December 31, 2022:

Cash received from customers	$37,500
Cash dividends paid	4,500
Cash paid to suppliers	15,000
Cash paid for new equipment	45,000
Cash received from lenders	10,500
Cash, January 1, 2022	37,500
Cash, December 31, 2022	21,000

Solution 133 (10 min.)

SANTORINI CORPORATION
Statement of Cash Flows
Year Ended December 31, 2022

Operating activities		
Cash received from customers	$37,500	
Cash paid to suppliers	(15,000)	
Net cash provided by operating activities		$22,500
Investing activities		
Cash paid for new equipment		(45,000)
Financing activities		
Cash received from lenders	$ 10,500	
Cash dividends paid	(4,500)	
Net cash provided by financing activities		6,000
Net increase (decrease) in cash		(16,500)
Cash, January 1		37,500
Cash, December 31		$21,000

Ex. 134
Cooper Corporation's shareholders' equity equals one-fifth of the company's total assets. The company's liabilities are $345,000. What is the amount of the company's shareholders' equity?

Solution 134
$31,250 (X = 1/5X + $345,000) where X = total assets

Solving for X:
X – 1/5X = $345,000
4/5X = $345,000
X = $345,000 × 5/4
X = $431,250
Shareholder's equity = (1/5) × $431,250 = $86,250

Proof: $86,250 + $345,000 = $431,250

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MATCHING

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

(a) Internal users
(b) Proprietorship
(c) Expenses
(d) Investing activities
(e) Fiscal year
(f) Assets
(g) Liabilities
(h) Private corporation
(i) Loss
(j) Dividends

_____ 1. Officers and others who manage the business

_____ 2. Ownership is limited to one person.

_____ 3. A separate legal entity that issues shares that are not publicly traded

_____ 4. Consumed assets or services

_____ 5. Creditor claims against the assets of the business.

_____ 6. Amount by which expenses exceed revenues.

_____ 7. Future economic benefits

_____ 8. Involves acquiring the resources necessary to run the business

_____ 9. Distributions to shareholders

_____ 10. An accounting period that is one year long

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ANSWERS TO MATCHING

1. (a)
2. (b)
3. (h)
4. (c)
5. (g)
6. (i)
7. (f)
8. (d)
9. (j)
10. (e)

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SHORT-ANSWER ESSAY QUESTIONS

S-A E 136
Explain how the primary users of financial accounting information, investors and creditors, use accounting information.

Solution 136 (5 min.)
Investors, otherwise known as shareholders or owners, use accounting information to make decisions to buy, hold, or sell their ownership interest. Creditors or lenders on the other hand, use accounting information to evaluate the risks of lending money or evaluate the risks of selling on credit.

S-A E 137
The information that a specific user of financial information needs depends upon the kinds of decisions that a user makes. Identify the major users of accounting information and discuss what questions financial information answers for each group of users.

Solution 137
The major users of accounting information are internal and external users. Internal users are those who manage the business. External users are those outside the business who have either a present or potential financial interest.

Financial information may answer the following questions for internal users:
1. Is cash sufficient to pay our debts?
2. How many employees can we afford to hire this year?
3. What is the cost of manufacturing each unit of product?
4. Which product line is the most profitable?

Questions answered by financial information for external users include:
1. Is the company earning satisfactory net income?
2. How does the company compare in size and profitability with competitors?
3. Will the company be able to pay its debts as they come due?

S-A E 138
Private corporations have a choice between using IFRS or ASPE.
(a) Explain why a private corporation might choose to adopt ASPE rather than IFRS.
(b) Explain why a private corporation might choose to adopt IFRS rather than ASPE.

Solution 138
(a) A private corporation might adopt ASPE rather than IFRS:
    1. because it's users have different needs than those required of publicly traded corporations
    2. to reduce the complexity of financial reporting
    3. to reduce the cost of financial reporting

(b) A private corporation might adopt IFRS rather than ASPE because:
    1. it is considering accessing public debt or equity markets in the future

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2. it wants to be able to compare its financial results with competitors that use IFRS
3. it has foreign subsidiaries that are required to use IFRS and it wants a common set of accounting standards across the company.

