Financial Accounting 2026 (Canadian) 1st edition Libby Test Bank

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Corret Answers are located at the end of each chapter.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) Accounting is a system that collects and processes financial information about an organization and reports that information to decision makers.
   - ◎ true
   - ◎ false

2) External users of accounting information include the managers who plan, organize, and run a business.
   - ◎ true
   - ◎ false

3) In accounting and reporting for a business entity, the accounting and reporting for the business must be kept separate from other economic affairs of its owners.
   - ◎ true
   - ◎ false

4) Accounting communicates financial information about a business to both internal and external users.
   - ◎ true
   - ◎ false

5) A statement of financial position should be dated for a period (such as "For the year ended December 31, 20X1"), whereas a statement of earnings should be dated at a point in time (such as "At December 31, 20X1").
   - ◎ true
   - ◎ false

6) Expenses are the cost of assets consumed or services used in the process of generating revenue.
   - ◎ true
   - ◎ false

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7) Generally speaking, a financially successful business will have positive cash flows from operating activities.
   - ◎ true
   - ◎ false

8) The issuance of additional common shares is a financing activity that generates positive cash flow to the firm.
   - ◎ true
   - ◎ false

9) Borrowing money and issuing shares are examples of financing activities.
   - ◎ true
   - ◎ false

10) Total assets are $60,000, total liabilities, $30,000, and share capital is $20,000; therefore, retained earnings is $5,000.
   - ◎ true
   - ◎ false

11) Investing activities involve collecting the necessary funds to operate the business.
   - ◎ true
   - ◎ false

12) The purchase of equipment is an example of a financing activity.
   - ◎ true
   - ◎ false

13) The reasons for a decrease in cash can be determined by examining the statement of earnings.
   - ◎ true
   - ◎ false

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14) Economic resources that are owned by a business are called shareholders' equity.
- ◎ true
- ◎ false

15) The accounting model for the statement of financial position is: Assets + Liabilities - Shareholders' Equity.
- ◎ true
- ◎ false

16) Assets are resources owned by a business that provide current services or benefits to the business.
- ◎ true
- ◎ false

17) Net earnings is the excess of total revenues over total expenses incurred to generate revenue during a specific period.
- ◎ true
- ◎ false

18) The financial statements prepared by a corporation include a statement of financial position, statement of earnings, statement of cash flows, and statement of money.
- ◎ true
- ◎ false

19) A banker who is considering making a loan to a corporation would be one of the corporation's internal decision makers.
- ◎ true
- ◎ false

20) Assets are economic resources controlled by the entity as a result of past transactions or events and from which future economic benefits can be obtained.
- ◎ true
- ◎ false

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21) The financial statement that shows an entity's economic resources and its liabilities is the statement of retained earnings.

- ◎ true
- ◎ false

22) The statement of comprehensive income reports the change in shareholders' equity during a period from business activities other than investments by shareholders or distributions to shareholders.

- ◎ true
- ◎ false

23) A note payable is a borrowing instrument that generally does not involve the payment of interest.

- ◎ true
- ◎ false

24) If a corporation does not pay its obligations when they are due, its creditors may be able to force the sale of the business's assets to pay their claims.

- ◎ true
- ◎ false

25) The fiscal year end of a given business must be December 31, the calendar year end.

- ◎ true
- ◎ false

26) A net loss in a given accounting period will shrink the retained earnings account.

- ◎ true
- ◎ false

27) A plane ticket sold by Air Canada in the fall for going home during Christmas immediately gets recorded as revenue.

- ◎ true
- ◎ false

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28) When a company ships products to a customer and bills the customer, the company should recognize revenue as earned.
- ◎ true
- ◎ false

29) The amount of cash paid by a business for office rent would be reported on the statement of cash flows as a financing activity.
- ◎ true
- ◎ false

30) Repayment of a bank loan is classified on the statement of cash flows as an operating activity.
- ◎ true
- ◎ false

31) Liabilities are the entity's legal obligations that result from past business events.
- ◎ true
- ◎ false

32) International Financial Reporting Standards are produced by the International Accounting Standards Board (IASB), which is an independent standard-setting board responsible for the development and publication of IFRS.
- ◎ true
- ◎ false

33) Accounting standards are set by the Accounting Standards Board and will never be changed
- ◎ true
- ◎ false

34) Auditors are responsible for expressing an opinion of the consolidated financial statements based on their audits.
- ◎ true
- ◎ false

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35) Primary responsibility for the information in the financial statements lies with auditors.
- ◎ true
- ◎ false

36) The Accounting Standards Board is currently the body responsible for establishing accounting standards in Canada.
- ◎ true
- ◎ false

37) The Accounting Standards Board (AcSB) is an agency of the federal government that establishes generally accepted accounting principles for businesses.
- ◎ true
- ◎ false

38) Generally accepted accounting principles are essentially identical in most developed countries.
- ◎ true
- ◎ false

39) One of the disadvantages of a corporation when compared to a partnership is the limited liability of the owners.
- ◎ true
- ◎ false

40) Corporations have the advantage of having limited liability.
- ◎ true
- ◎ false

41) In a partnership, the creditor can come after the personal assets of either partner should the business default on its debt.
- ◎ true
- ◎ false

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42) In a sole proprietorship the owner is often an employee of the business.
- ◎ true
- ◎ false

43) A partnership is an incorporated entity that has more than one owner.
- ◎ true
- ◎ false

44) Independent CPAs in the public practice of accounting are viewed as employees of their clients.
- ◎ true
- ◎ false

45) An audit involves the examination of the financial reports (prepared by the management of the company) to ensure that they represent what they claim and conform with IFRS.
- ◎ true
- ◎ false

46) Many opportunities exist for managers to intentionally prepare misleading financial reports.
- ◎ true
- ◎ false

47) Failure to comply with professional rules of conduct can result in serious penalties for professional accountants, but not the rescinding of the professional designation of an offending member.
- ◎ true
- ◎ false

48) High ethical standards are required for preparers of financial information.
- ◎ true
- ◎ false

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MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

49) What is the primary purpose of the statement of financial position?

A) To measure the net earnings of a business up to a particular point in time.
B) To report the difference between cash inflows and cash outflows for the period.
C) To report the financial position of the reporting entity at a particular point in time.
D) To report assets at their current market value at a particular point in time.

