Financial Accounting (Canadian) 7th edition Libby Test Bank

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Chapter 02
Investing and Financing Decisions and the Statement of Financial Position

True / False Questions

1. Qualitative characteristics of accounting information are not part of the conceptual framework of accounting.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-02 Concepts Emphasized in Chapter 2

2. If you trade your computer plus cash for a new car, the cost of the new car is equal to the cash paid plus the market value of the computer.
TRUE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-01 Overview of Accounting Concepts

3. Faithful representation means information must be free from material error, neutral and complete.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-02 Concepts Emphasized in Chapter 2

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4. The unit-of-measure assumption states that financial information is reported in the national monetary unit.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-02 Concepts Emphasized in Chapter 2

5. The separate-entity assumption assumes a stable monetary unit (not affected by inflation or deflation).
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-02 Concepts Emphasized in Chapter 2

6. Three of the four basic assumptions that underlie accounting measurement and reporting relate to the statement of financial position.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-02 Concepts Emphasized in Chapter 2

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7. The amount shown on the statement of financial position as shareholders' equity represents the current market value of the owners' residual claim against the company.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

8. Prepaid expenses and cash are both listed as current assets.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

9. Assets are economic resources owned and controlled by an entity as a result of past transactions or events and for which future economic benefits may be obtained.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

10. A dividend payment will reduce net income for the period.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

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11. Liability accounts are reported on the statement of financial position.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

12. The basic system of recording transactions has withstood the test of time, and has been in use for more than 500 years.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.
Topic: 02-17 Accounts

13. An individual accounting record for a specific asset, liability or shareholders' equity item is called an account.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.
Topic: 02-17 Accounts

14. Long-term investments appear in the property, plant, and equipment section of the balance sheet.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.
Topic: 02-16 Nature of Business Transactions

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15. On the income statement, assets should always equal liabilities plus shareholders' equity.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

16. All transactions have a dual economic effect on the fundamental accounting model.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-19 Principles of Transaction Analysis

17. The payment of a liability in cash will decrease shareholders' equity.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

18. It is possible for a recording mistake to exist even if the accounting equation balances.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

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19. If the correct accounts have been identified and the appropriate direction of the effect on each account has been determined, then the equation should remain in balance.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

20. The purchase of a delivery truck for cash increases assets and shareholders' equity.
FALSE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

21. Recording the borrowing of cash with a note payable requires immediate recording of interest expense on the income statement.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

22. When a business owner invests cash in the business, the investment causes shareholders' equity to increase.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

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23. When a business pays a previously recorded bill, the liabilities of the business decrease.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

24. The objective of transaction analysis is to determine the economic effects of each transaction in terms of the accounting model.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-19 Principles of Transaction Analysis

25. If a company has assets of $60,000 and shareholders' equity of $30,000, then its liabilities must be $90,000.
FALSE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

26. The recording of every transaction must include at least one debit and one credit.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

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27. A debit increases an account and a credit decreases an account.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-24 The Direction of Transaction Effects

28. A T-account shows total debits of $25,000 and total credits of $22,000; therefore, it has a $3,000 credit balance.
FALSE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

29. In its simplest form, a T account consists of three parts: (1) its title, (2) a left or debit side and (3) a right or credit side.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

30. For each transaction, the sum of debits may be different from the sum of credits.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

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31. A T-account is an accounting method of expressing the effects of a single transaction in a debits-equal-credits format.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

32. Normally, asset accounts will have credit balances and liability accounts will have debit balances.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

33. "Debit" is the designation for the left side of an account, and "credit" is the designation for the right side of an account.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

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34. Some legal contracts, such as the signing of a contract to hire a new employee, are not recorded in the accounting system.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

35. Contributed capital results when a company buys a new delivery truck.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

36. Retained earnings is increased by profits and decreased by losses and dividends.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

37. When new shares are issued, the contributed capital account decreases.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

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38. Usually when a short-term, interest-bearing note payable is paid on its maturity date, an asset is credited and a liability is debited.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

39. By themselves, journal entries do not provide the balances in accounts.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

40. Calculating financial ratios can give clues to underlying conditions that may not be noticed by examining each financial statement item separately.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.
Topic: 02-29 How is the Statement of Financial Position Prepared and Analyzed?

41. The current ratio takes into account the composition of current assets.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.
Topic: 02-29 How is the Statement of Financial Position Prepared and Analyzed?

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42. The sale of land for cash would be classified as a cash inflow from an investing activity.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-07 Identify investing and financing transactions, and demonstrate how they are reported on the statement of cash flows.
Topic: 02-32 Some Misconceptions

43. The activity from the balance sheet to be presented in the financing activities section of the cash flow statement is based on an analysis of shareholders' equity only.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-07 Identify investing and financing transactions, and demonstrate how they are reported on the statement of cash flows.
Topic: 02-32 Some Misconceptions

Multiple Choice Questions

44. The continuity assumption is inappropriate when
A. the business is just starting up.
B. liquidation appears likely.
C. fair values are higher than costs.
D. the business is organized as a proprietorship.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-01 Overview of Accounting Concepts

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45. Shareholders' equity
A. is equal to liabilities and retained earnings.
B. includes retained earnings and contributed capital.
C. is shown on the income statement.
D. is usually equal to cash on hand.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-01 Overview of Accounting Concepts

