Fundamentals of Financial Accounting (Canadian) 5th edition Phillips Test Bank

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Chapter 02
The Balance Sheet

True / False Questions

1. A "classified" balance sheet is one that contains privileged information.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

2. All liabilities require that the company to pay or settle the amount owed at some time in the future.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

3. A chart of accounts is a list of account titles used to record financial transactions.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

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4. A summary of account names and account numbers is kept by a company in the table of contents of its annual report.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

5. A transaction is an exchange or event that directly affects the assets, liabilities, or shareholders' equity of a company.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-02 Transactions and Other Activities

6. A vitamin manufacturer combines ingredients when making its vitamin pills. This is an observable internal event.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-02 Transactions and Other Activities

7. A transaction can cause only one account on the balance sheet to change.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

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8. If a company uses $100 million in cash to pay off debt, its shareholders' equity will increase by $100 million.
FALSE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

9. General Motors (GM) signs a new labour agreement agreeing to give its workers a 5% wage increase next year. This transaction will affect GM's financial statements in the current year.
FALSE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-02 Transactions and Other Activities

10. The basic accounting equation must always balance for each transaction.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-03 Step 1: Analyze Transactions

11. All of a company's business activities have a direct economic effect on the company.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-02 Transactions and Other Activities

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12. If total assets increase, then either liabilities or shareholders' equity also must increase.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

13. Assets are typically listed on the balance sheet in order of how soon they are used or quickly they can be turned into cash.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

14. Facebook issues new stock worth $40 million for cash. This would ***not*** affect the shareholders' equity on the balance sheet because as new shares are sold the value of existing shares will decline by the same amount.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

15. The current ratio is used to assess a company's ability to pay its current liabilities.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-11 Assessing the Ability to Pay

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16. Any item on a balance sheet labelled payable is a liability of that company.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

17. A credit to an asset account will cause a decrease in assets on the financial statements.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

18. Across all accounts, the total value of all debits must equal the total value of all credits.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

19. The total value of all debits to a particular account must equal the total value of all credits to that account.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

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20. Within a journal entry, credits are written first and debits are written beneath them indented to the right.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-07 Step 2: Recording Journal Entries

21. You are pleasantly surprised to discover that a popular actress appears on The Tonight Show wearing your company's jeans. As a result of that your company's sales increase by $500,000. When the actress appeared on TV, you would have recorded an asset because the TV appearance was expected to bring future economic benefits to your company.
FALSE

Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: Hard
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-02 Transactions and Other Activities

22. If the total dollar value of credits to an account exceed the total dollar value of debits to that account, the ending balance of the account will be a debit balance.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

23. Posting journal entries involves copying the dollar amounts from the journal into the ledger.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

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24. If a $100 debit is erroneously posted to an account as a $100 credit, the accounts will be out of balance by $100.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

25. The accounting equation will still balance if a $5,000 liability is misclassified as shareholders' equity.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

26. A company buys land for $5 million dollars in 1983. The land is now worth $15 million. The company should increase the book value of this asset on its balance sheet to reflect its current value.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

27. All events affecting the current value of a company are reported on the statement of financial position.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-02 Transactions and Other Activities

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28. According to the cost principle, assets are valued at their replacement cost.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

29. Double-entry accounting always captures what the company receives, while at the same time capturing what it gives.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

30. Under IFRS, a public company has a choice as to how the company's statement of financial position is prepared.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-01 Building a Balance Sheet

31. Signing a rental agreement results in an activity that has a direct and measurable financial effect on the company.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-02 Transactions and Other Activities

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32. The duality of effects in transaction analysis implies that every transaction has two effects on the basic accounting equation.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

33. To maintain consistency, the accounting profession requires companies to use the same chart of accounts, whether operating under IFRS or ASPE.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

34. The current ratio will remain unaffected for a company that has simply declared a cash dividend (as opposed to paying it out).
FALSE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

35. Debits equaling credits in a Trial Balance provides a check to ensure transactions have been recorded correctly.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

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36. Under the rules governing ASPE and IFRS, companies must list assets in order of liquidity.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

37. Under the rules governing ASPE and IFRS, companies must list liabilities in order of maturity.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

38. A public company following IFRS is entitled to set aside the cost principle.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-01 Building a Balance Sheet

39. It is possible for a firm to have a negative balance in the retained earnings account.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

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40. A creditor's claim on a company's assets will always take precedence over the owners of the company.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