50) On January 1, 20X6, two individuals invested $300,000 each to form Playdium Inc. Playdium had total revenues of $20,000 during 20X6 and $40,000 during 20X7. Total expenses for the same periods were $8,000 and $22,000, respectively. Cash dividends paid out to shareholders totaled $11,000 in 20X6 and $12,000 in 20X7. What was the ending balance in Playdium's retained earnings account at the end of 20X6 and 20X7?

A) $1,000 and $6,000 respectively.
B) $1,000 and $7,000, respectively.
C) $7,000 and $19,000 respectively.
D) $301,000 and $306,000 respectively.

51) The Cloud Corporation had revenues of $210,000, expenses of $85,000, and an income tax rate of 30 percent in 20X7. What would net earnings be?

A) $17,857.
B) $37,500
C) $41,667
D) $87,500

52) Brown Corporation reported the following amounts at the end of the first year of operations, December 31, 20X6: Share capital $20,000; Sales revenue $95,000; Total assets $85,000, No dividends, and Total liabilities $35,000. What would shareholders' equity and total expenses be?

A) Shareholders' equity, $50,000 and expenses $65,000.
B) Shareholders' equity, $60,000 and expenses $75,000.
C) Shareholders' equity, $80,000 and expenses $40,000.
D) Shareholders' equity, $80,000 and expenses $85,000.

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53) All of the following are external users of accounting data except:
A) The government.
B) The controller of a company.
C) Labour union for the company's employees
D) Constellation Bank that provides financing to the company

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

55) Which of the following activities involves raising the necessary funds to support the business?
A) Operating.
B) Investing.
C) Financing.
D) Marketing.

56) Buying assets needed to operate a business is an example of a(n)
A) purchasing activity.
B) financing activity.
C) investing activity.
D) operating activity.

57) The common characteristic possessed by all assets is
A) long life.
B) depreciation
C) tangible nature.
D) future economic benefit.

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58) Expenses are incurred
A) only on rare occasions.
B) to produce assets.
C) to produce liabilities.
D) to generate revenues.

59) The financial statement that summarizes the changes in contributed capital and retained earnings for a specific period of time is the
A) statement of financial position.
B) statement of earnings.
C) statement of cash flows.
D) statement of changes in equity.

60) Retained earnings at the end of the period is equal to
A) retained earnings at the beginning of the period plus net earnings minus liabilities.
B) retained earnings at the beginning of the period plus net earnings minus dividends.
C) net earnings for the period plus shares issued for the period and net earnings minus dividends
D) assets plus liabilities.

61) Which of the following is not an element for the Fraud Triangle?
A) This usually involves the CEO, CFO and the Chairman of the Board
B) Incentive to commit fraud
C) Opportunity to commit fraud
D) Ability to rationalize the misdeed

62) If the retained earnings account increases from the beginning of the year to the end of the year, then
A) net earnings is greater than dividends.
B) a loss is less than dividends.
C) additional investments are less than reported losses.
D) dividends were paid.

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63) Shareholders' equity can be described as claims of
A) creditors on total assets.
B) owners on total assets.
C) customers on total assets.
D) debtors on total assets.

64) Which financial statement would reveal whether the company relies more on debt or shareholders' equity to finance its assets?
A) Statement of earnings.
B) Statement of changes in equity.
C) Statement of retained earnings.
D) Statement of financial position.

65) The statement of financial position and statement of changes in equity are related because
A) the total assets on the statement of financial position is reported on the statement of changes in equity.
B) the ending amount on the statement of changes in equity is reported on the statement of financial position.
C) the ending amount on the statement of changes in equity is transferred to the statement of cash flows.
D) both contain information for the corporation.

66) Carrington Company owes you $500 on account due within 15 days. Which of the following amounts on its statement of financial position would help you to determine the likelihood that you will be paid in full and on time?
A) Cash and accounts receivable.
B) Cash and property and equipment.
C) Cash and intangible assets.
D) Contributed capital and retained earnings.

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67) The statement of cash flows and the statement of financial position are interrelated because
A) the ending amount of cash on the statement of cash flows must agree with the amount on the statement of earnings.
B) the ending amount of cash on the statement of cash flows must agree with the amount in the statement of changes in equity.
C) the ending amount of cash on the statement of cash flows must agree with the amount in the statement of financial position.
D) both disclose the corporation's net earnings.

68) Which of the following are the two primary components of shareholders' equity?
A) Net earnings and dividend
B) Contributed capital and Retained earnings.
C) Short term debt and retained earnings
D) Long-term debt and retained earnings.

69) The statement of changes in equity is dependent on the results from
A) the statement of cash flows.
B) the statement of financial position.
C) the statement of earnings.
D) a company's share capital.

70) The primary purpose of the statement of cash flows is to report
A) a company's investing transactions.
B) a company's financing transactions.
C) information about cash receipts and cash payments of a company.
D) the net increase or decrease in assets.

71) Speedy Car Repair Shop Ltd. started the year with total assets of $70,000 and total liabilities of $40,000. During the year, the business recorded $100,000 in car repair revenues, $65,000 in expenses, and dividends of $5,000. Shareholders' equity at the end of the year was
A) $60,000.
B) $65,000.
C) $70,000.
D) $75,000.

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72) A merchandising company's income statement is likely to have which one of the following as the largest figure?
A) salaries expense
B) equipment maintenance
C) cost of goods sold
D) income taxes

73) Which of the following expenses is not shown in a service business?
A) salaries expense
B) marketing expense
C) cost of goods sold
D) income taxes

74) On the statement of financial position, assets may be presented
A) in order of liquidity
B) in order of amounts
C) either in order of liquidity or in order of reverse liquidity
D) in alphabetical order

75) Retained earnings are
A) the shareholders' claim on total assets.
B) equal to cash.
C) equal to revenues.
D) the amount of profit kept in the corporation for future use.

76) Which of the following is not correct regarding the notes to the financial statements
A) The accompanying notes are an integral part of the financial statements.
B) Failure to read the notes to the financial statements will result in incomplete knowledge of the company's financial health.
C) One type of notes provides descriptions of the accounting rules applied in the company's financial statements
D) The note to the financial statements should only focus on the explanation of any decreases in assets or increases in liabilities that result from unprofitable operations.