46. It is assumed that the activities of Petro Canada Corporation can be distinguished from those of Imperial Oil Limited because of the
A. continuity assumption.
B. separate-entity assumption.
C. unit-of-measure assumption.
D. periodicity assumption.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-01 Overview of Accounting Concepts

47. Abe Cox is the sole owner and manager of Cox Auto Repair Shop. In 20X1, Cox purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Cox from recording the cost of the new automobile as an asset to the business?
A. Separate-entity assumption
B. Revenue principle
C. Full disclosure
D. Historical cost principle

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-02 Concepts Emphasized in Chapter 2

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48. The main objective of financial reporting is to:
A. compare a company's performance with its competitors.
B. meet the needs of all potential users.
C. provide information that is useful to individuals making investment and credit decisions.
D. provide information that will be used by a company's managers for product pricing decisions.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-02 Concepts Emphasized in Chapter 2

49. Which one of the following is *not* a qualitative characteristic of useful accounting information?
A. Relevance
B. Faithful representation
C. Materiality
D. Comparability

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-01 Overview of Accounting Concepts

50. The adoption of International Financial Reporting Standards can be viewed as an application of which of the following quality enhancing characteristics?
A. Timeliness
B. Representational faithfulness
C. Verifiability
D. Comparability

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-01 Overview of Accounting Concepts

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51. The dominating criteria by which accounting information can be judged is that of
A. freedom from bias.
B. comparability.
C. timeliness.
D. usefulness for decision making.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-01 Overview of Accounting Concepts

52. The assumption that a business enterprise will not be liquidated or sold in the near future is known as the
A. monetary unit assumption.
B. economic entity assumption.
C. going concern assumption.
D. conservatism assumption.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-01 Overview of Accounting Concepts

53. Accounting information is considered to be relevant when it
A. can be depended on to represent the economic conditions and events that it is intended to represent.
B. is capable of making a difference in a decision.
C. is understandable by reasonably informed users of accounting information.
D. is verifiable and neutral.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-01 Overview of Accounting Concepts

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54. During the lifetime of an entity, accountants produce financial statements at arbitrary points in time in accordance with which accounting concept?
A. Periodicity
B. Cost/benefit relationship
C. Comparability
D. Monetary unit assumption

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-01 Overview of Accounting Concepts

55. If Merry maid Company earned $1,000 from Sparkly Dental Group, and is not yet paid for the services where would Merry maid reflect this?
A. Income statement only.
B. Income statement and statement of financial position
C. Statement of cash flows only.
D. Statement of financial position only.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

56. Which of the following defines assets?
A. Probable future economic benefits owned by an entity as a result of past transactions.
B. Possible future economic benefits owed by an entity as a result of past transactions.
C. Probable future economic benefits owned by an entity as a result of future transactions.
D. Possible future economic benefits owed by an entity as a result of future transactions.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
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57. Which of the following defines liabilities?
A. Possible debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
B. Possible debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
C. Probable debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
D. Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

58. Which of the following defines shareholders' equity?
A. Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
B. Assets plus liabilities.
C. Probable future economic benefits owned by an entity as a result of past transactions.
D. The financing provided by the owners and the operations of a business.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

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59. Liabilities are generally classified on a statement of financial position as
A. small liabilities and large liabilities.
B. present liabilities and future liabilities.
C. tangible liabilities and intangible liabilities.
D. current liabilities and non-current liabilities.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

60. The asset that results when a customer buys goods or services on credit is
A. notes receivable.
B. accounts payable.
C. cash.
D. accounts receivable.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

61. The asset that results from the payment of expenses in advance is
A. short term investments.
B. prepaid expenses.
C. accounts receivable.
D. inventory.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

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62. Where would changes in shareholders' equity caused by operating activities be reported?
A. In the retained earnings account.
B. In a contributed capital account.
C. In a liability account.
D. In an asset account.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

63. How are goods purchased for resale recorded in the financial statements?
A. As prepaid expenses
B. As cost of goods sold
C. As inventory
D. As operating expenses

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

64. On a classified balance sheet, prepaid expenses are classified as
A. a current liability.
B. property, plant, and equipment.
C. a current asset.
D. a long-term investment.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

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65. Which of the following is *not* considered an asset?
A. Equipment
B. Dividend
C. Patent
D. Inventory

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

66. Which of the following liability accounts is usually not satisfied by payment of cash?
A. Trade payables.
B. Unearned revenues.
C. Taxes payable.
D. Short-term borrowings.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

67. Accounting systems should record
A. all economic events.
B. events that result in a change in assets, liabilities, or shareholders' equity items.
C. only events that involve cash.
D. items of interest to the shareholders.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.
Topic: 02-17 Accounts

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68. Which of the following is least likely to have a liability called Deferred Revenue?
A. An insurance company
B. A retailer
C. A magazine subscription company
D. A university or college

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.
Topic: 02-16 Nature of Business Transactions

69. When a new business is just starting up, which of the following must be done first?
A. Generate positive cash flow through successful operations.
B. Acquire the assets both long-lived and short-lived so they can operate.
C. Acquire financing from issuance of shares and borrowing from creditors.
D. These activities all occur simultaneously not sequentially.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.
Topic: 02-15 What Types of Business Activities Cause Changes in Financial Statement Amounts?

