CHAPTER 1

# ACCOUNTING IN ACTION

**CHAPTER LEARNING OBJECTIVES**

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

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

3. ***Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.*** Generally accepted accounting principles are a common set of guidelines that are used to prepare and report accounting information. The conceptual framework outlines some of the body of theory used by accountants to fulfill their goal of providing useful accounting information to users. Ethical behaviour is fundamental to fulfilling the objective of financial accounting. The reporting entity concept requires the business activities of each reporting entity to be kept separate from the activities of its owner and other economic entities. The going concern assumption presumes that a business will continue operations for enough time to use its assets for their intended purpose and to fulfill its commitments. The periodicity concept requires businesses to divide up economic activities into distinct periods of time. Qualitative characteristics include fundamental and enhancing characteristics that help to ensure accounting information is useful.

Only events that cause changes in the business’s economic resources or changes to the claims on those resources are recorded. Recognition is the process of recording items and measurement is the process of determining the amount that should be recognized. The historical cost concept states that assets should be recorded at their historical (original) cost. Fair value may be a more appropriate measure for certain types of resources. Generally, fair value is the amount the resource could be sold for in the market. The monetary unit concept requires that only transactions that can be expressed as an amount of money be included in the accounting records, and it assumes that the monetary unit is stable.

The revenue recognition principle requires companies to recognize revenue when a performance obligation(s) is satisfied. The matching concept requires that costs be recognized as expenses in the same period as revenue is recognized when there is a direct association between the cost incurred and revenue recognized.

In Canada, there are two sets of standards for profit-oriented businesses. Publicly accountable enterprises must follow International Financial Reporting Standards (IFRS) and private enterprises have the choice of following IFRS or Accounting Standards for Private Enterprises (ASPE).

4. ***Describe the components of the financial statements and explain the accounting equation.*** Assets, liabilities, and owner’s equity are reported in the balance sheet. Assets are present economic resources controlled by the business as a result of past events and have the potential to produce economic benefits. Liabilities are present obligations of a business to transfer an economic resource as a result of past events. Owner’s equity is the owner’s claim on the company’s assets and is equal to total assets minus total liabilities. The balance sheet is based on the accounting equation: Assets = Liabilities + Owner’s equity.

The Income statement reports the profit or loss for a specified period of time. Profit is equal to revenues minus expenses. Revenues are the increases in assets, or decreases in liabilities, that result from business activities that are undertaken to earn profit. Expenses are the cost of assets consumed or services used in a company’s business activities. They are decreases in assets or increases in liabilities, excluding withdrawals made by the owners, and result in a decrease to owner’s equity.

The statement of owner’s equity summarizes the changes in owner’s equity during the period. Owner’s equity is increased by investments by the owner and profits. It is decreased by drawings and losses. Investments are contributions of cash or other assets by owners. Drawings are withdrawals of cash or other assets from the business for the owner’s personal use. Owner’s equity in a partnership is referred to as partners’ equity and in a corporation as shareholders’ equity.

A cash flow statement summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

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

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

**TRUE-FALSE STATEMENTS**

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Professional and Ethical Behaviour

AACSB: Ethics

20. Only the accountants should be concerned with ethics when the financial statements are being prepared.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Professional and Ethical Behaviour

AACSB: Ethics

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

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Professional and Ethical Behaviour

AACSB: Ethics

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

23. GAAP stands for Generally Accepted Accounting Principles.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

34. The cost and fair value of an asset are the same at the time of acquisition and in all subsequent periods.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Application

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

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

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

### MULTIPLE CHOICE QUESTIONS

54. An external user could be

a) production manager.

b) marketing manager.

c) Canada Revenue Agency.

d) the human resource director.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

55. An external user would NOT include

a) a creditor of the company.

b) Canada Revenue Agency.

c) human resources personnel.

d) the company’s bank.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

56. Which of the following would NOT be considered an internal user of accounting information for the ABC Company?

a) president of the company

b) production manager

c) merchandise inventory clerk

d) president of the employees' labour union

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

57. The main objective of the financial statements is

a) to show the profit of a company.

b) to allow customers to determine whether a company will honour its product warranties.