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77) Why would EZ Bank, in deciding whether to make a loan to Davis Company, be interested in the amount of liabilities Davis has on its statement of financial position?

A) The liabilities represent resources that could be used to repay the loan.
B) If Davis already has many other obligations, it might not be able to repay the loan.
C) Existing liabilities give an indication of how profitable Davis has been in the past.
D) EZ bank would be interested in the amount of Davis's assets but not the amount of liabilities.

78) Which of the following is not correct regarding the heading of the statement of financial position?

A) Name of the accounting entity
B) Title of the statement
C) Unit of measure
D) The period of time covered by the Statement of Financial Position should be for the period ending December 31, 20X6

79) Wilcox Inc., recorded $250,000 of depreciation expense in December 20X6. The most likely effect on the company's accounting equation is

A) no effect on assets.
B) a decrease in assets of $250,000.
C) an increase in liabilities of $250,000.
D) an increase in assets of $250,000.

80) Allentown Corporation has on its statement of financial position the following amounts:

Total assets of $3,500,000
Total liabilities of $500,000
Contributed capital of $1,000,000.

What is the amount of retained earnings that should appear on Allentown's statement of financial position?

A) $2,000,000.
B) $3,000,000.
C) $4,000,000.
D) $5,000,000.

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81) Which financial statement for a business would you look at to determine the company's performance during an accounting period?
A) Statement of financial position.
B) Statement of cash flows.
C) Statement of earnings.
D) Statement of changes in equity.

82) In assessing the Statement of Cash Flow, which of the following is *not* a principal type of business activity?
A) Operating
B) Investing
C) Financing
D) Risk Assessment

83) How do most businesses earn revenues?
A) When they collect trade receivables.
B) Through sales of goods or services to customers.
C) By borrowing money from a bank.
D) By selling shares to shareholders.

84) A group of individuals formed a new company with an investment of $100,000. The most likely effect of this transaction on the company's accounting equation at the time of the formation is an increase in cash and
A) an increase in revenue.
B) an increase in liabilities.
C) an increase in owners' capital.
D) an increase in assets.

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85) During 20X7, its second year in operation, Cardinal Company delivered goods to customers for which customers paid or promised to pay $5,850,000. The amount of cash collected from customers was $5,960,000. The amount of accounts receivable at the beginning of 20X7 was $1,200,000. What is the amount of sales revenue that Cardinal should report on its statement of earnings for 20X7?

A) $4,650,000.
B) $4,760,000.
C) $5,850,000.
D) $5,960,000.

86) During 20X7, its second year in operation, Cardinal Company delivered goods to customers for which customers paid or promised to pay $5,850,000. Assume all sales were on account and the amount of cash collected from customers was $5,960,000. The amount of accounts receivable at the beginning of 20X7 was $1,200,000. Based on this information, what is the amount of accounts receivable that Cardinal would report at the end of 20X7?

A) $1,090,000.
B) $1,200,000
C) $1,310,000.
D) $5,850,000.

87) What is the amount of revenue recognized in the statement of earnings by a company that sells goods to customers?

A) The cash collected from customers during the current period.
B) Total sales, both cash and credit sales, for the period.
C) Total sales minus the beginning amount of accounts receivable.
D) The amount of cash collected plus the beginning amount of accounts receivable.

88) The statement of cash flows and the statement of financial position are interrelated because

A) the ending amount of cash on the statement of cash flows must agree with the amount in the statement of changes in equity.
B) the ending amount of cash on the statement of cash flows must agree with the amount in the statement of financial position.
C) both disclose the corporation's net earnings.
D) the ending amount of cash on the statement of cash flows must agree with the amount on the statement of earnings.

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89) On January 1, 20X6, Taylor Corporation had retained earnings of $6,500,000. During 20X6, Taylor had net earnings of $1,050,000 and dividends of $450,000. What is the amount of Taylor's retained earnings at the end of 20X6?

A) $6,050,000.
B) $6,950,000.
C) $7,100,000.
D) $7,550,000.

90) What are the categories of cash flows that appear on a statement of cash flows?

A) Cash flows from investing, financing, and service activities.
B) Cash flows from operating, production, and internal activities.
C) Cash flows from financing, production, and growth activities.
D) Cash flows from operating, investing, and financing activities.

91) Borrowing money is an example of a(n)

A) marketing activity
B) financing activity.
C) investing activity.
D) operating activity.

92) On the statement of cash flows, how would a company report the purchase of machinery?

A) As cash used in operating activities.
B) As cash used in financing activities.
C) As cash used in expansion activities.
D) As cash used in investing activities.

93) When would a company report a net loss?

A) When retained earnings decreased due to paying dividends to shareholders.
B) When its assets decreased during an accounting period.
C) When its liabilities increased during an accounting period.
D) When its expenses exceeded its revenues for an accounting period.

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94) Which of the following is the amount of rent expense reported on the statement of earnings?
A) The amount of cash paid for rent in the current period.
B) The amount of cash paid for rent in the current period less any unpaid rent at the end of the period.
C) The amount of rent used up in the current period to earn revenue.
D) The amount of cash paid for rent for the future period.

95) What events cause changes in a corporation's retained earnings?
A) Net earnings or loss and declaration of dividends.
B) Declaration of dividends and issuance of shares to new shareholders.
C) Profit from issuance of shares, and borrowing from a bank.
D) Declaration of dividends and purchase of new machinery.

96) The statement of financial position
A) reports the changes in assets, liabilities, and shareholders' equity over a period of time.
B) reports the assets, liabilities, and shareholders' equity at a specific date.
C) presents the revenues and expenses for a specific period of time.
D) summarizes the changes in retained earnings for a specific period of time.

97) If you wanted to know how much of its net earnings a corporation distributed as dividends, which of the following financial statement would not show the information?
A) Statement of financial position.
B) Statement of earnings.
C) Statement of cash flows.
D) Statement of changes in equity.

98) Why is the operating activities section often believed to be the most important part of a statement of cash flows?
A) It gives the most information about how operations have been financed.
B) It shows the dividends that have been paid to shareholders.
C) It indicates a company's ability to generate cash from sales to meet current cash needs.
D) It shows the net increase or decrease in cash during the period.

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99) If you wanted to know what accounting rules a company follows related to its inventory, where would you look?