70. An account is a part of the financial information system and is described by all except which one of the following?
A. An account has a debit and credit side
B. An account consists of three parts
C. An account has a title
D. An account is a source document

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.
Topic: 02-17 Accounts

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71. If total liabilities decreased by $14,000, and shareholders' equity increased by $6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)
A. $20,000 increase.
B. $8,000 decrease.
C. $8,000 increase.
D. $14,000 increase.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

72. Collection of a $1600 accounts receivable
A. increases an asset by $1600; decreases a liability by $1600.
B. decreases a liability by $1600; increases shareholders' equity by $1600.
C. decreases an asset by $1600; decreases a liability by $1600.
D. has no effect on total assets.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

73. The purchase of an asset on credit
A. increases assets and shareholders' equity.
B. increases assets and liabilities.
C. decreases assets and increases liabilities.
D. has no effect on total assets.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

Financial Accounting (Canadian) 7th edition Libby Test Bank

74. Assume a company's January 1, 20X1, financial position was: Assets, $40,000 and Liabilities, $15,000. During January 20X1, the company completed the following transactions: (a) paid on a note payable, $4,000 (no interest); (b) collected trade receivables, $4,000; (c) paid trade payables, $2,000; and (d) purchased a truck, $1,000 cash, and $8,000 notes payable. What is the company's January 31, 20X1 financial position?

	Assets	Liabilities	Shareholders' Equity
A)	$42,000	$9,000	$33,000
B)	$44,000	$17,000	$27,000
C)	$43,000	$18,000	$25,000
D)	$42,000	$17,000	$25,000

A. Choice A
B. Choice B
C. Choice C
D. Choice D

Calculation: $40,000 - $4,000 + $4,000 - $4,000 - $2,000 - $1,000 + $9,000 = $42,000; $15,000 - $4,000 - $2,000 + $8,000 = $17,000; $42,000 - $17,000 = $25,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

Financial Accounting (Canadian) 7th edition Libby Test Bank

75. Winsome Inc. reports total assets and total liabilities of $225,000 and $100,000, respectively, at the end of its first year of business. The company earned $75,000 during the first year and distributed $30,000 in dividends. What was the corporation's contributed capital?
A. $125,000
B. $95,000
C. $80,000
D. $50,000

Calculation: $225,000 - $100,000 = $125,000
$125,000 - ($75,000 - $30,000) = $80,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

76. Which one of the following represents the expanded basic accounting equation?
A. Assets = Liabilities + Contributed capital + Retained Earnings + Revenues - Expenses - Dividends
B. Assets + Liabilities = Dividends + Expenses + Contributed capital + Revenues
C. Assets - Liabilities - Dividends = Contributed capital + Revenues - Expenses
D. Assets = Revenues + Expenses - Liabilities

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-19 Principles of Transaction Analysis

Financial Accounting (Canadian) 7th edition Libby Test Bank

77. The collection of a trade receivable from a customer would do which of the following?
A. Increase liabilities.
B. Decrease liabilities.
C. Not affect liabilities.
D. Decrease shareholders' equity.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

78. The following amounts are reported in the ledger of Pete's Company:

Assets	$25,000 (debit)
Liabilities	15,000 (credit)
Retained earnings	5,000 (credit)

What is the balance in the contributed capital account?
A. $5,000 credit.
B. $5,000 debit.
C. $12,000 credit.
D. $12,000 debit.

Calculation: $25,000 - $15,000 - $5,000 = $5,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

Financial Accounting (Canadian) 7th edition Libby Test Bank

79. The purchase of an asset on credit
A. increases assets and shareholders' equity.
B. increases assets and liabilities.
C. decreases assets and increases liabilities.
D. has no effect on total assets.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

80. Which of the following will not result in recording a transaction?
A. Payment for cleaning services performed
B. Hiring of a full-time employee
C. Selling shares to investors.
D. Buying equipment and agreeing to pay a note payable and interest at the end of a year.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

81. Which of the following transactions will cause both the left and right side of the equation to increase?
A. We collect cash from a customer who owed us money
B. We pay a supplier for inventory we previously bought on account
C. We borrow money from the bank
D. We purchase equipment for cash

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

Financial Accounting (Canadian) 7th edition Libby Test Bank

82. When a company buys equipment for $60,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?
A. Cash decreases by $60,000.
B. Equipment increases by $20,000.
C. Liabilities increase by $40,000.
D. Total assets increase by $60,000.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

83. The payment of a liability
A. decreases assets and shareholders' equity.
B. increases assets and decreases liabilities.
C. decreases assets and increases liabilities.
D. decreases assets and liabilities.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

Financial Accounting (Canadian) 7th edition Libby Test Bank

84. If total liabilities increased by $25,000 and shareholders' equity increased by $5,000 during a given period of time, then the total assets during that period must have registered a
A. $20,000 decrease.
B. $25,000 increase.
C. $30,000 increase.
D. $20,000 increase.

Calculation: + $30,000 = + $25,000 + $5,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

85. A new company signed a lease for office space during their first month of business. At that time, they paid a total of $16,000 for first and second months' rent. At the end of the first month of operations, the financial statements would show:
A. $16,000 rent expense
B. $8,000 rent expense and $8,000 prepaid rent
C. $16,000 prepaid rent
D. $8000 prepaid rent

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

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86. Which of the following statements is true?
A. The normal balance is always on the side of the T account that is decreasing.
B. The normal balance is always on the side of the T account that is increasing.
C. The normal balance is always on the debit side of the T account.
D. The normal balance is always on the credit side of the T account.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

87. The classification and normal balance of the dividend account is
A. revenue with a credit balance.
B. an expense with a debit balance.
C. a liability with a credit balance.
D. shareholders' equity with a debit balance.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-23 How Do Companies Keep Track of Account Balances?