S-A E 139

Mary Anderson, an old friend of yours from high school, started a small business about a year ago, which is organized as a private corporation. Mary is currently in the process of applying for a bank loan to expand her business. She shows you the most recent statement of financial position that she has prepared for the bank, which is as follows:

ANDERSON CORPORATION
Statement of Financial Position
September 30, 2022

Assets	
Cash	$ 120,000
Accounts receivable	33,000
Equipment	240,000
Total assets	$393,000
Liabilities and Shareholders' Equity	
Accounts payable	$ 40,500
Shareholders' equity	352,500
Total liabilities and shareholders' equity	$393,000

Since Mary knows that you are studying accounting at college, she asks your opinion. "What do you think?" she says. "Do you think the bank will be impressed and lend me the $150,000 I'm asking for?"

You study the statement for a few minutes. You are pretty sure Mary doesn't have anywhere near $240,000 worth of equipment belonging to the business, so you ask where all this equipment is. "Well," explains Mary, "in order to increase my assets, I included my personal vehicle, computer and camera equipment, and some of my furniture. They're worth about $135,000. That should be OK, since they belong to me and I am the only shareholder anyway." On further questioning, Mary admits that she added her personal savings account of $67,500 in with the company cash to "make it look better."

Instructions

(a) Who are the stakeholders here?
(b) Is Mary's "creative accounting" acceptable? Why or why not?
(c) What would you recommend be done here?

Solution 139

(a) The stakeholders in this situation are Mary, the bank, and any other external users who may rely on Mary's financial statements.

(b) No, it is not acceptable. Mary is ignoring the reporting entity concept, which requires the separation of business and personal records. It is unethical to include personal assets in with the business assets, as it distorts the overall financial picture and will mislead the bank.

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(c) You should recommend that Mary revise the statement so that it correctly reflects the company's true financial position. It should then be as follows:

ANDERSON CORPORATION
Statement of Financial Position
September 30, 2022

Assets	
Cash ($120,000 – $67,500)	$ 52,500
Accounts receivable	33,000
Equipment ($240,000 – $135,000)	105,000
Total assets	$190,500
Liabilities and Shareholders' Equity	
Accounts payable	$ 40,500
Shareholders' equity ($352,500 – $67,500 – $135,000)	150,000
Total liabilities and shareholders' equity	$190,500

It may be that Mary will still be able to obtain the loan, but even if the bank turns her down, at least she can rest easy, knowing that she has acted ethically and presented a true picture of his business.

S-A E 140
What is the difference between "closely held" and "widely held" shares?

Solution 140 (5 min.)
A public corporation has shares that are publicly traded and listed on Canadian stock exchanges such as the Toronto Stock Exchange (TSX). These companies have thousands of shareholders and, as such, their shares are said to be "widely held." A private corporation also issues shares, but it does not make them available to the general public, nor are they traded on public stock exchanges. These shares are often said to be "closely held."

S-A E 141
Identify the types of transactions that affect shareholders' equity under ASPE and IFRS, and how they affect it?

Solution 141
Under ASPE, shareholders' equity generally consists of share capital and retained earnings. Share capital is increased by issues of common or preferred shares, for example. Retained earnings are increased by revenues, and decreased by expenses and dividends declared.

In addition to share capital and retained earnings, shareholders' equity may also include accumulated other comprehensive income under IFRS. While retained earnings accumulates net income over time, accumulated other comprehensive income accumulates other comprehensive income (complex items similar to revenues and expenses not used in determining net income) over time.

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S-A E 142
In what order should the four financial statements be prepared? Explain why it is necessary to prepare the financial statements in the proper order.

Solution 142
Order of financial statement preparation:
1. statement of income;
2. statement of changes in equity;
3. statement of financial position; and
4. statement of cash flows.

It is necessary to prepare the financial statements in proper order because they are interrelated. The statement of changes in equity cannot be prepared without knowing the results from the statement of income. Thus the statement of income must be prepared first. The statement of financial position cannot be prepared without knowing the ending balance for retained earnings, which is taken from the statement of changes in equity. Finally, the statement of cash flows shows how the cash account changed during the period. The ending cash balance shown on the statement of cash flows must agree with the cash balance shown on the statement of financial position.