41. An exchange containing a promise is never considered an accounting transaction.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-02 Transactions and Other Activities

Multiple Choice Questions

42. Which of the following would be listed as a noncurrent asset?
A. Cash.
B. Supplies.
C. Buildings and equipment.
D. Total assets.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

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43. Which of the following would be listed as a current liability?
A. Cash in the bank.
B. Notes payable due in two years.
C. Bank loan due in 10 years.
D. Accounts payable.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

44. A long-term liability is one that the company:
A. has owed for over one year.
B. has owed for over five years.
C. will not pay off for at least over one year.
D. will not pay off for at least over five years.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

45. A current asset is one that:
A. the company has owned for over one year.
B. the company will use up or convert into cash in five years or more.
C. the company will use up or convert into cash in one year or less.
D. the company will use up or convert into cash in more than one year.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

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46. At the start of the first year of operations, a company's retained earnings on the balance sheet would be:
A. equal to zero.
B. equal to contributed capital.
C. equal to shareholders' equity.
D. equal to the negative of liabilities.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

47. Which of the following is ***not*** true. Account names in the chart of accounts have to be:
A. sufficiently descriptive to enable users to quickly understand items.
B. consistent throughout the financial statements and records.
C. linked to account numbers.
D. general purpose and do not have to indicate the nature of the account.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

48. The local branch of the Universal Bank System (UBS) receives money from some of its customers as deposits and lends it to other customers as loans. Which of the following would be true about UBS's financial statements?
A. UBS reports customers' deposits as assets and customers' loans as liabilities.
B. UBS reports both customers' deposits and customers' loans as assets.
C. UBS reports customers' deposits as liabilities and customers' loans as assets.
D. UBS reports both customers' deposits and customers' loans as liabilities.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

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49. Which of the following is ***not*** an example of an asset?
A. Notes receivable.
B. Supplies.
C. Prepaid Insurance.
D. Deferred revenues.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

50. If a company borrows money from a bank and signs an agreement to repay the loan several years from now, in which account would the company report the amount borrowed?
A. Contributed Capital
B. Accounts Payable
C. Notes Payable
D. Bonds Payable

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-03 Step 1: Analyze Transactions

51. The Sweet Smell of Success Fragrance Company borrowed $60,000 from the bank and used all of the money to re-design its new store. Sweet Smell's balance sheet would show this as:
A. $60,000 under Property, Plant & Equipment and $60,000 under Notes Payable.
B. $60,000 under Supplies and $60,000 under Accounts Payable.
C. $60,000 under Prepaid Expenses and $60,000 under Accrued Liabilities.
D. $60,000 under Other Assets and $60,000 under Other Liabilities.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-03 Step 1: Analyze Transactions

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52. The Buddy Burger Corporation owes $1.5 million to the Alberta Wholesale Meat Company from whom Buddy Burger buys its burger meat. Which account would Buddy Burger use to report the amount owed?
A. Deferred Revenue
B. Accounts Payable
C. Supplies
D. Accounts Receivable

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

53. Which of the following describes the classification and normal balance of the retained earnings account?
A. Asset, debit
B. Shareholders' equity, credit
C. Liability, credit
D. Shareholders' equity, debit

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

54. If a company is paid $20,000 on accounts receivable and uses the money to pay $20,000 on accounts payable then:
A. assets would increase by $20,000 while liabilities would decrease by $20,000.
B. liabilities would decrease by $20,000 while shareholders' equity would increase by $20,000.
C. Both assets and liabilities would decrease by $20,000.
D. Both assets and shareholders' equity would decrease by $20,000.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

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55. In 2012, the Denim Company bought land that cost $15,000. In 2018, a similar piece of land was bought for $28,000 and the company's existing land was estimated to be worth $18,000. On the balance sheet at the end of 2018, the land that was purchased in 2012 would be reported at:
A. $15,000.
B. $28,000.
C. $18,000.
D. the average of the three prices.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-01 Building a Balance Sheet

56. What is the minimum number of ways that a transaction could effect the basic accounting equation?
A. One.
B. Two.
C. Three.
D. No minimum.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

57. Transactions include which two types of events?
A. Direct events and indirect events.
B. Monetary events and production events.
C. External exchanges and internal events.
D. Current events and future events.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-02 Transactions and Other Activities