A) The statement of financial position.
B) The statement of earnings.
C) The notes to the financial statements.
D) The headings to the financial statements.

100) During 20X6, Burton Company delivered products to customers for which customers promised to pay $3,820,000. The company collected $3,670,000 in cash from customers during the year. Indicate which of these amounts will appear on the statement of earnings and which on the statement of cash flows.

A) $3,670,000 appears on both the statement of earnings and the statement of cash flows.
B) $3,670,000 appears on the statement of cash flows, and $3,820,000 appears on the statement of earnings.
C) $3,820,000 appears on both the statement of earnings and the statement of cash flows.
D) $3,820,000 appears on the statement of cash flows, and $3,670,000 appears on the statement of earnings.

101) At the beginning of 20X7, Rodriguez Corporation had assets of $820,000 and liabilities of $340,000. During the year, assets increased by $40,000 and liabilities decreased by $8,000. What was total shareholders' equity at the end of 20X7?

A) $432,000.
B) $480,000.
C) $528,000.
D) $1,208,000.

102) What term is used for probable future economic benefits owned by an entity, and obtained as the result of past transactions?

A) Assets.
B) Liabilities.
C) Revenues.
D) Retained earnings.

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103) Prepaid rent is
A) an asset on the statement of financial position
B) a liability on the statement of financial position
C) part of shareholders' equity on the statement of financial position
D) not on the statement of financial position.

104) What results from the purchase of goods or services on credit and from borrowing?
A) Assets.
B) Liabilities.
C) Share capital.
D) Revenues.

105) How are the differing claims of creditors and investors recognized by a corporation?
A) The claims of creditors are liabilities; those of investors are assets.
B) The claims of both creditors and investors are liabilities, but only the claims of investors are long term.
C) The claims of creditors are liabilities; the claims of investors are recorded as shareholders' equity.
D) The claims of creditors and investors are essentially equivalent.

106) The statement of financial position is also known as
A) The balance sheet
B) The trial balance
C) The unbalance sheet
D) The statement of operations

107) In what order are assets listed on a statement of financial position?
A) Dollar amount (largest first).
B) Date of acquisition (earliest first).
C) Ease of conversion to cash.
D) Importance to the operation of the business.

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108) In what order, would the assets of Any Company be listed on their statement of financial position?

A) Cash, Accounts Receivable, Inventory, Property and Equipment.
B) Cash, Inventory, Accounts Receivable, Property and Equipment.
C) Cash, Accounts Receivable, Marketable Securities, Inventory.
D) Cash, Accounts Receivable, Property and Equipment, Inventory.

109) The ending retained earnings balance of the Brown Hat restaurant chain increased by $4.3 billion from the beginning of the year. The company had declared a dividend of $1.5 billion. What was the amount of net earnings during the year?

A) $2.8 billion.
B) $3.0 billion.
C) $5.8 billion.
D) There is no way to determine net earnings as not enough information was given.

110) What section of the statement of cash flows do bankers consider to be the most important?

A) Investing.
B) Operating.
C) Financing.
D) All the sections are equally important.

111) Which of the following statements is TRUE?

A) Publicly traded enterprises must use IFRS for external reporting purposes.
B) The Accounting Standards Board is a government body.
C) The Securities and Exchange Commission is the most influential Canadian regulator of the flow of financial information provided by publicly traded companies in Canada.
D) Publicly traded enterprises must use the accounting standards prescribed for private enterprises for external reporting.

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112) Which of the following activities would cause investors to overpay for the acquisition of a company from its current owners?
A) Understated accounts payable and overstated inventory.
B) Understated revenues and overstated expenses.
C) Understated assets and overstated expenses.
D) Understated assets and overstated revenues.

113) Which of the following statements is true about the price earnings (P/E) ratio?
A) It is a ratio of importance to creditors.
B) A high P/E ratio indicates investors have little confidence in the future profit potential of the company.
C) The P/E ratio could be used to approximate the value investors would be willing to pay for the company's acquisition from existing owners.
D) The P/E ratio increases as profit increases.

114) Which government regulatory agency has the legal authority to prescribe financial reporting requirements for corporations that sell their securities in Canadian stock exchanges in the province of Ontario?
A) AcSB.
B) CRA.
C) OSC.
D) CICA.

115) Which securities regulator in the province of Ontario has broad powers to determine measurement rules for financial statements of publicly traded companies on the Toronto Stock Exchange?
A) The Canada Revenue Agency.
B) The Ontario Securities Commission.
C) The Federal Accounting Office.
D) The Supreme Court.

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116) Financial statements are prepared for the user. Which of the following best describes the responsibility for the preparation of financial statements?

A) It is the responsibility of external auditors.
B) It is the responsibility of shareholders.
C) It is the responsibility of management.
D) It is the responsibility of standard setters.

117) With whom does primary responsibility for the information in a corporation's financial statements rest?

A) The shareholders of the corporation.
B) The managers of the corporation.
C) The Ontario Securities Commission.
D) The public accountant who audited the financial statements.

118) An examination of the financial statements of a business to ensure that they conform with international financial reporting standards is called?

A) A certification.
B) An audit.
C) A verification.
D) A validation.

119) What is the purpose of an audit?

A) To prove the accuracy of an entity's financial statements.
B) To ensure the company has complied to the proper accounting standard and validate the credibility of the entity's financial statements.
C) To endorse the quality of leadership that managers provide for a corporation.
D) To establish that a corporation's shares are a sound investment.

120) Why do the managers of a corporation hire independent auditors?

A) To guarantee annual and quarterly financial statements.
B) To handle some personnel issues and problems.
C) To audit and report on the fairness of financial statement presentation.
D) To lobby the AcSB for changes in generally accepted accounting principles.

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121) Why is the auditor's role in performing audits important to our society?
A) Auditors provide direct financial advice to potential investors.
B) Auditors have the primary responsibility for the information contained in financial statements.
C) Auditors issue reports on the accuracy of each financial transaction.
D) An audit of financial statements helps investors and others to know that they can rely on the information presented in the financial statements.

122) What is one of the disadvantages of a corporation, when compared to a partnership?
A) The shareholders have limited liability.
B) The shareholders are treated as a separate legal entity from the corporation.
C) The corporation and its shareholders are potentially subject to double taxation.
D) The corporation provides continuity of life.