S-A E 143
The framework used to record and summarize the economic activities of a company is referred to as the accounting equation.
(a) State the basic accounting equation and define its major components.
(b) How are business transactions and financial statements related to the accounting equation?

Solution 143
(a) The basic accounting equation is expressed as follows:

Assets = Liabilities + Shareholders' Equity

Assets are defined as resources owned by the business. Liabilities are creditors' claims against the assets of the business—in other words, existing debts and obligations. Shareholders' equity is the ownership claim on the total assets of the business; it is equal to total assets minus total liabilities.

(b) Business transactions are economic events and activities that affect the elements of the basic accounting equation; that is, transactions cause increases or decreases in assets, liabilities, and shareholders' equity. Financial statements report the results and effects of transactions on the business' assets, liabilities, and shareholders' equity. The statement of financial position is a summary expression of the basic accounting equation.

S-A E 144
Identify each of the four financial statements. For each statement, explain the primary purpose and identify the primary users and their uses. Answer in point form.

Solution 144
Statement of Income
- Primary purpose – report the success or failure of the company for a specific period of time
- Primary users and uses

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1. Shareholders/investors – to decide whether to invest or sell their investment
2. Creditors/lenders – to decide whether to loan the company money and assess whether it will be able to repay any debt.

Statement of changes in equity
- Primary purpose – to show the amounts and causes of changes in each component of shareholders' equity during a specific period of time (same period as statement of income)
- Primary users and uses
  1. Shareholders/investors – to evaluate dividend policy
  2. Creditors/lenders – to monitor dividend policy as it affects the ability to repay debt

Statement of financial position
- Primary purpose – to report assets and claims to assets at a particular point in time
- Primary users and uses
  1. Creditors/lenders – to assess the likelihood that they will be repaid
  2. Managers – to determine if they have the best mix of debt and equity financing

Statement of cash flows
- Primary purpose – to provide information about cash receipts and payments of a business for a specific period of time (same period as statement of income)
- Primary users and uses
  1. Shareholders/investors – to decide whether to invest or sell their investment
  2. Creditors/lenders – to decide whether to lend the business money and assess whether it will be able to repay its debts.

S-A E 145
Carol Channings is a friend of yours from high school. She decided to become a beautician after leaving high school, rather than to attend college. She recently opened her own shop on September 1, 2022 and has contracted her services to a local hospital. She is paid a fee for her services from the hospital, and receives a small gratuity (tip) from each patient. She has invested $1,000 of her own money into the company, which is a private corporation, as she plans to expand by providing services to hospitals in other nearby cities. She is the sole shareholder.

She has just received her first set of financial statements from her accountant. She is quite upset. Since the statement of income reports net income of $1,075 and she put $1,000 into the company, she is surprised to see her cash account only has $925 in it.

She has written you a letter, asking you how this is possible. She does not understand why her cash balance isn't $2,075 (her net income plus the $1,000 she invested). Along with her letter she has included her financial statements.

CHANNINGS BEAUTICIAN LTD
Statement of Income
Month Ended September 30, 2022

Revenues	
Service revenue	$2,500
Gratuities	75
Total revenues	2,575

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Operating expenses	1,200
Income before income tax	1,375
Income tax expense	300
Net income	$1,075

CHANNINGS BEAUTICIAN LTD.
Statement of Changes in Equity
Month Ended September 30, 2022

	Common Shares	Retained Earnings	Total Equity
Balances, Sep 1	$ 0	$ 0	$ 0
Issued common shares	1,000		1,000
Net income		1,075	1,075
Balances, Sep 30	$1,000	$1,075	$2,075

CHANNINGS BEAUTICIAN LTD.
Statement of Financial Position
September 30, 2022

Assets		
Cash		$ 925
Accounts receivable		1,500
Total assets		$2,425
Liabilities and Shareholders' Equity		
Liabilities		
Accounts payable	$ 50	
Income tax payable	300	
Total liabilities		$ 350
Shareholders' equity		
Common shares	$1,000	
Retained earnings	1,075	2,075
Total liabilities and shareholders' equity		$2,425

Instructions
Using proper form, write a short letter to Carol, answer her question completely, but briefly.