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58. A company disposes of $1 million of its assets. Which of the following could ***not*** be true about its effects on the basic accounting equation?
A. Assets remain the same, and liabilities and shareholders' equity both decrease by $1 million.
B. Assets decrease by $1 million, liabilities decrease by $1 million, and shareholders' equity is unchanged.
C. Assets, liabilities, and shareholders' equity all remain the same.
D. Assets decrease by $1 million, and liabilities and shareholders' equity both decrease by $500,000.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

59. Your company orders and broadcasts a 30 second advertisement during the Super Bowl for $1.2 million. It is legally obligated to pay for this service but has not yet done so.
A. This is an internal unobservable event so it does ***not*** affect the balance sheet.
B. This is an external unobservable event so it does ***not*** affect the balance sheet.
C. This is an internal observable event that affects the balance sheet.
D. This is an external observable event that affects the balance sheet.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-03 Step 1: Analyze Transactions

60. In part, a transaction affects the accounting equation as follows: Which of the following must be true for this transaction to keep the accounting equation in balance?
A. If other assets remain the same, shareholders' equity must increase.
B. If other assets remain the same, shareholders' equity must remain the same.
C. If shareholders' equity remains the same, another asset must decrease.
D. If shareholders' equity remains the same, all other assets must remain the same.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

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61. A company buys equipment for $500,000 and signs a promissory note for the full amount. How does this transaction affect the accounting equation?
A. Assets: ↑ Property and equipment, ↓ Cash; Liabilities: no change; Shareholders' Equity: no change.
B. Assets: ↑ Property and equipment; Liabilities: ↑ Notes payable; Shareholders' Equity; no change.
C. Assets: ↑ Property and equipment; Liabilities: no change; Shareholders' Equity: ↓ Retained earnings.
D. Assets: ↑ Property and equipment; Liabilities: no change; Shareholders' Equity: ↓ Contributed capital.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

62. Your company pays back $2 million on a loan it had received earlier from a bank. How does this transaction affect the accounting equation?
A. Assets are unchanged, liabilities and shareholders' equity both increase by $2 million.
B. Assets decrease by $2 million, liabilities decrease by $2 million, shareholders' equity is unchanged.
C. Assets are unchanged, liabilities increase by $2 million, contributed capital decreases by $2 million.
D. Assets decrease by $2 million, liabilities are unchanged, contributed capital decreases by $2 million.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

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63. A company issues $20 million in new stock. It later uses this money to pay off promissory notes. How many different accounts and which account names are affected by these two transactions?
A. 3 accounts are affected: contributed capital, cash, and notes payable.
B. 4 accounts are affected: contributed capital, cash, liabilities, and accounts payable.
C. 3 accounts are affected: cash, assets, and accounts payable.
D. 3 accounts are affected: contributed capital, investments, and accounts payable.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

64. A company borrows $2 million from its bank. It then uses this money to buy equipment. How does this transaction affect the accounting equation?
A. Assets and Liabilities both rise $2 million.
B. Assets and Shareholders' Equity both fall $2 million.
C. Assets, Liabilities, and Shareholders' Equity are unchanged.
D. Shareholders' Equity rises $2 million and Liabilities fall $2 million.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

65. A company receives $10 million cash from investors in exchange for new common stock. Several weeks later, the company buys a $25 million machinery using all of the cash from the stock issue and signing a promissory note for the remainder. The accounts involved in these two transactions are:
A. Long-term Investments; Cash; Equipment; and Accounts Payable.
B. Shareholders' Equity; Cash; Long-term Investments; and Notes Payable.
C. Contributed Capital; Cash; Equipment; and Notes Payable.
D. Retained Earnings; Equipment; and Notes Payable.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
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66. A company purchases $23,000 of supplies in the current month and promises to pay for them next month. How would the company record a liability for the supplies?
A. This liability is not a recognized liability until the payment is due.
B. $23,000 would be posted as a credit to Accounts Payable.
C. $23,000 would be posted as a debit to Accounts Payable.
D. $23,000 would be posted as a debit to Note Payable.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

67. If total liabilities decreased by $25,000 and shareholders' equity increased by $5,000 during a period of time, then total assets must change by what amount and direction during the same time period?
A. $20,000 increase.
B. $20,000 decrease.
C. $30,000 increase.
D. $30,000 decrease.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

68. The characteristic shared by all liabilities is that they:
A. provide a future economic benefit.
B. result in an inflow of resources to the company.
C. always end in the word "payable."
D. obligate the company to do something in the future.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