123) Which of the following statements is true about a sole proprietorship?
A) The owner and the business are separate legal entities but not separate accounting entities.
B) The owner and the business are separate accounting entities but not separate legal entities.
C) The owner and the business are separate legal entities and separate accounting entities.
D) Most large businesses in this country are organized as sole proprietorships.

124) For a business organized as a general partnership, which statement is true?
A) The owners and the business are separate legal entities.
B) Each partner is potentially responsible for the debts of the business.
C) Formation of a partnership requires getting a charter from the province of incorporation.
D) A partnership is not considered to be a separate accounting entity.

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125) For what reason might a group of people establishing a business prefer to set it up as a corporation rather than a partnership?

A) To have limited liability.
B) To avoid double taxation.
C) Because of ease of formation.
D) To avoid complex reporting procedure for government agencies.

126) During the current fiscal year, a company had revenues of $380,000, cost of goods sold of $235,000, and an income tax rate of 36 percent on earnings before income taxes. What was the company's current year net earnings?

A) $136,800
B) $52,200
C) $92,800
D) $380,000

127) Beacon, Incorporated reported the following amounts at the end of the first year of operations:

Contributed capital	$ 310,000
Sales revenue	$ 1,240,000
Total assets	$ 930,000
Dividends declared	$ 65,000
Total liabilities	$ 505,000

What are the retained earnings of Beacon at the end of the year, and what amount of expenses were incurred during the year?

A) Retained earnings are $115,000 and expenses incurred totaled $1,060,000.
B) Retained earnings are $115,000 and expenses incurred totaled $1,125,000.
C) Retained earnings are $425,000 and expenses incurred totaled $815,000.
D) Retained earnings are $425,000 and expenses incurred totaled $735,000.

128) Duck Corporation's retained earnings increased $40,200 during the current year. What was Duck's current year net earnings or loss given that Duck declared $50,200 of dividends during this year?

A) Net earnings was $10,000.
B) Net earnings was $90,400.
C) Net loss was $90,400.
D) Net loss was $10,000.

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129) Sugar Industries has provided the following data for its 20X5 operations (ignore income taxes):
revenues were $149,000.
expenses were $72,700.
Dividends declared and paid during totaled $14,500.
Total assets at December 31 were $270,500.
Total liabilities at December 31 were $143,500.
Contributed capital at December 31 was $47,000.
Which of the following is correct?

A) 20X5 net earnings was $61,800.
B) Total shareholders' equity at December 31, 20X5 was $353,500.
C) Retained earnings at December 31, 20X5 were $80,000.
D) Retained earnings at December 31, 20X5 were $61,800.

130) Lorenta Company has provided the following data (ignore income taxes):
20X5 revenues were $109,300.
20X5 expenses were $48,600.
Dividends declared and paid during 20X5 totaled $7,700.
Total assets at December 31, 20X5 were $185,000.
Total liabilities at December 31, 20X5 were $105,000.
Contributed capital at December 31, 20X5 was $27,000.
Which of the following is **not** correct?

A) 20X5 net earnings was $60,700.
B) Total shareholders' equity at December 31, 20X5 was $80,000.
C) Total liabilities and shareholders' equity at December 31, 20X5 was $185,000.
D) Retained earnings on December 31, 20X5 were $185,000.

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131) Madrid Company has provided the following data (ignore income taxes):
20X5 revenues were $99,500.
20X5 net earnings was $36,400.
Dividends declared and paid during 20X5 totaled $8,200.
Total assets at December 31, 20X5 were $242,000.
Total shareholders' equity at December 31, 20X5 was $168,000.
Retained earnings at December 31, 20X5 were $99,000.
Which of the following is **not** correct?

A) 20X5 expenses were $63,100.
B) Total liabilities at December 31, 20X5 were $74,000.
C) Retained earnings increased $36,400 during 20X5.
D) Contributed capital at December 31, 20X5 was $69,000.

132) Madrid Company has provided the following data (ignore income taxes):
20X5 revenues were $78,500.
20X5 net earnings was $34,300.
Dividends declared and paid during 20X5 totaled $6,100.
Total assets at December 31, 20X5 were $221,000.
Total shareholders' equity at December 31, 20X5 was $126,000.
Retained earnings at December 31, 20X5 were $83,000.
Which of the following is correct?

A) 20X5 expenses were $38,100.
B) Total liabilities at December 31, 20X5 were $12,000.
C) Retained earnings increased $28,200 during 20X5.
D) Contributed capital at December 31, 20X5 was $209,000.

133) On January 1, 20X5, Teton Corporation had retained earnings of $11,440,000. During 20X5, Teton reported net earnings of $2,160,000, declared dividends of $760,000, and issued shares for $1,520,000. What were Teton's retained earnings on December 31, 20X5?

A) $13,600,000
B) $12,840,000
C) $9,920,000
D) $10,680,000

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134) At the beginning of 20X5, Ironwood Company had assets of $226,000 and liabilities of $138,000. During 20X5, assets increased $22,500 and liabilities increased $5,000. What was shareholders' equity at December 31, 20X5?

A) $120,500
B) $105,500
C) $143,000
D) $60,500

135) During 2022, Grover Company's assets increased $192,200 and the liabilities decreased $35,200. Grover Company's shareholders' equity at December 31, 2022 was $426,000. What amount was shareholders' equity at January 1, 2022?

A) $198,600
B) $653,400
C) $269,000
D) $583,000

136) Francis Corporation's retained earnings increased $191,000 last year and its assets increased $490,000. Francis declared a $43,000 cash dividend during the year. What was last year's net earnings?

A) $148,000
B) $191,000
C) $234,000
D) $256,000

137) Which of the following properly describes the impact on the financial statements when a company borrows $33,000 from a local bank?

A) Net earnings increases $33,000.
B) Assets decrease $33,000.
C) Shareholders' equity increases $33,000.
D) Liabilities increase $33,000.

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138) Husky Company has provided the following information for its most recent year of operation:
Cash collected from customers totaled $89,400.
Cash borrowed from banks totaled $31,900.
Cash paid to employees for salaries totaled $32,200.
Cash received from selling Husky common shares to shareholders totaled $42,000.
Cash payments to banks for repayment of money borrowed totaled $7,600.
Cash paid to suppliers totaled $12,600.
Land costing $20,000 was sold for $20,000 cash.
Cash paid for dividends to shareholders totaled $3,400.
How much was Husky's cash flow from operating activities?