c) to provide useful information to investors and creditors to make decisions about a business.

d) to determine how many employees the company can afford to hire each year.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

58. Which of the following would be considered an internal user of accounting information for the ABC Company?

a) president of the company

b) production manager

c) merchandise inventory clerk

d) all of the above

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

59. Which of the following would NOT be considered an external user of accounting information for the ABC Company?

a) Bank of Montreal

b) Canada Revenue Agency

c) president of the company

d) customers

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Financial Reporting

AACSB: Analytic

60. The proprietorship form of business organization

a) must have at least three owners in most provinces.

b) is characterized by having a limited life.

c) combines the records of the business with the personal records of the owner.

d) is characterized by a legal distinction between the business as an economic unit and the owner.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

61. A business organized as a corporation

a) is not a separate legal entity in most provinces.

b) requires that shareholders be personally liable for the debts of the business.

c) is owned by its shareholders.

d) terminates when one of its original shareholders dies.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

62. The partnership form of business organization

a) is a separate legal entity.

b) is a common form of organization for service-type businesses.

c) enjoys an unlimited life.

d) has limited liability.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

63. Which of the following is NOT an advantage of the corporate form of business organization?

a) limited liability of shareholders

b) transferability of ownership

c) unlimited personal liability for shareholders

d) unlimited life

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Compare different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

64. Judy and Marilyn met at law school and decide to start a small law practice after graduation. They agree to split revenues and expenses evenly. The most common form of business organization for a business such as this would be a

a) not-for-profit organization.

b) partnership.

c) corporation.

d) proprietorship.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Compare different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

65. Which of the following forms of business organizations typically have their shares listed on the Toronto Stock Exchange?

a) proprietorships

b) private corporations

c) public corporations

d) partnerships

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

66. In regards to the corporate form of business organization, which of the following is true?

a) Corporations can only have one owner or many owners.

b) Corporate businesses are generally smaller in size than partnerships and proprietorships.

c) The revenues of corporations are always greater than the combined revenues of partnerships and proprietorships.

d) Corporations are separate legal entities organized exclusively under federal law.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

67. Which of the following is NOT a characteristic of the corporate form of business organization?

a) shares are transferable

b) unlimited liability

c) separate legal entity

d) responsible for paying its own income taxes

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

68. All of the following are steps used to analyze ethical dilemmas EXCEPT

a) using the organization’s code of ethics to identify ethical situations.

b) using personal ethics to identify ethical situations.

c) identifying potential stakeholders.

d) discussing the ethical dilemma with co-workers in the lunchroom.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Professional and Ethical Behaviour

AACSB: Ethics

69. Canadian accounting standards allow a choice of whether or not to use International Financial Reporting Standards for which type of company?

a) public corporations

b) only small private corporations

c) banks

d) all private corporations in Canada

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

70. ASPE requires less information on the financial statements of private corporations than IFRS requires because

a) private corporations are smaller than public corporations.

b) users of private corporation financial statements have the ability to obtain additional information from the corporation if required.

c) public corporations have their information available on the Internet.

d) public corporations may report in different foreign currencies.

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

71. Generally accepted accounting principles are

a) income tax regulations.

b) standards that act as guidelines for reporting economic events.

c) theories that are based on physical laws of the universe.

d) principles that have been proven correct by academic researchers.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

72. GAAP stands for

a) Generally Accepted Auditing Procedures.

b) Generally Accepted Accounting Principles.

c) Generally Accepted Auditing Principles.

d) Generally Accepted Accounting Procedures.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

73. Which of the following would violate the reporting entity concept?

a) reporting amounts owed to the company’s suppliers as a liability on the balance sheet

b) reporting equipment owned and used in the business as an asset on the balance sheet

c) reporting withdrawals by the owner as a drawing in the statement of owner’s equity

d) reporting the owner’s personal sailboat as an asset on the balance sheet

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

74. The International Accounting Standards Board

a) works to reduce differences in accounting practices across countries.

b) promotes unique accounting applications.

c) works to increase differences in accounting practices across countries.

d) only operates in countries that speak English.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