88. The term "credit" indicates 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: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-24 The Direction of Transaction Effects

Financial Accounting (Canadian) 7th edition Libby Test Bank

89. In the first month of operations, the total of the debit entries to the cash account amounted to $1,900 and the total of the credit entries to the cash account amounted to $1,500. The cash account has a
A. $500 credit balance.
B. $900 debit balance.
C. $400 debit balance.
D. $400 credit balance.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-23 How Do Companies Keep Track of Account Balances?

90. A debit increases all of the following accounts except for
A. Cash
B. Revenue
C. Prepaid expense
D. Salary expense

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-24 The Direction of Transaction Effects

91. To record a transaction, an accountant debits an account $500, debits another account $1,000 and credits a third account $200. Which of the following could complete the recording of this transaction?
A. Debiting a fourth account $1,300
B. Crediting a fourth account $1,300
C. Crediting a fourth account $1,500
D. Debiting a fourth account $1,500.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-24 The Direction of Transaction Effects

Financial Accounting (Canadian) 7th edition Libby Test Bank

92. Borrowing $100,000 of cash from First National Bank, signing a note to be paid, would do which of the following?
A. Increase cash by a credit.
B. Increase notes payable by a debit.
C. Increase notes payable by a credit.
D. Decrease cash by a debit.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-24 The Direction of Transaction Effects

93. Jet Corporation was organized on March 1, 20X2. Jet Corporation issued shares to each of the six owners who paid in a total of $3,000 cash. On the basis of transaction analysis, the following entry should be recorded in the accounts (dr = debit and cr = credit)
A. Cash (dr), $3,000; Revenue (cr), $3,000.
B. Cash (cr), $3,000; Shareholders' equity (dr), $3,000.
C. Cash (dr), $3,000; Contributed capital (cr), $3,000.
D. Cash (cr), $3,000; Contributed capital (dr), $3,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-24 The Direction of Transaction Effects

Financial Accounting (Canadian) 7th edition Libby Test Bank

94. UCC Company repaid a note payable of $20,000 (interest had previously been paid). This transaction should be recorded as follows on the payment date.

A)	Accounts payable	20,000	
	Cash		20,000
B)	Cash	20,000	
	Note payable		20,000
C)	Note payable	20,000	
	Cash		20,000
D)	Note payable expense	20,000	
	Cash		20,000

A. Choice A
B. Choice B
C. Choice C
D. Choice D

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-24 The Direction of Transaction Effects

95. A T account is
A. a way of depicting the basic form of an account.
B. a special account used instead of a journal.
C. a special account used instead of a trial balance.
D. is the actual account form used in real accounting systems.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

Financial Accounting (Canadian) 7th edition Libby Test Bank

96. An accountant has debited an asset account for $500 and credited a revenue account for $1,000. What can be done to complete the recording of the transaction?
A. Nothing further must be done.
B. Debit a shareholders' equity account for $500.
C. Debit another asset account for $500.
D. Credit a different asset account for $500.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-28 Transaction Analysis Illustrated

97. The trade payables account has a beginning balance of $1,000 and we purchased $3,000 of inventory on credit during the month. The ending balance was $800. How much did we pay our creditors during the month?
A. $2,800
B. $3,000
C. $3,200
D. $4,800

Calculation: $1,000 + $3,000 - $800 = $3,200.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-24 The Direction of Transaction Effects
Topic: 02-25 Analytical Tools

Financial Accounting (Canadian) 7th edition Libby Test Bank

98. When recording transactions in T-account format, we must add an additional step to the transaction analysis process. Which of the following is the additional step?
A. Determine what accounts and elements in the equation are affected by the transaction.
B. Determine if the affected accounts are increased or decreased by the transaction.
C. We must have equal debits and credits once the entry is recorded in the accounts.
D. The accounting equation must remain in balance after each transaction.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-28 Transaction Analysis Illustrated

99. Assets normally show
A. credit balances.
B. debit balances.
C. debit and credit balances.
D. debit or credit balances.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-23 How Do Companies Keep Track of Account Balances?

Financial Accounting (Canadian) 7th edition Libby Test Bank

KOOL BILLIARDS LTD.				
Statement of Financial Position				
December 31, 20X6				
Cash		$60,000	Accounts payable	$70,000
Accounts receivable		50,000	Salaries payable	10,000
Inventory		70,000	Mortgage payable	90,000
Prepaid insurance		40,000		$170,000
Land		190,000		
Building	100,000		Common shares	140,000
Less accumulated amortization	(20,000)	80,000	Retained earnings	250,000
Trademark net of amortization		70,000	Total shareholders' equity	$390,000
Total assets		$560,000	Total liabilities and shareholders' equity	$560,000

100. The total dollar amount of assets to be classified as current assets is:
A. $270,000
B. $220,000
C. $190,000
D. $170,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.
Topic: 02-29 How is the Statement of Financial Position Prepared and Analyzed?
Topic: 02-30 Classified Statement of Financial Position