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69. A company issues $50 million in new stock. The company later uses this money to buy construction machinery. How many accounts will be affected by these transactions and which particular account names are most likely to be used to record the effects of these transactions?
A. 3 accounts affected: Contributed Capital, Cash, and Equipment.
B. 4 accounts affected: Contributed Capital, Cash, Supplies and Accounts Payable.
C. 3 accounts affected: Cash, Accounts Receivable, and Equipment.
D. 3 accounts affected: Contributed Capital, Investments, and Notes Payable.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

70. Park & Company was recently formed with a $5,000 investment in the company by shareholders. The company then borrowed $2,000 from a local bank, purchased $1,000 of supplies on account, and also purchased $5,000 of equipment by paying $2,000 in cash and signing a promissory note for the balance. Based on these transactions, the company's total assets are:
A. $7,000.
B. $9,000.
C. $10,000.
D. $11,000.

5,000 cash from stockholders + 2,000 borrowed from bank + 1,000 purchase of supplies on account + 3,000 = 5000 - 2000 (Equipment purchased minus cash paid) = 11,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

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71. Which of the following is the common characteristic possessed by all assets?
A. long life.
B. great financial value.
C. physical substance.
D. future economic benefits.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

72. Current liabilities are expected to be:
A. converted to cash within one year.
B. paid within one year.
C. used in the business within one year.
D. acquired within one year.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

73. If Accounts Payable had a balance of $18,200 at the beginning of the month, and the six amounts shown below were posted to this account, what should be the ending balance? Three debits posted to Accounts Payable this month: $4,700, $11,300, and $14,800. Three credits posted to Accounts Payable this month: $3,600, $9,500, and $12,700.
A. $13,200.
B. $5,000.
C. $23,200.
D. $49,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

Fundamentals of Financial Accounting (Canadian) 5th edition Phillips Test Bank

74. In a T-account debits appear in what manner?
A. They are on the left under assets but on the right under liabilities and shareholders' equity.
B. They are always listed on the right.
C. They are always listed on the left.
D. They are on the right under assets but on the left under liabilities and shareholders' equity.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

75. A company uses $100,000 in cash to pay off $100,000 in notes payable. This would result in a:
A. $100,000 credit to Cash and a $100,000 debit to Notes Payable.
B. $100,000 credit to Cash and a $100,000 credit to Notes Payable.
C. $100,000 debit to Cash and a $100,000 credit to Notes Payable.
D. $100,000 debit to Cash and a $100,000 debit to Notes Payable.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

76. Pet Planet Ltd., uses $10,000 in cash to pay $10,000 on Accounts Payable. This would result in a:
A. $10,000 credit to Cash and a $10,000 credit to Accounts Payable.
B. $10,000 debit to Cash and a $10,000 debit to Accounts Payable.
C. $10,000 credit to Cash and a $10,000 debit to Accounts Payable.
D. $10,000 debit to Cash and a $10,000 credit to Accounts Payable.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

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77. The best interpretation of the word credit is that it's the:
A. left side of an account.
B. increase side of an account.
C. right side of an account.
D. decrease side of an account.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

78. A credit would decrease the balance in which of the following account?
A. Contributed Capital.
B. Inventories.
C. Notes Payable.
D. Retained Earnings.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

79. Your company buys a $2 million warehouse paying $300,000 in cash and issuing $1.7 million in promissory notes. This will be posted as:
A. $2 million credited and $300,000 debited to assets; $1.7 million debited to liabilities.
B. $2 million debited to assets and $2 million credited to liabilities.
C. $2 million debited and $300,000 credited to assets; $1.7 million credited to liabilities.
D. $2 million credited to assets and $2 million debited to liabilities.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

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80. Cash had a beginning balance of $68,900. During the month, Cash was credited for $16,000 and debited for $18,300. At the end of the month, the balance is:
A. $2,300.
B. $71,200.
C. $66,700.
D. $(2,300).

68,900 - 16,000 + 18,300 = 71,200.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

81. On January 1, 2018, Yukon Inc., had assets of $156,000 and shareholders's equity of $88,000. During the year assets increased by $35,000 and shareholders's equity decreased by $27,500. What were the liabilities on December 31, 2018?
A. $7,500.
B. $68,000.
C. $130,500.
D. $251,500.