75. The going concern assumption

a) states that a company will not operate long enough to utilize assets and fulfill obligations.

b) assumes the company will continue to operate in the foreseeable future.

c) is inconsistent with the historical cost measurement method.

d) states that net worth is the most appropriate value at which to record assets.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

76. Which of the following requires that the activities of a business be kept distinct from those of its owner(s)?

a) reporting entity concept

b) going concern assumption

c) monetary unit concept

d) cost principle

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

a) going concern assumption

b) reporting entity concept

c) periodicity concept

d) monetary unit concept

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

a) the going concern assumption

b) the monetary unit concept

c) the historical cost measurement method

d) the reporting entity concept

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Generally Accepted Accounting Principles

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

79. The historical cost measurement method requires that when assets are acquired, they be recorded at

a) appraisal value.

b) the amount paid.

c) the amount the asset could be sold for.

d) list price.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

80. The monetary unit concept requires a Canadian company reporting in Canada to use

a) differing exchange rates for business transactions.

b) several measures of economic activities.

c) the Canadian dollar as the common unit of measure for all Canadian business transactions.

d) estimates in measuring an economic event.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

81. Recognition in accounting means

a) recognizing the difference between assets and liabilities.

b) recognizing the difference between income and expenses.

c) recognizing that initially transactions are recorded at fair value.

d) the process of recording a transaction in the accounting records.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

82. Which of the following is NOT considered an enhancing qualitative characteristic?

a) relevance

b) comparability

c) timeliness

d) understandability

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

83. Withdrawal of cash from a business by the owner for personal reasons will NOT affect which financial statement?

a) Balance sheet

b) Income statement

c) Statement of owner’s equity

d) Cash flow statement

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

84. Which of the following is true when considering the accounting equation?

a) An increase in an asset must always equal a decrease in a liability.

b) For every transaction, an asset and a liability must be affected.

c) An increase in a liability must equal a decrease in owner’s equity.

d) An increase in an asset may result in a decrease in another asset.

Answer: d

Bloomcode: Analysis

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

85. The common characteristic possessed by all assets is

a) long life.

b) great monetary value.

c) tangible nature.

d) potential future economic benefit.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

86. The accounting equation, for a proprietorship, may be expressed as

a) Assets = Liabilities + Shareholders' Equity.

b) Assets – Liabilities = Partners' Equity.

c) Assets = Liabilities + Owner's Equity.

d) all of these

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

87. The accounting equation, for a corporation, is best expressed as

a) Assets = Liabilities + Shareholders' Equity.

b) Assets – Liabilities = Partner’s Equity.

c) Assets = Liabilities + Owner's Equity.

d) all of these

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

88. An account receivable is recorded in the accounting records as a(n)

a) liability.

b) expense.

c) asset.

d) revenue.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

89. Spade Company has total liabilities of $ 10,000 and total assets of $ 15,000. Based on this information, Spade Company’s owner’s equity must be

a) $ 10,000.

b) $ 0.

c) $ 5,000.

d) $ 15,000.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

90. Liabilities

a) are future economic benefits.

b) are current or long-term obligations arising from past events.

c) possess service potential.

d) are things of value used by the business in its operation.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

91. Which of the following would best be described as an ownership claim on a company’s assets?

a) expenses

b) account receivable from the owner

c) owner’s equity

d) liabilities

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

92. Jack Smith owns and operates Jack’s Pizza Express. Jack should record the cost of wages paid to store employees as a(n)

a) revenue.

b) expense.

c) liability.

d) asset.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

93. Owner's equity is sometimes referred to as

a) residual equity.

b) leftovers.

c) spoils.

d) a second equity.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

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

a) the investment of cash by the owners.

b) the purchase of a personal automobile by the owner using personal funds.

c) the purchase of a computer for the owner’s son using cash generated by the business.

d) the sale of goods by the business.