Financial Accounting (Canadian) 7th edition Libby Test Bank

101. The total dollar amount of assets to be classified as investments is:
A. $0
B. $150,000
C. $100,000
D. $180,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.
Topic: 02-29 How is the Statement of Financial Position Prepared and Analyzed?
Topic: 02-30 Classified Statement of Financial Position

102. Long-term liabilities total:
A. $90,000
B. $170,000
C. $390,000
D. $560,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.
Topic: 02-29 How is the Statement of Financial Position Prepared and Analyzed?
Topic: 02-30 Classified Statement of Financial Position

103. The total dollar amount of assets to be classified as property, plant, and equipment is:
A. $80,000
B. $340,000
C. $270,000
D. $190,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.
Topic: 02-29 How is the Statement of Financial Position Prepared and Analyzed?
Topic: 02-30 Classified Statement of Financial Position

Financial Accounting (Canadian) 7th edition Libby Test Bank

104. The total amount of working capital is:
A. $140,000
B. $370,000
C. $40,000
D. $60,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.
Topic: 02-29 How is the Statement of Financial Position Prepared and Analyzed?
Topic: 02-30 Classified Statement of Financial Position

105. The current ratio is:
A. 1.75 to 1
B. 1.50 to 1
C. 3.25 to 1
D. 2.75 to 1

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.
Topic: 02-29 How is the Statement of Financial Position Prepared and Analyzed?
Topic: 02-30 Classified Statement of Financial Position

106. Earnings retained for use in the business are:
A. $80,000
B. $390,000
C. $250,000
D. $60,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.
Topic: 02-29 How is the Statement of Financial Position Prepared and Analyzed?
Topic: 02-30 Classified Statement of Financial Position

Financial Accounting (Canadian) 7th edition Libby Test Bank

107. A weakness of the current ratio is:
A. the difficulty of the calculation.
B. that it doesn't take the composition of the current assets into account.
C. that it is rarely used by sophisticated analysts.
D. that it can be expressed as a percentage, as a rate, or as a proportion.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.
Topic: 02-30 Classified Statement of Financial Position

108. Issuance of common shares for cash is an example of what kind of activity?
A. Financing activity
B. Investing activity
C. Operating activity
D. Extraordinary activity

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 02-07 Identify investing and financing transactions, and demonstrate how they are reported on the statement of cash flows.
Topic: 02-32 Some Misconceptions

109. Which of the following would be an example of a financing transaction?
A. Purchasing equipment for cash.
B. Buying inventory from a supplier on credit.
C. Selling shares to investors for cash.
D. Buying inventory from a supplier for cash.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-07 Identify investing and financing transactions, and demonstrate how they are reported on the statement of cash flows.
Topic: 02-32 Some Misconceptions

Financial Accounting (Canadian) 7th edition Libby Test Bank

110. Investing activities include
A. collecting the principal on loans made.
B. obtaining cash from creditors.
C. obtaining capital from owners.
D. repaying money previously borrowed.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-07 Identify investing and financing transactions, and demonstrate how they are reported on the statement of cash flows.
Topic: 02-32 Some Misconceptions

111. Which of the following would cause an inflow of cash?
A. Payment of a long-term mortgage.
B. Sale of an asset for cash at less than its book value.
C. Payment of accounts payable.
D. Purchase of inventory for debt.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-07 Identify investing and financing transactions, and demonstrate how they are reported on the statement of cash flows.
Topic: 02-32 Some Misconceptions

112. Dow Construction Company reports a net use of cash for investing activities of $1.2 million and a net source of cash provided by financing of $.8 million. What was the effect on the cash balance?
A. To cause the balance to increase by $.8 million.
B. To cause the balance to decrease by $.4 million.
C. To cause the balance to increase by $.4 million.
D. Undeterminable because the beginning cash balance was not given.

Calculation: $.8 million - $1.2 million = ($0.4 million).

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-07 Identify investing and financing transactions, and demonstrate how they are reported on the statement of cash flows.
Topic: 02-32 Some Misconceptions

Financial Accounting (Canadian) 7th edition Libby Test Bank

113. Which of the following expenses has no effect on the cash flow of a firm?
A. Salaries expense
B. Interest expense
C. Depreciation expense
D. Cost of goods sold

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-07 Identify investing and financing transactions, and demonstrate how they are reported on the statement of cash flows.
Topic: 02-32 Some Misconceptions

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Short Answer Questions

114. Match the terminology with the description by entering the proper letter in the space to the left.

A. Credits
B. Share Capital
C. Cost principle
D. Transaction
E. Debits
F. Liability
G. Statement of financial position
H. Primary objective of external financial reporting
I. Separate-entity assumption
J. Retained earnings
K. As at December 31, 20X1
L. For the period ended December 31, 20X1
M. None of the above is correct

____ 1. Increase assets and decreases shareholders' equity.
____ 2. An exchange between an entity and another party.
____ 3. Normal balances for liabilities.
____ 4. To provide useful economic information about a business to help external parties make sound financial decisions.
____ 5. Accounting assumption that requires assets to be recorded at their cash equivalent cost.
____ 6. Cumulative earnings that have not been distributed to the owners.
____ 7. A debt owed by the entity.
____ 8. Statement of financial position.
____ 9. Account for a business separate from its owners.
___ 10. Dating of the statement of financial position (20X1).