Solution 145
Answers will vary. The instructor's requirements concerning proper form should be followed. The letter may be either business or personal. At a minimum, the letter should be in a recognizable form, and proper grammar and spelling should be used. A suggested personal letter follows:

1010 Carlsen Avenue
Ottawa, Ontario
K2P 1G0
(Date)

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Dear Carol,

The reason that your cash balance is not $2,075 is because some of the revenue you have earned has not been paid to you yet. This is the balance in the Accounts Receivable account which shows what your customer, the hospital, still owes you for the services you have provided.

There are also expenses that you have incurred that you have not paid yet. The Accounts Payable account shows the money you still owe to your suppliers and the Income Tax Payable account shows the amount of money you still have to pay for income tax expense.

When your customer has paid to you what they owe and when you pay off your liabilities, your cash balance will be $2,075, as the following calculation shows:

Cash balance	$ 925
Add: Cash to be received from the hospital (Accounts Receivable)	1,500
Less: Cash paid to your suppliers (Accounts Payable)	(50)
Less: Cash paid for income tax (Income Tax Payable)	(300)
Cash balance	$2,075

The amount of cash reported on your statement of financial position is correct. A statement of cash flows will provide information on the cash receipts and payments for your business and will help to explain the cash balance that appears on your statement of financial position.

Sincerely,
(signature)

S-A E 146
Identify and explain how financial statement users can evaluate the equity of a company through the statement of changes in shareholders' equity.

Solution 146 (10 min.)
Users can use the statement of changes in equity to determine:
1. whether the company issued or repurchased shares during the period. The issue of shares is one way a company obtains funds to expand or to repay debt, while share repurchases generally indicate that the company has surplus cash that it can return to shareholders.
2. how much of the company's retained earnings was declared as dividends. Companies that are growing, or have debt to repay, normally preserve the cash they generate and pay little to no dividends.

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OBJECTIVE FORMAT QUESTIONS

147. Identify all of the following that are true with regards to ethics and accounting:

(a) Accountants and other professionals have extensive rules of professional conduct which guide their behavior; therefore, information prepared by accountants is always ethically compiled.
(b) Ethical practices when compiling accounting information are critical as both internal and external decision makers rely on accounting information to make decisions.
(c) Information reported by public corporations is used by government, unions, investors and potential employees. The impact of unethical practices by a public corporation, therefore, could be much larger than the impact of unethical practices by a proprietorship.
(d) Ethical practices are most important when compiling external accounting information.
(e) Most individuals in businesses act in a legal and responsible manner.
(f) Since proprietorships and partnerships have no shareholders, ethics are not a big concern.

Solution 147

Statements (b), (c), and (e) are correct; (a), (d), and (f) are incorrect.

(a) Accountants do have a professional code of conduct, which guides their behavior but this does not guarantee that the information is ethically compiled.

(d) Ethical information is important regardless of if it is internal or external. Internal users of information also need information that is ethically compiled and reported.

(f) Ethics are a concern for all forms of business organization. The owners are a business, regardless of business organization, are responsible to their stakeholders including employees, the government, society and customers.

148. Identify all of the following statements that are true:

(a) For proprietorships, there is a clear legal distinction between the business as an economic unit and the owner.
(b) The reporting entity concept represents the idea that an owner's personal records and business records must be kept separate.
(c) A proprietorship is distinct from a partnership in that a proprietorship's income is reported as self-employment income for tax purposes.
(d) Partnerships are typically used to organize professional service businesses, such as the practices of lawyers, doctors, architects, engineers, and accountants.
(e) Exposure to personal liability risk is a factor that must be considered when choosing the organizational form of a new business.
(f) The main advantages of incorporation include definite life, ease of transferring ownership when selling shares, and unlimited liability.
(g) In Canada, private corporations must use IFRS for financial reporting.
(h) Because proprietorships and partnerships are privately owned, they generally follow ASPE for external financial reporting purposes.