On December 31, liabilities = (156,000 + 35,000) - (88,000 - 27,500) = 130,500.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

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82. Which of the following is true?
A. Assets have debit balances and liabilities have credit balances.
B. Assets and liabilities have credit balances.
C. Assets have credit balances and liabilities have debit balances.
D. Assets and liabilities have debit balances.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

83. The standard formatting for a journal entry:
A. lists credits first and then debits, both aligned to the left.
B. lists credits first and then debits, indented underneath.
C. lists debits first and then credits, both aligned to the right.
D. lists debits first and then credits, indented underneath.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

84. Which of the following scenarios could explain the journal entry below?

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dr	**Cash**		4,000	
dr	**Notes Receivable**		6,000	
	cr	**Equipment**		10,000

A. The company buys $10,000 of equipment for $4,000 in cash and $6,000 on credit.
B. The company pays $4,000 in cash and $6,000 in notes payable to buy $10,000 of equipment.
C. The company sells $10,000 of equipment, for $4,000 in cash and $6,000 on credit.
D. The company sells $10,000 of equipment, for $4,000 in cash and pays off $6,000 it owes on the equipment.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

85. Which of the following statements is ***not*** true?
A. Assets must always equal liabilities plus shareholders' equity.
B. The total value of credits in all accounts must always equal the total value of debits in all accounts.
C. The net changes in assets must always equal the sum of the net changes in liabilities and shareholders' equity.
D. The number of credits posted must equal to number of debits posted.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

Fundamentals of Financial Accounting (Canadian) 5th edition Phillips Test Bank

86. The normal balance of any account is the:
A. left side.
B. right side.
C. side which increases that account.
D. side which decreases that account.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

87. During the month you purchased $12,000 of supplies on credit and $19,000 of equipment for cash. When you prepare a balance sheet, assets are $24,000 more than liabilities plus shareholders' equity.
A. You may have posted the increase in supplies as a credit rather than a debit.
B. You may have neglected to post the change in accounts payable.
C. You may have posted the increase in accounts payable as a debit rather than a credit.
D. All would have resulted in the $24,000 error.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Hard
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

88. If no transactions were posted to a particular asset, liability, or shareholders' equity account during a period then:
A. the amounts from the previous balance sheet are repeated unchanged on the current balance sheet.
B. the account is left off of the balance sheet.
C. the account is posted as zero on the current balance sheet for that account.
D. the words "no change" are entered in the current balance sheet.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-06 Step 1: Analyzing Transactions

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89. Consider the data in the Inventories T-account shown below and the partial listing of account balances at the end of the year.

Inventories			
Beginning			
Balance	187,500		
	104,900		
	63,900		18,000
			5,400
			14,700
			19,200

Partial listing of account balances at the end of the year:

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Cash	$28,000
Accounts Receivable	35,600
Inventories	?
Other Current Assets	5,900

The amount of Total Current Assets that would be reported on the company's balance sheet at the end of the year would be:
A. $180,800.
B. $368,500.
C. $145,700.
D. $298,800.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-06 Step 1: Analyzing Transactions

90. Which of the following is ***not*** an example of a liability?
A. Account receivable.
B. Wages payable.
C. Interest payable.
D. Bonds payable.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

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91. According to the principle of conservatism, when faced with uncertainty about the value of an item, a company should use the measure that avoids:
A. overstating assets and liabilities.
B. overstating assets and understating liabilities.
C. understating assets and overstating liabilities.
D. understating assets and liabilities.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-12 Balance Sheet Concepts and Values

92. Your company's president donates a large amount of her own money to charity and receives significant publicity that includes the company's name. How would the benefits of this publicity appear on the balance sheet?
A. It would appear as a current asset.
B. It would appear as a liability.
C. It would appear as a long-term asset.
D. It would not appear on the balance sheet.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-02 Transactions and Other Activities

93. Which of the following would a company be most likely to overstate on its balance sheet if the company was trying to mislead potential external investors or creditors?
A. Accounts Receivable.
B. Notes Payable.
C. Deferred Revenues.
D. Accounts Payable.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-12 Balance Sheet Concepts and Values

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94. Which of the following would ***not*** be recorded as an identifiable accounting transaction?
A. Putting a deposit down on a new vehicle.
B. Hiring a new employee.
C. Obtaining a bank loan.
D. Receiving a deposit from a customer.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-02 Transactions and Other Activities

95. Which concept should be applied when reporting a piece of land that was bought for $50,000 five years ago, and which would probably now sell for $80,000?
A. The cost principle.
B. The asset principle.
C. The separate entity concept.
D. The duality of effects.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-01 Building a Balance Sheet