1. E; 2. D; 3. A; 4. H; 5. C; 6. J; 7. F; 8. G; 9. I; 10. K

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-01 Overview of Accounting Concepts

Financial Accounting (Canadian) 7th edition Libby Test Bank

115. Why is the continuity assumption so important for statement of financial position reporting?

The continuity assumption is also known as the going-concern assumption. It is important for statement of financial position reporting because of valuation issues. If a business is expected to operate into the foreseeable future, amounts presented on the statement of financial position for assets and liabilities are based on the cost principle. If the continuity assumption is not followed, assets and liabilities might be reported at liquidation values as if they are going out of business.

Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-02 Concepts Emphasized in Chapter 2

116. Why is the separate-entity assumption so important for statement of financial position reporting?

The separate-entity assumption is important for statement of financial position reporting because a business should present only its own assets and liabilities on the statement. A business is a separate accounting entity from its owners. Therefore, the owners' assets and liabilities would appear on their own (personal) financial statement. The mixing of the two would create meaningless financial statements.

Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-02 Concepts Emphasized in Chapter 2

Financial Accounting (Canadian) 7th edition Libby Test Bank

117. Why is the historical cost principle so important for statement of financial position reporting?

The cost principle is important for statement of financial position reporting because of valuation issues. The cash-equivalent cost is verifiable. If it were not for the cost principle, assets and liabilities could be reported at more subjective values. This could lead to manipulation of statement of financial position amounts.

Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: Medium
Learning Objective: 02-01 Define the objective of financial reporting, the qualitative characteristics of accounting information, and the related key accounting assumptions and principles.
Topic: 02-02 Concepts Emphasized in Chapter 2

118. Classify the following statement of financial position accounts for Canada Goose Linen Co.

_____	a. Investments in associates
_____	b. Retained Earnings
_____	c. Notes Payable due in 6 months
_____	d. Land
_____	e. Short-term investments
_____	f. Bonds Payable
_____	g. Supplies
_____	h. Share Capital
_____	i. Bank loan due in 5 years
_____	j. Income Taxes Payable

(a) NCA, (b) SE, (c) CL, (d) NCA, (e) CA, (f) NCL, (g) CA, (h) SE, (i) NCL, (j) CL

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 02-02 Define the elements of a classified statement of financial position and analyze how the information is relevant to investors and other decision makers.
Topic: 02-14 Elements of the Classified Statement Financial Position

Financial Accounting (Canadian) 7th edition Libby Test Bank

119. For each of the following events, which ones result in an exchange transaction for the O'Brien Company? Place Y for yes and N for no beside each item.

_____	a. Purchased land for cash and a note payable
_____	b. Agreed to purchase one million inventory parts from a new supplier
_____	c. Paid the employees for the week
_____	d. One of our shareholders sells her shares to a new investor
_____	e. Received inventory from a supplier under the new contract
_____	f. Entered into a contract with a new cleaning service

(a) Y, (b) N, (c) Y, (d) N, (e) Y, (f) N

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 02-03 Identify what constitutes a business transaction, and recognize common account titles used in business.
Topic: 02-16 Nature of Business Transactions

120. For each item below, indicate whether the account will be debited or credited:

1. Decrease in Accounts Payable
2. Increase in Dividends
3. Increase in Common Shares
4. Increase in Unearned Revenue
5. Decrease in Interest Payable
6. Increase in Prepaid Insurance
7. Decrease in Wages Expense
8. Decrease in Supplies
9. Increase in Revenues
10. Decrease in Accounts Receivable

Please review the following information:

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1. Decrease in Accounts Payable	Dr.
2. Increase in Dividends	Dr.
3. Increase in Common Shares	Cr.
4. Increase in Unearned Revenue	Cr.
5. Decrease in Interest Payable	Dr.
6. Increase in Prepaid Insurance	Dr.
7. Decrease in Wages Expense	Cr.
8. Decrease in Supplies	Cr.
9. Increase in Revenues	Cr.
10. Decrease in Accounts Receivable	Cr.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

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121. Analyze the transactions of the business organized as a corporation described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (-) to indicate a decrease.

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

Please review the following information:

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	Assets	**= Liabilities**	**+ Shareholders' Equity**
1. Received cash for services provided.	+		+
2. Purchased office equipment on credit.	+	+	
3. Paid employees' salaries.	-		-
4. Received cash from customer in payment on account.	+, -		
5. Paid telephone bill for the month.	-		-
6. Paid for office equipment purchased in transaction 2.	-	-	
7. Purchased office supplies on credit.	+	+	
8. Dividends were paid.	-		-
9. Obtained a loan from the bank.	+	+	
10. Billed customers for services performed.	+		+

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

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122. For each financial statement element listed, enter check marks to reflect the Debit = Credit concept.

Element		Debit		Credit	
		Increase	Decrease	Increase	Decrease
A	Assets				
B	Liabilities				
C	Share Capital				
D	Retained Earnings				

Please review the following information:

Element		Debit		Credit	
		Increase	Decrease	Increase	Decrease
A	**Assets**	**X**			**X**
B	Liabilities		X	X	
C	Share Capital		X	X	
D	Retained Earnings		x	X	

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

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123. For each of the accounts listed below, enter a check mark in the space provided to the right to indicate whether the typical or normal balance is a debit or credit.