Solution 148

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Statements (b), (d), (e), and (h) are correct; (a), (c), (f) and (g) are incorrect.

(a) For partnerships and proprietorships, there is no legal distinction between the business and its owners. Owners have indefinite liability for the business.

(c) Both proprietorship and partnership income are reported as self-employment earnings for tax purposes.

(f) The main advantages of incorporation include **indefinite** life, ease of transferring ownership when selling shares, and **limited** liability.

(g) In Canada, private corporations may use APSE or IFRS, either is acceptable. Public corporations, on the other hand, must use IFRS.

149. Choose the **most likely** type(s) of business organization being described:

	Proprietorship, Partnership, or Corporation
(a) The business must use international financial reporting standards (IFRS) for financial reporting.	
(b) Shares are listed on a public stock exchange.	
(c) The business life is definite.	
(d) The business is a separate legal entity owned by shareholders and is the most complex form of business to establish.	
(e) A business is similar to a proprietorship except that there is more than one owner.	
(f) There exists for the business a formalized written agreement that outlines the formation of the business organization, owners' contributions, how net income and losses are shared, provisions for withdrawals of assets, dispute resolution, and liquidation.	
(g) There is no legal distinction between the business as an economic unit and the owner(s).	
(h) The business finds it easier to raise external capital (cash) compared with other forms of business organization.	
(i) This form of business organization includes both public and private forms.	
(j) The owner(s) of this company have unlimited liability for all debts.	

Solution 149

(a) **Corporation.** Public corporations must use IFRS when reporting financial information. Private corporations have the choice of IFRS or APSE. Proprietorships and partnerships generally follow APSE for external financial reporting purposes.

(b) **Corporation.** Only public corporations have shares listed on a public stock exchange.

(c) **Proprietorship and partnership.** A proprietorship or partnership is dissolved with the withdrawal, death or incapacity of its owner(s). A corporation, on the other hand, is a separate legal entity from its owners, and will continue on regardless of who owns its

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Financial Accounting (Canadian) 8th edition Kimmel Test Bank

shares.

(d) **Corporation.** A corporation is formed as a separate legal entity from its owners. The legal and reporting requirements for corporations are more complicated than proprietorships or partnerships.

(e) **Partnership.** Partnerships are similar to proprietorships except they have two or more partners and are formalized through a partnership agreement.

(f) **Partnership and corporation.** The owners of a partnership normally develop a partnership agreement that outlines ownership interests and how specific actions will be undertaken, such as how the partnership will be dissolved or how disputes are settled.

(g) **Proprietorship and partnership.** For both a proprietorship and partnership, the owner(s) is responsible for all liabilities of the business and income is reported as self-employment earnings for tax purposes.

(h) **Corporation.** The advantages of indefinite life, ease of transferring ownership when selling shares, and limited liability help increase the attractiveness of the company to investors.

(i) **Corporation.** Private corporations issue shares, but they do not make them available to the general public nor are they traded on public stock exchanges. Public corporation's shares are traded on the public stock exchange.

(j) **Proprietorship and partnership.** For both a proprietorship and partnership, the owner(s) is responsible for all liabilities of the business.

150. Choose on which financial statement(s) the item would be included:
(1) statement of income,
(2) statement of changes in equity,
(3) statement of financial position and/or
(4) statement of cash flows.

	(1), (2), (3), or (4)
(a)Common shares issued during the year	
(b)Revenues	
(c)Accounts payable	
(d)Depreciation expense	
(e)Land	
(f)Deferred revenue	
(g)Income tax expense	
(h)Retained earnings	
(i)Dividends declared and paid	

Solution 150
The items are shown on the financial statements as follows:

(a) Common shares issued	(2), (4)