96. Conservatism means:
A. not underestimating asset values, when faced with uncertainty about the value of assets and liabilities.
B. not overestimating liabilities, when faced with the uncertainty about the value of assets and liabilities.
C. using the least optimistic measurement when faced with uncertainty about the value of assets and liabilities.
D. using the most optimistic measurement when faced with uncertainty about the value of assets and liabilities.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-01 Building a Balance Sheet

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97. The MegaBuck movie studio's name has become famous for adventure movies. Another studio once offered to buy the name for $20 million, but MegaBuck turned down the offer. The MegaBuck balance sheet will show:
A. The company's name under Other Assets, valued at $20 million.
B. The company's name under Other Assets, valued conservatively at $10 million.
C. The company's name under Accounts Receivable, valued at $20 million.
D. The company's name will not be shown as an asset on the balance sheet.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-02 Transactions and Other Activities

98. Which of the following is the financing that a business acquires through owners' contributions and reinvestment of profits?
A. Debt.
B. Equity.
C. External Exchanges.
D. Current Assets.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

99. Which of the following is the financing a business acquires through borrowing money?
A. Debt.
B. Equity.
C. External Exchanges.
D. Current Assets.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

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100. When supplies are paid in cash, which of the following would hold true?
A. Total assets will increase.
B. Total assets will decrease.
C. Total assets will remain unchanged.
D. Total liabilities will decrease.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

101. Which of the following are the three steps applied to daily transactions in the accounting cycle?
A. Analyze, record, summarize.
B. Present, process, summarize.
C. Determine, Scrutinize, record.
D. Analyze, determine, record.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

102. The two sources of financing available to businesses are known as,
A. common and preferred shares.
B. common shares and loans.
C. equity and liabilities.
D. equity and debt.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

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103. The basic accounting equation can be represented as:
A. A = L + SE
B. SE = A - L
C. A - SE = L
D. All of these choices are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

104. When analyzing transactions and exploring their financial effects, journals are used to:
A. summarize the effects on each account; organized by date.
B. summarize the effects on each account; organized by account.
C. record the daily effects of the transactions; organized by date.
D. record the daily effects of the transactions; organized by account.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-04 Steps 2 and 3: Record and Summarize

105. The three basic steps of the systematic accounting process used to capture and report the financial effects of a company's activities are:
A. Picture, Name, Analyze.
B. Analyze, Record, Summarize.
C. Analyze, Journalize, Report.
D. Analyze, Capture, Report.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

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106. Pizza Place Co. went ahead and prepaid one of its expenses, but the clerk looking after the transaction mistakenly debited the transaction as an expense. As a result,:
A. The Trial Balance will have Debits = Credits.
B. The Trial Balance will have Debits > Credits.
C. The Trial Balance will have Debits < Credits.
D. All of the choices are correct.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

107. A debit balance in the retained earnings account can result from:
A. expenses exceeding revenues.
B. a loss exceeding the amount of profit previously recorded in retained earnings.
C. dividends being greater than accumulated earnings.
D. All of the choices are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

108. When dealing with claims on company assets,:
A. owners take precedence over creditors.
B. creditors take precedence over owners.
C. owners and creditors are treated equally.
D. All of the choices are possible; it depends on the situation.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

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109. The Supply Company buys $30,000 of equipment and funds the purchase through liquidating common shares that it owns. What is the impact of this transaction on the basic accounting equation?
A. There is no effect.
B. Only the left-hand side is impacted.
C. Only the right-hand side is impacted.
D. Both the right-hand side and left-hand side are impacted.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-03 Step 1: Analyze Transactions

110. The Demand Company buys $30,000 of equipment and funds half the purchase through liquidating common shares that it owns, while incurring an informal promise to pay the remainder at the end of the month. What is the impact of this transaction on the basic accounting equation?
A. Only the left-hand side is impacted.
B. Only the right-hand side is impacted.
C. Both sides are impacted and the right-hand side equals the left-hand side.
D. Both sides are impacted and the right-hand side does not equal the left-hand side.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

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111. The Delivery Company has placed an order for $2,000 of supplies and intends to pay on account once the goods have been received. Transaction analysis requires the accounting clerk to,
A. record supplies as an asset on the order date, but wait to record the liability until supplies are received.
B. record supplies as an asset and credit accounts payable on the order date.
C. record supplies as an asset and debit accounts payable on the order date.
D. do nothing.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-03 Step 1: Analyze Transactions