A) $49,200
B) $44,600
C) $42,700
D) $38,500

139) Husky Company has provided the following information for its most recent year of operation:
Cash collected from customers totaled $91,000.
Cash borrowed from banks totaled $35,100.
Cash paid to employees for salaries totaled $33,800.
Cash received from selling Husky common shares to shareholders totaled $58,000.
Cash payments to banks for repayment of money borrowed totaled $9,200.
Cash paid to suppliers totaled $14,200.
Land costing $36,000 was sold for $36,000 cash.
Cash paid for dividends to shareholders totaled $5,000.
How much was Husky's cash flow from financing activities?

A) $93,100
B) $72,600
C) $83,900
D) $78,900

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140) Anchor Corporation has provided the following information for its most recent year of operation:
Revenues earned were $62,700, of which $6,900 were uncollected at the end of the year.
Operating expenses incurred were $24,900, of which $5,700 were unpaid at the end of the year.
Dividends declared were $8,100, of which $3,300 were unpaid at the end of the year.
Income tax expense is $11,340.
What is the amount of net earnings reported on Anchor's statement of earnings?

A) $20,790
B) $25,680
C) $22,260
D) $26,460

141) During the current year, Rock Company's cash balance increased from $70,000 to $91,400. Rock's net cash flow from operating activities was $37,400 and its net cash flow from financing activities was $11,300. How much was Rock's net cash flow from investing activities?

A) A net cash flow of $42,700.
B) A net cash flow of ($27,300).
C) A net cash flow of $70,100.
D) A net cash flow of ($70,100).

142) Bayside Company began the current year with assets of $630,000 and liabilities of $436,000. By the end of the year, assets had increased by $58,000 and liabilities had increased by $26,000. What was Bayside's shareholders' equity at the end of the year?

A) $252,000
B) $226,000
C) $194,000
D) $168,000

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143) During 20X5, Well Corporation’s assets decreased $7,300 and liabilities increased $26,300. Well's shareholders' equity at December 31, 20X5 was $229,500. What amount was shareholders' equity at January 1, 20X5?

A) $263,100
B) $195,900
C) $210,500
D) $248,500

144) Defalco Incorporated’s retained earnings increased $127,500 during the current year. Defalco declared $165,000 of dividends during the current year. What was Defalco's current year net earnings or loss?

A) Net earnings was $37,500.
B) Net earnings was $292,500.
C) Net loss was $292,500.
D) Net loss was $37,500.

145) Promenade Company’s retained earnings decreased $8,800 last year and its assets decreased $7,800. Promenade declared a $46,000 cash dividend during the year. What was last year's net earnings?

A) $45,000
B) $62,600
C) $37,200
D) $47,000

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146) Shingle Industries has provided the following information for its most recent year of operation:

Cash collected from customers	$ 198,600
Cash borrowed from banks	65,400
Cash paid to employees for salaries	66,200
Cash received from selling Shingle common shares to shareholders	92,000
Cash payments to banks for repayment of money borrowed	17,000
Cash paid to suppliers	29,000
Land costing $40,000 was sold for	60,000
Cash paid for dividends to shareholders	8,600

How much was Shingle's cash flow from operating activities?

A) $109,200
B) $103,400
C) $94,800
D) $86,400

147) Shingle Industries has provided the following information for its most recent year of operation:

Cash collected from customers	$ 196,600
Cash borrowed from banks	65,200
Cash paid to employees for salaries	66,000
Cash received from selling Shingle common shares to shareholders	91,000
Cash payments to banks for repayment of money borrowed	16,800
Cash paid to suppliers	28,600
Land costing $38,000 was sold for	59,000
Cash paid for dividends to shareholders	8,400

How much was Shingle's cash flow from financing activities?

A) $156,200
B) $123,400
C) $139,400
D) $131,000

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148) Shingle Industries has provided the following information for its most recent year of operation:

Cash collected from customers	$ 198,600
Cash borrowed from banks	65,400
Cash paid to employees for salaries	66,200
Cash received from selling Shingle common shares to shareholders	92,000
Cash payments to banks for repayment of money borrowed	17,000
Cash paid to suppliers	29,000
Land costing $40,000 was sold for	60,000
Cash paid for dividends to shareholders	8,600

How much was Shingle's cash flow from investing activities?

A) $152,000
B) $129,000
C) $34,000
D) $60,000

149) Orange Company has provided the following information for its most recent year of operation:

Revenues earned were $59,800, of which $6,200 were uncollected at the end of the year.
Operating expenses incurred were $24,200, of which $5,000 were unpaid at the end of the year.
Dividends declared were $7,400, of which $2,600 were unpaid at the end of the year.
Income tax expense is $12,040, all of which was paid during the current year.
What is the amount of cash flow from operating activities reported on Orange's statement of cash flows?

A) $17,360
B) $29,400
C) $24,760
D) $22,360

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SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

150) Indicate whether each of the following parties is an "internal" or "external" user of financial statements.

a) Creditor
b) Company Human Resources
c) Shareholders
d) Mutual fund manager
e) Canada Revenue Agency
f) Labour union

151) Identify which of the following accounts appear on a statement of financial position.

(a) Service revenue
(b) Cash
(c) Common shares
(d) Accounts payable
(e) Rent expense
(f) Supplies
(g) Land
(h) Dividends
(i) Prepaid insurance

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

	Code
Asset	A
Liability	L
Shareholders' Equity	SE
_____ 1. Prepaid Rent	_____ 7. Trade receivables
_____ 2. Office equipment	_____ 8. Retained earnings
_____ 3. Trade payables	_____ 9. Service revenue
_____ 4. Common shares	_____ 10. Bank loan payable
_____ 5. Insurance expense	_____ 11. Dividends
_____ 6. Cash	_____ 12. Unearned revenue

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

_____ 1. Rent receivable	_____ 6. Income tax payable
_____ 2. Salaries expense	_____ 7. Mortgage payable
_____ 3. Preferred shares	_____ 8. Land
_____ 4. Office supplies	_____ 9. Dividends
_____ 5. Retained earnings	_____ 10. Interest expense

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154) Match each definition with its related term or abbreviation by entering the appropriate letter in the space provided.