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	The ending balance of common shares is shown on the statement of financial position, but new issuances are only shown on the statement of cash flows and statement of changes in equity.
(b) Revenues	(1) Revenues are only reported on the statement of income.
(c) Accounts payable	(3) Accounts payable is a short-term liability, which is reported on the statement of financial position.
(d) Depreciation expense	(1) All expenses are only reported on the statement of income.
(e) Land	(3) Land is a long-lived asset, which is reported on the statement of financial position.
(f) Deferred revenue	(3) Deferred revenue is a liability. It is money that the company has received for a service it has not yet performed or products that have not yet been provided. Liabilities are reported on the statement of financial position.
(g) Income tax expense	(1) All expenses are only reported on the statement of income.
(h) Retained earnings	(2), (3) Retained earnings are shown on both the statement of changes in equity and the statement of financial position. The statement of changes in equity shows the detailed breakdown of how retained earnings is determined, while the statement of financial position only shows its ending balance.
(i) Dividends declared and paid	(2), (4) Dividends are not an expense. They are a distribution of income to shareholders. They are shown on the statement of changes in equity as well as the statement of cash flows.

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151. The following incomplete financial statements are for JTC Enterprises Inc.:

JTC ENTERPRISES INC.
Statement of Income
Year Ended December 31, 2022

Revenues	$1,250,000
Expenses:	
Salaries expense	680,000
Administrative expenses	250,000
Interest expense	45,000
Rent expense	18,000
Total expenses	a
Net income	b

JTC ENTERPRISES INC.
Statement of Changes in Equity
Year Ended December 31, 2022

Total shareholders' equity, beginning of year	$ 811,000
Common shares, beginning of year	c
Issue of shares	250,000
Common shares, end of year	475,000
Retained earnings, beginning of year	d
Net income	e
Dividends declared	58,000
Retained earnings, end of year	785,000
Total shareholders' equity, end of year	f

JTC ENTERPRISES INC.
Statement of Financial Position
December 31, 2022

Total assets	g
Total liabilities	1,785,000
Total shareholders' equity	h
Total liabilities and shareholders' equity	i

Instructions
Complete the missing data in these financial statements by choosing the following corresponding number for each missing item. Note: some values will be used more than once and some values will not be used.

1. $257,000
2. $1,260,000
3. $725,000
4. $225,000
5. $993,000
6. $528,000
7. $470,000
8. $3,791,000

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9. $586,000
10. $2,006,000
11. $3,045,000

(a) Total expenses
(b) Net income
(c) Common shares, beginning of year
(d) Retained earnings, beginning of year
(e) Net income
(f) Total shareholders' equity, end of year
(g) Total assets
(h) Total shareholders' equity
(i) Total liabilities and shareholders' equity

Solution 151
The answers are as follows:

(a) Total expenses	5.	$993,000
(b) Net income	1.	$257,000
(c) Common shares, beginning of year	4.	$225,000
(d) Retained earnings, beginning of year	9.	$586,000
(e) Net income	1.	$257,000
(f) Total shareholders' equity, end of year	2.	$1,260,000
(g) Total assets	11.	$3,045,000
(h) Total shareholders' equity	2.	$1,260,000
(i) Total liabilities and shareholders' equity	11.	$3,045,000

The following shows the completed financial statements for JTC Enterprises Inc.:

JTC ENTERPRISES INC.
Income Statement
Year Ended December 31, 2022

Revenues	$1,250,000
Expenses:	
Salaries expense	680,000
Administrative expenses	250,000
Interest expense	45,000
Rent expense	18,000
Total expenses	993,000
Net income	$ 257,000

JTC ENTERPRISES INC.
Statement of Changes in Equity
Year Ended December 31, 2022

Total shareholders' equity, beginning of year	$ 811,000
Common shares, beginning of year	225,000
Issue of shares	250,000

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Common shares, end of year	475,000
Retained earnings, beginning of year	586,000
Net income	257,000
Dividends declared	58,000
Retained earnings, end of year	785,000
Total shareholders' equity, end of year	$1,260,000

JTC ENTERPRISES INC.
Statement of Financial Position
December 31, 2022

Total assets	$3,045,000
Total liabilities	1,785,000
Total shareholders' equity	1,260,000
Total liabilities and shareholders' equity	$3,045,000

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