112. A company goes ahead and purchases inventory. The impact on the current ratio is:
A. zero, if inventory was purchased using cash.
B. positive, if CA < CL to start with and inventory is purchased on credit.
C. negative, if CA > CL to start with and inventory is purchased on credit.
D. All of the choices are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-11 Assessing the Ability to Pay

113. Your company has just sold some inventory. What impact does this have on the company's current ratio?
A. There is no impact; the current ratio remains the same.
B. The current ratio will increase as a result of sale.
C. The current ratio will decline as a result of the sale.
D. More information is needed to determine the impact.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-11 Assessing the Ability to Pay

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114. A client has settled his outstanding credit account with your company; at the same time, you have just received cash for inventory that you sold at cost. What is the overall impact of these concurrent changes on the current ratio?
A. There is no impact.
B. The inflow of cash caused the current ratio to rise.
C. Depends on the actual dollar amounts.
D. None of the choices are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-11 Assessing the Ability to Pay

115. According to the accounting equation, *ceteris paribus*, which of the following could offset an increase in profits so as to maintain equality?
A. Dividends, common shares or liabilities decrease; alternatively, assets increase.
B. Dividends or assets increase; alternatively, common shares or liabilities decrease.
C. Dividends, assets, or common shares increase; alternatively, liabilities decrease.
D. Dividends, assets, or liabilities increase; alternatively, common shares decrease.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Topic: 02-01 Building a Balance Sheet

Short Answer Questions

116. If a purchase of supplies for $400 was mistakenly recorded as a credit to Supplies, but the cash paid for the supplies was correctly recorded, what would be the effect on the accounting equation?

Assets would be $800 less than liabilities plus shareholders' equity.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

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117. On January 1, 2018, NWK, Inc.'s assets were $300,000 and its shareholders' equity was $140,000. During the year, assets increased $15,000 and liabilities decreased $10,000. What was the shareholders' equity on December 31, 2018?

On January 1, 2018, A = L + SE, so L = 300,000 - 140,000 = 160,000. At year end, A = L + SE, so SE = (300,000 + 15,000) - (160,000 - 10,000) = 165,000.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

118. On March 3, 2018, your company pays $4,000 to acquire supplies. Should this be a recognized accounting transaction? If so, what accounts are affected and by how much each?

It should be a recognized transaction. Supplies (an asset) are increased by $4,000 and Cash (also an asset) is decreased by $4,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-01 Building a Balance Sheet

119. Use the following information as of December 31, 2018 to calculate the amounts of cash and retained earnings. The company's total assets are $36,000. This company doesn't have other accounts.

Cash: $5,000; Retained Earnings: $19,000.
Total Assets = 36,000 = Cash + 8,000 + 1,000 + 22,000 36,000 = Cash + 31,000 5,000 = Cash Assets = Liabilities + Stockholders' Equity 36,000 = 7,000 + (10,000 + Retained Earnings) 19,000 = Retained Earnings

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Hard
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

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120. For each of the following, indicate how the line item would be categorized on a classified balance sheet.

CA (current asset)
LTA (long-term asset)
CL (current liability)
LTL (long-term liability)
SE (shareholders' equity)

____ Property and Equipment
____ Contributed Capital
____ Accrued Liabilities
____ Supplies
____ Deferred Revenue
____ Retained Earnings
____ Wages Payable
____ Accounts Receivable
____ Inventory
____ Bonds Payable
____ Accounts Payable

LTA, SE, CL, CA, CL, SE, CL, CA, CA, LTL, CL

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

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121. Match the term and the explanation. There are more definitions than terms.

_____ dr
_____ Unobservable event
_____ Classified balance sheet
_____ Contributed capital
_____ Accounting equation
_____ Transaction
_____ Accounts payable
_____ Journal entry
_____ Deferred Revenues
_____ Prepaid Rent

A. The account credited when cash is received in exchange for stock issued.
B. Every transaction has at least two effects.
C. Quantitative record of an exchange or event that has a direct impact on a company's balance sheet.
D. A balance sheet that has not yet been publicly released.
E. Amount paid for future rent.
F. A method of recording a transaction in debit/credit format.
G. A transaction that is triggered automatically merely by the passage of time.
H. The abbreviation for an item posted on the left side of a T-account.
I. The expression that assets must equal liabilities plus shareholders' equity.
J. The value of a company's public relations campaign.
K. Amounts owed to suppliers for goods or services bought on credit.
L. An event that has no effect on the balance sheet and is not recorded in the financial statements.
M. Liabilities divided by assets.
N. A balance sheet that has assets and liabilities categorized as current vs. long-term.
O. The abbreviation for an item posted on the right side of a T-account.
P. When a company becomes included in the Fortune 500.
Q. Amount received in advance from customers for providing goods and services to customers.
S. Another name for shareholders' equity.