Transaction		Typical Balance	
		Debit	**Credit**
A	Supplies		
B	Salaries payable		
C	Retained earnings		
D	Equipment		
E	Prepaid insurance		
F	Trade receivables		
G	Salaries expense		
H	Share capital		
I	Trade payables		

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Please review the following information:

Transaction		Typical Balance	
		Debit	**Credit**
A	Supplies	X	
B	Salaries payable		X
C	Retained earnings		X
D	Equipment	X	
E	Prepaid insurance	X	
F	Trade receivables	X	
G	Salaries expense	X	
H	Share capital		X
I	Trade payables		X

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-18 How Do Transactions Affect Accounts?

124. Explain why the general journal does not allow you to immediately see the balance in a particular account.

Transactions are recorded in the journal in chronological order so you can revisit each transaction and the accounts affected by that transaction. It is the ledger which tracks the increases and decreases of each individual account. The ledger shows the aggregate effect of all recorded transactions on each account.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-19 Principles of Transaction Analysis

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125. In what two places do amounts for transactions appear in the accounting system or "the books"? Describe them.

Transactions are first recorded in the journal. This is known as the book of original entry. Transactions are entered chronologically in a debit-credit format. After transactions are journalized, the amounts are posted to the ledger (the book of final entry). The ledger contains accounts for each financial statement element so that balances can be determined.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the transaction analysis model routine, simple business transactions in terms of the accounting equation: Assets = Liabilities + Shareholders' Equity.
Topic: 02-19 Principles of Transaction Analysis

126. The accounts with identification letters for Wild World Inc. are listed below.
Letter Account Title

A. Cash.
B. Trade Receivables.
C. Office supplies.
D. Equipment.
E. Land.
F. Trade Payables.
G. Notes Payable.
H. Share Capital.
I. Retained Earnings.

During 20X9, the company completed the transactions given below. You are to indicate the appropriate journal entry for each transaction by giving the account letter and amount. Some entries may need three letters. The first transaction is given as an example.

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Transaction		Debit		Credit	
		Letter	**Amount**	**Letter**	**Amount**
Ex.	Owners invested $30,000 cash for shares.	A	$30,000	H	$30,000
1	Borrowed $50,000 and signed a note.				
2	Purchased equipment for $30,000. Paid $10,000 in cash, signed a $20,000 note payable.				
3	Collected $16,000 trade receivables.				
4	Paid $8,000 of trade payables.				
5	Acquired a $40,000 piece of land by issuing capital shares.				
6	Purchased $2,000 of office supplies (an asset) on credit.				
7	Paid for the office supplies in (6).				

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Please review the following information:

Transaction		Debit		Credit	
		Letter	Amount	Letter	Amount
1	Borrowed $50,000 and signed a note.	A	50,000	G	50,000
2	Purchased equipment for $30,000. Paid $10,000 in cash, signed a $20,000 note payable.	D	30,000	A G	10,000 20,000
3	Collected $16,000 trade receivables.	A	16,000	B	16,000
4	Paid $8,000 of trade payables.	F	8,000	A	8,000
5	Acquired a $40,000 piece of land by issuing capital shares.	E	40,000	H	40,000
6	Purchased $2,000 of office supplies (an asset) on credit.	C	2,000	F	2,000
7	Paid for the office supplies in (6).	F	2,000	A	2,000

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Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

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127. Analyze the effect of the following transactions using the basic accounting equation and the format provided below.

i. Bought land with an estimated fair value of $150,000 by issuing 100,000 shares.
ii. Issued 10,000 common shares for $15,000 cash.
iii. Purchased a 2-year insurance policy for $4,800.
iv. Paid rent of $3,000.
v. Bought equipment for $50,000. Paid 20% down in cash and the balance on a 5-year, 6% note payable.
vi. Purchased $9,000 of merchandise inventory on credit.
vii. Paid utilities bill for $750.
viii. Sold $8,000 of merchandise inventory for $16,000 cash.
ix. Paid $2,500 on merchandise inventory previously purchased.
x. Declared a $1,000 dividend.
xi. Recognized that 1 month of the insurance coverage had expired.

FORMAT:

ASSETS =							LIABILITIES+			SHAREHOLDERS' EQUITY	
Transaction	**Cash**	**A/R**	**Inventory**	**Prepaid expense**	**Land**	**Equipment**	**A/P**	**Dividend Payable**	**Long-term debt**	**Common shares**	**Retained Earnings**
Example											
					150,000					150,000	
Account totals											
TOTALS	$						$			$	

Financial Accounting (Canadian) 7th edition Libby Test Bank

Please review the following information:

ASSETS =							LIABILITIES +			SHAREHOLDERS' EQUITY	
Transaction	**Cash**	**A/R**	**Inventory**	**Prepaid expense**	**Land**	**Equipment**	**A/P**	**Dividend Payable**	**Long-term debt**	**Common shares**	**Retained Earnings**
					+150,000					+150,000	
	+15,000									+15,000	
	-4,800			+4,800							
	-3,000										-3,000
	-10,000					+50,000			+40,000		
			+9,000				+9,000				
	-750										-750
	+16,000		-8,000								+8,000
	-2,500						-2,500				
								+1,000			-1,000
				-200							-200
Account totals	+9,950	0.	+1,000	+4,600	+150,000	+50,000	+6,500	+1,000	+40,000	+165,000	+3,050
TOTALS	= $215,550						= $215,550				

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-23 How Do Companies Keep Track of Account Balances?
Topic: 02-24 The Direction of Transaction Effects

Financial Accounting (Canadian) 7th edition Libby Test Bank

128. (A) Complete the following schedule for Sweet Baby Company.