_____ 1. OSC
_____ 2. CICA
_____ 3. AcSB
_____ 4. CPA
_____ 5. IFRS

Term or Abbreviation Definition

A.A system that collects and processes financial information about an organization and reports that information to decision makers.
B. Measurement of information about an entity in the monetary unit-dollars or other national currency.
C. An unincorporated business owned by two or more persons.
D. The organization for which financial data are to be collected (separate and distinct from its owners).
E. An incorporated entity that issues shares as evidence of ownership.
F. Initial recording of financial statement elements at acquisition cost.
G. An examination of the financial reports to assure that they represent what they claim and conform with international financial reporting standards.
H. Chartered Professional Accountant.
I. An unincorporated business owned by one person.
J. A report that describes the auditors' opinion of the fairness of the financial statement presentations and the evidence gathered to support that opinion.
K. Ontario Securities Commission.
L. Accounting Standards Board.
M. Company that can be bought and sold by investors on established stock exchanges.
N. International financial reporting standards
O. Canadian Institute of Chartered Accountants.

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155) Using the income statement model and the statement of financial position model, fill-in the missing amounts for each independent case below. Assume the amounts given are at the end of the first full year of operations of the company.

Case	Total Revenue	Total Assets	Total Expenses	Total Liabilities	Profit (Loss)	Shareholders' Equity
A	$500,000	$300,000	$425,000	$110,000	$	$
B	95,000	$	$	90,000	35,000	75,000
C	$	145,000	70,000	$	(30,000)	90,000
D	250,000	375,000	200,000	60,000	$	$
E	$	$	64,000	98,000	3,000	75,000

156) Plants Supreme, Inc., a small retail store which sells house plants, started business on January 1, 20X6. At the end of January, 20X6, the following information was available: Cash expenditures during January:A. Using the above information, prepare the income statement for Plants Supreme for the month ended January 31, 20X6.B. What is the amount of cash flows provided by operating activities to be presented on the statement of cash flows?

Sales of plants for cash	$42,000
Sales of plants for credit	11,000
Cost of plants which were sold and paid for during January	25,000
Salaries	$,500
Telephone	1,100
Office Supplies (all used)	1,600
Electricity	1,200
Rent on the store for January, 20X6	2,300
(will not be paid until February, 20X6)	

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

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

158) Indicate which of the following statements are accurate:

A. The statement of financial position is prepared after the income statement is prepared.
B. A company's cash balance at the end of an accounting period is found only on the statement of financial position.
C. The issuance of shares would affect all four of the financial statements.
D. The payment of dividends reduces retained earnings for the period.
E. Unearned revenue is an account found on the statement of financial position.

159) Birch Corporation's shareholders' equity equals one-fifth of the company's total assets. The company's liabilities are $125,000. What is the amount of the company's shareholders' equity?

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160) Ajax Corporation began operations at the start of 20X8. During the year, it made cash and credit sales totaling $974,000 and collected $860,000 in cash from its customers. It purchased inventory costing $508,000, paid $25,000 for dividends and the cost of goods sold was $445,000. The corporation incurred the following expenses:

Salary expense	$180,000
Interest expense	15,000
Insurance expense	10,000
Supplies expense	18,000
Income tax expense	65,000

Required:1. Prepare an income statement showing revenues, expenses, pretax profit, income tax expense, and profit for the year ended December 31, 20X8.2. Based on the above information, what is the amount of trade receivables on the statement of financial position prepared at the end of 20X8?3. Based on the above information, what is the amount of retained earnings on the statement of financial position prepared at the end of 20X8?

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161) Delft Corporation was established on December 31, 20X6, by a group of investors who invested a total of $100,000 for shares of the new corporation. During the month of January, 20X7, Delft provided services to customers for which the total revenue was $40,000. Of this amount, $4,500 had not been collected by the end of January. Delft recorded salary expense of $17,000, of which 90% had been paid by the end of the month; rent expense of $3,000, which had been paid on January 1, 20X7; and other expenses of $8,500, which had been paid by check. On January 31, 20X72, Delft purchased a van by paying cash of $25,000. There were no other events that affected cash.

Required:

1. In which section of the statement of cash flows would the amount of cash paid for salaries be reported?
2. In which section of the statement of cash flows would the amount of cash paid for the van be reported?
3. By how much did Delft's cash increase or decrease during January?
4. If the amount of cash was $100,000 at the beginning of January, how much cash did Delft have at the end of the month?
5. What was Delft's profit or loss (after income tax expense) for the month of January? The income tax rate was 25%.
6. Explain why the net increase or decrease in cash for a business generally will be different than the profit, or net loss, for the same period.

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162) Hot tub Supply, Inc., reported the following items for the year ended December 31, 20X9:

Wages and salary expense	$825,000
Cost of goods sold	1,400,000
Rent expense	490,000
Sales revenue	3,417,000
Interest expense	50,000
Income tax expense	161,000
Trade receivables	45,000
Bank Loan	500,000

Required:Prepare an income statement for the year.

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163) Empire Stores, Ltd., reported the following amounts on its statement of financial position on December 31, 20X7:

Inventory	$710,000
Notes payable	160,000
Cash	300,000
Share capital	900,000
Net property, plant and equipment	425,000
Trade receivables	88,000
Trade payables	131,000
Retained earnings	?

Required:1. What is the amount of Empire's total assets at the end of 20X7?2. Identify the items listed above that are liabilities.3. What is the amount of Empire's retained earnings at the end of 20X7?4. Prepare a statement of financial position for Empire Stores as of December 31, 20X7.5. Empire Stores wishes to purchase merchandise from your company on account. The amount of the purchases would probably be about $5,000 per month, and the terms would require Empire to make payment in full within 30 days. Would you recommend that your company grant credit to Empire under these terms? Explain the reasoning for your response.

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164) During 20X7, Brody Company performed services for which customers promised to pay $286,000. Of this amount, $270,000 had been collected by year end. Whistler paid $125,000 in cash for employee wages and owed the employees $5,000 at the end of the year for work that had been done but had not paid for. Whistler paid interest expense of $1,700 and $80,000 for other service expenses. The income tax rate was 30%, and income taxes had not yet been paid at the end of the year. Whistler declared and paid dividends of $40,000. There were no other events that affected cash.