H, J, N, A, I, C, K, F, Q, E

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-01 Building a Balance Sheet
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

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122. For each of the following, indicate how the event would most likely be categorized.

OE (Observable External Event)
OI (Observable Internal Event)
UE (Unobservable Event)
NT (No transaction)

____ A company sells $2 million in goods for immediate payment.
____ The company uses up office supplies.
____ The stock market rises 10% and the value of a company's stock increases.
____ Each day the company owes more interest on a loan.
____ A company pays cash to an inventor for the legal rights to produce a new product.
____ Management pays workers an overtime bonus as required by their union contract.
____ A company uses up supplies to manufacture a product.
____ A company receives orders worth $1 million but no down payments.

OE, OI, NT, UE, OE, OE, OI, NT

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Identify financial effects of common business activities that impact the balance sheet.
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Topic: 02-02 Transactions and Other Activities

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123. Match the transaction with the appropriate T-account entry, debit (dr) or credit (cr).

_____ Decrease in Wages Payable.
_____ Increase in Cash.
_____ Increase in Accounts Payable.
_____ Decrease in Notes Payable.
_____ Increase in Inventory.
_____ Increase in Contributed Capital.
_____ Decrease in Accrued Liabilities.
_____ Decrease in Property and Equipment.

dr, dr, cr, dr, dr, cr, dr, cr

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Topic: 02-05 The Debit/Credit Framework

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124. Match the term and the explanation. There are more explanations than terms.

_____ Duality of effects
_____ Journal entry
_____ Posting
_____ Conservatism
_____ Debit
_____ Chart of accounts
_____ T-account
_____ Credit
_____ Cost principle

A. A journal entry that lowers the balance of the account.
B. When journal entries are copied to the appropriate T-account.
C. The concept that a company must keep separate accounts by time period.
D. A simplified version of an account in the General Ledger.
E. The mechanism used to record each transaction in the General Journal.
F. When a company's balance sheet has been verified by an outside auditor.
G. The concept that any transaction must have at least two effects on the accounting equation.
H. When a dollar value is assigned to an item recorded in the accounting system.
I. Compares balance sheet items from two different time periods.
J. An entry that is posted on the left side of a T-account or ledger.
K. The principle that a company should use the least optimistic measure, when uncertainty exists.
L. Assets and liabilities are initially recorded at their original cost to the company.
M. A journal entry that raises the balance of the account.
N. A balance sheet where assets appear on the top, liabilities in the middle and shareholders' equity appears on the bottom.
O. An entry that is posted on the right side of a T-account.
P. A summary of account names and numbers.

G, E, B, K, J, P, D, O and L.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-03 Step 1: Analyze Transactions
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

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125. In performing some due diligence with respect to the work of your new bookkeeper, you notice that a debit posting for prepaid rent of $900 was mistakenly recorded as a debit to rent expense. Furthermore, a debit to salary expense, which was supposed to be recorded as 754, instead got recorded as $745. What impact will these two transactions have on debits and credits in trial balance?

The Trial Balance credit balance will be $9 greater than that of the debit column.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Learning Objective: 02-04 Prepare a trail balance and classified balance sheet.
Topic: 02-10 Preparing a Trial Balance and Balance Sheet

126. In computing the statement of financial position, some data was misplaced and they are attempting to reconstruct the missing data from that which is available. You know that total assets for the current year are $33,000. Non-current liabilities are $8,000 and Shareholders equity is $23,000. The current ratio is 2.50. Find the values for current assets, fixed assets and current liabilities.

$5000, $28000, $2000, respectively. 33000 = CL + 8,000 + 23,000, therefore CL = 2,000. Use the CL value in the current ratio to get CA. Current Ratio = 2.50 = CA/2,000, therefore, CA = 5,000. Subtract the CA value from total assets to get fixed assets; 33,000 - 5,000 = 28,000.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-11 Assessing the Ability to Pay

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127. Assume that current assets are greater than current liabilities. What would happen to the current ratio if a company purchased inventory?

It depends. If inventory is purchased using cash, nothing would happen. If it is purchased on credit, CL would increase, as well as CA, and it would cause the current ratio to decrease based on our assumption of CA > CL.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Hard
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Topic: 02-11 Assessing the Ability to Pay

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