Transaction	Assets	Liabilities	Shareholders' Equity
Beginning financial position	$75,000	$25,000	$50,000
Borrowed $20,000 cash using a note payable, face amount $20,000			
Collected trade receivables for cash, $5,000			
Paid trade payables, $1,000 cash			
Purchased office supplies on credit, $1,000			
Sold shares to new investors for $5,000 of cash			
Paid a $10,000 note payable			
Ending financial position			

(B) How much did cash change during the period?

(A)

Transaction	Assets	Liabilities	Shareholders' Equity
Beginning financial position	$75,000	$25,000	$50,000
Borrowed $20,000 cash using a note payable, face amount $20,000	+20,000	+20,000	
Collected trade receivables for cash, $5,000	+5,000		
-5,000			
Paid trade payables, $1,000 cash	-1,000	-1,000	
Purchased office supplies on credit, $1,000	+1,000	+1,000	
Sold shares to new investors for $5,000 of cash	+5,000		+5,000
Paid a $10,000 note payable	-10,000	-10,000	
Ending financial position	$90,000	$35,000	$55,000
(B) Cash increase, $19,000			
(+20,000 +5,000 -1,000 +5,000 -10,000)			

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-24 The Direction of Transaction Effects

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129. Scott, Kim and Koko organized the SKK Corporation on January 1 20X1. Each of these owners invested $30,000 cash and received shares. Below are selected transactions that were completed during January.

(A) Give the entry on SKK's books for each transaction:

(1) Sold shares to the owners.
(2) Borrowed $100,000 on one-year note payable.
(3) Purchased land by signing a $20,000 note payable.
(4) Paid $5,000 of trade payables.
(5) Purchased two service vehicles, $21,000 each; paid cash.
(6) Accepted a promissory note of $1,000 from a customer.

(B) Complete the following based only on the 6 transactions above:

Assets $
Liabilities $
Shareholders' equity $

(A)

1.	Cash(30,000 × 3) (A)	90,000	
	Share capital (SE)		90,000
	Investment by owners		
2.	Cash (A)	100,000	
	Note payable (L)		100,000
	Borrowed $100,000 on a one-year note.		
3.	Land (A)	20,000	
	Note payable (L)		20,000
	Purchased land by signing a $20,000 note payable.		
4.	Trade payables (L)	5,000	
	Cash (A)		5,000
	Paid $5,000 of trade payables.		
5.	Equipment (A)	42,000	
	Cash (A)		42,000
	Purchased two service vehicles, $21,000 each (paid cash)		
6.	Notes receivable (A)	1,000	
	Cash (A)		1,000
	Accepted a $1,000 promissory note from a customer.		

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(B)

Assets	$205,000
Liabilities	$115,000
Shareholders' equity	$90,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.
Topic: 02-25 Analytical Tools

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130. On January 1, 20X1, Cliff Constable started a new professional corporation, Cliff Constable, LLC., to practice medicine with an initial investment of $50,000. On June 30, 20X1 the accounting records contained the following amounts:

Trade Payables	$100
Trade Receivables	3,900
Cash	25,100
Share Capital	50,000
Office Equipment	24,000
Office Supplies	500
Retained Earnings	3,400

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Prepare a statement of financial position at June 30, 20X1.

Cliff Constable, LLC.
Statement of Financial Position
As of June 30, 20X1

Assets	$25,100
Cash	3,900
Trade receivables	500
Office supplies	24,000
Total assets	$53,500
Liabilities	
Trade payables	$100
Shareholders' Equity	
Share capital	$50,000
Retained earnings	3,400
Total shareholders' equity	53,400
Total liabilities and shareholders' equity	$53,500

Accessibility: Keyboard Navigation
Blooms: Create
Difficulty: Medium
Learning Objective: 02-06 Prepare a trial balance and a classified statement of financial position, and analyze the company using the current ratio.
Topic: 02-30 Classified Statement of Financial Position

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131. For each of the transactions listed below, indicate whether it is an investing (I) or financing (F) activity on the cash flow statement. Also, indicate if the transaction increases (+) or decreases (-) cash.

Transaction		Type of Activity	Effect on Cash
Ex.	Paid dividends to the owners	F	-
A	Purchased equipment to use in the business.		
B	Issued shares for cash.		
C	Borrowed money at the bank.		
D	Sold a piece of land adjacent to the plant.		
E	Paid the principal balance of a note payable.		
F	Sold old machinery used in the business		

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Please review the following information:

Transaction		Type of Activity	Effect on Cash
A	Purchased equipment to use in the business.	I	-
B	Issued shares for cash.	F	+
C	Borrowed money at the bank.	F	+
D	Sold a piece of land adjacent to the plant.	I	+
E	Paid the principal balance of a note payable.	F	-
F	Sold old machinery used in the business	I	+

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-07 Identify investing and financing transactions, and demonstrate how they are reported on the statement of cash flows.
Topic: 02-32 Some Misconceptions

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