Required:

1. What was the amount of the increase or decrease in cash during the year?
2. Prepare an income statement for Whistler for the year.
3. Are you surprised the two numbers are different? Why or why not?

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165) Poirier Company manufactures infant 's clothing. During 20X9, the company reported the following items that affected cash. Indicate whether each of these items is a cash flow from operating activities (O), investing activities (I), or financing activities (F).

Description	Classification
Purchased equipment by paying cash	
Collected cash on account from customers	
Paid dividends to shareholders	
Paid cash for supplies	
Paid suppliers for fabric	
Purchased insurance for factory	
Borrowed money from bank on a long-term note	
Paid interest to bank on the note	
Paid wages to employees	
Sold shares to new shareholders	

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166) Taylor Company was established on January 1, 20X9 when several investors paid a total of $200,000 to purchase Taylor shares. No additional investments in shares were made during the year. By the end of that year, Taylor had cash on hand of $45,000, office equipment (net) of $40,000, inventories of $156,000, and trade payables of $10,000. Sales for the year were $812,000. Of this amount, customers still owed $20,000. Taylor paid dividends of $25,000 to its investors.

Required:

1. Based on the information above, prepare a statement of financial position for Taylor Company as at December 31, 20X9. In the process of preparing the statement, you must calculate the ending balance in retained earnings.
2. What was the amount of Taylor's profit for the year?
3. Was Taylor successful during its first year in operation?

167) For Kiddy Fashions, the following information is available for the year ended December 31, 20X9:

The income tax rate is 35%.

Sales revenue	$5,500,000
Cost of goods sold	2,800,000
Salaries expense	1,100,000
Income tax payable	5,000
Rent expense	620,000
Administrative expense	490,000

Required:Prepare an income statement for Kiddy Fashions.

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168) The following data was taken from the books of Assiniboine Inc. as of December 31, 20X9:

Prepare an income statement for Assiniboine Inc.

Cost of goods sold	$15,300	Selling & admin expense	$3,500
Income tax expense	6,120	Accounts payable	12,000
Cash	3,500	Common shares, (6,500 shares)	20,000
Dividends	6,000	Other income	1,500
Interest expense	900	Sales revenue	50,000
Amortization expense	1,500	Retained earnings	8,000

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169) Baseline Corporation was formed two years ago, to manufacture fitness equipment. It has been profitable and is growing rapidly. It currently has 150 shareholders and 90 employees; most of the employees own at least a few shares of Baseline's shares. The company has received financing from two banks. It will sell additional shares within the next three months and will also seek additional loans and hire new employees to support its continued growth.

Required:

1. Explain who relies on the information in financial statements prepared by Baseline Corporation.
2. Why is compliance with international financial reporting standards and accuracy in accounting important for Baseline?
3. A new accountant who tried to prepare Baseline's financial statements at the end of the current year made several errors. For each of the following items, indicate how the income statement and statement of financial position are affected by the error and the nature of the effect. (For example, an error might cause revenues and net income on the income statement and retained earnings and assets on the statement of financial position to be overstated). Ignore the effects of income taxes.

A. The company had sales for cash of $3,000,000. It also had sales on account of $1,800,000 that had been collected by the end of the year, and sales on account of $200,000 that are expected to be collected early the following year. The accountant reported total sales revenue of $4,800,000.

B. The company had total inventories of $600,000 at the end of the year. Of this amount, inventory reported at $30,000 was obsolete and will have to be scrapped. The statement of financial position prepared by the accountant showed total inventories of $600,000.

C. The company has a bank loan for which interest expense during the year of $10,000 will be paid early in January of the next year. The accountant did not record either the interest expense or the related liability.

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170) Lloyd Company ends the first year of operations with $2.2 million in retained earnings when no dividends were paid out. Since the company began operations on January 1st, 20X7 of the current year ending December 31st, 20X7 calculate the amount of beginning retained earnings and explain your answer.

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Answer Key

Test name: Chapter 01

1) TRUE
2) FALSE
3) TRUE
4) TRUE
5) FALSE
6) TRUE
7) TRUE
8) TRUE
9) TRUE
10) FALSE
11) FALSE
12) FALSE
13) FALSE
14) FALSE
15) FALSE
16) FALSE
17) TRUE
18) FALSE
19) FALSE
20) TRUE
21) FALSE
22) TRUE
23) FALSE
24) TRUE
25) FALSE
26) TRUE
27) FALSE
28) TRUE
29) FALSE
30) FALSE
31) TRUE
32) TRUE
33) FALSE
34) TRUE
35) FALSE
36) TRUE
37) FALSE

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38) FALSE
39) FALSE
40) TRUE
41) TRUE
42) TRUE
43) FALSE
44) FALSE
45) TRUE
46) TRUE
47) FALSE
48) TRUE
49) C
50) B
51) D
52) A
53) B
54) B
55) C
56) C
57) D
58) D
59) D
60) B
61) A
62) A
63) B
64) D
65) B
66) A
67) C
68) B
69) C
70) C
71) A
72) C
73) C
74) C
75) D
76) D
77) B

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78) D
79) B
80) A
81) C
82) D
83) B
84) C
85) C
86) A
87) B
88) B
89) C
90) D
91) B
92) D
93) D
94) C
95) A
96) B
97) B
98) C
99) C
100) B
101) C
102) A
103) A
104) B
105) C
106) A
107) C
108) A
109) C
110) B
111) A
112) A
113) C
114) C
115) B
116) C
117) B

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118) B
119) B
120) C
121) D
122) C
123) B
124) B
125) A
126) C
127) A
128) B
129) C
130) D
131) C
132) C
133) B
134) B
135) A
136) C
137) D
138) B
139) D
140) D
141) B
142) B
143) A
144) B
145) C
146) B
147) D
148) D
149) D
150) Short Answer
151) Short Answer
152) Short Answer
153) Short Answer
154) Short Answer
155) Short Answer
156) Short Answer
157) Short Answer

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158) Short Answer
159) Short Answer
160) Short Answer
161) Short Answer
162) Short Answer
163) Short Answer
164) Short Answer
165) Short Answer
166) Short Answer
167) Short Answer
168) Short Answer
169) Short Answer
170) Short Answer

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