Answer: b

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

95. When an owner, in a proprietorship or partnership, withdraws cash or other assets from a business for personal use, these withdrawals are termed

a) expenses.

b) salary.

c) drawings.

d) a credit line.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

96. Revenues would NOT result from

a) sale of merchandise.

b) initial investment of cash by owner.

c) performance of services.

d) rental of property to a tenant.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

97. Increases to owner's equity, in a proprietorship, will result from

a) additional investments by owners.

b) purchases of merchandise.

c) withdrawals by the owner.

d) sale of share capital.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

98. The basic accounting equation, in a proprietorship, CANNOT be restated as

a) Assets – Liabilities = Owner's Equity.

b) Assets – Owner's Equity = Liabilities.

c) Owner's Equity + Liabilities = Assets.

d) Assets + Liabilities = Owner's Equity.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

99. Owner's equity, in a proprietorship, is increased by

a) drawings.

b) revenues.

c) expenses.

d) liabilities.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

100. Owner's equity, in a proprietorship, is decreased by

a) assets.

b) revenues.

c) expenses.

d) liabilities.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

101. Revenues, in a proprietorship, are

a) the cost of assets consumed during the period.

b) the gross increases in owner's equity resulting from business activities.

c) the cost of services used during the period.

d) actual or expected cash outflows.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

102. Profit results when

a) Assets > Liabilities.

b) Revenues = Expenses.

c) Revenues > Expenses.

d) Revenues < Expenses.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

103. A balance sheet, in a proprietorship, shows

a) revenues, liabilities, and owner's equity.

b) expenses, drawings, and owner's equity.

c) revenues, expenses, and drawings.

d) assets, liabilities, and owner's equity.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

104. An income statement

a) summarizes the changes in owner's equity for a specific period of time.

b) reports the cash receipts and payments over for a specific period of time.

c) reports the assets, liabilities, and owner's equity at a specific date.

d) presents the revenues and expenses for a specific period of time.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

105. The income statement is sometimes referred to as

a) a statement of earnings.

b) the statement of financial position.

c) the cash flow statement.

d) the statement of owner's equity.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

106. The primary purpose of the cash flow statement is to report

a) a company's investing transactions.

b) a company's financing transactions.

c) information about cash inflows and cash outflows of a company.

d) the net increase or decrease in cash.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

107. Which of the following is considered a decrease to owner’s equity?

a) sales revenues

b) investments by owner

c) drawings by owner

d) service revenue

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

108. Which of the following questions would NOT be answered by presenting the statement of cash flows?

a) What was the change in the cash balance during the period?

b) What amount of accounts receivable was considered uncollectible?

c) What was the cash used for during the period?

d) Where did the cash come from during the period?

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Section Reference: The Accounting Model

CPA: Financial Reporting

AACSB: Analytic

109. Which of the following accounts would NOT be found on the balance sheet?

a) Cash

b) Drawings

c) Equipment

d) Accounts Payable.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe the components of the financial statements and explain the accounting equation.

Learning Objective: Prepare financial statements.

Section Reference: The Accounting Model

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

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

a) a cash receipt from a customer in payment of account

b) payment of an expense

c) services provided for cash

d) withdrawal of funds for personal use

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

111. Which of the following is an example of an economic event that should be recorded as an accounting transaction?

a) the purchase of supplies

b) the signing of a contract to build a new corporate headquarters

c) the appointment of a new Chief Executive Officer

d) the launch of a new marketing strategy

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

112. Which of the following transactions would NOT affect Cash?

a) payment to a supplier on account

b) purchase of supplies on account

c) payment of salaries for the week

d) prepaying an insurance premium

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

113. An investment by a company’s owner increases a company’s cash and

a) reduces its liabilities.

b) reduces a company’s total assets.

c) increases owner’s equity.

d) increases the company’s net earnings in the year in which the investment is made.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

114. Partners' equity, in a partnership, is decreased by

a) payment of dividends.

b) drawings.

c) owner's investments.

d) revenues.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

115. Shareholders' equity, in a corporation, is increased by

a) an expense.

b) shareholder purchase of newly issued common shares.

c) payment of dividends.

d) liabilities.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

116. If total liabilities increased by $ 5,000, then

a) assets must have decreased by $ 5,000.

b) owner's equity must have increased by $ 5,000.

c) assets must have increased by $ 5,000, or owner's equity must have decreased by $ 5,000.

d) assets and owner's equity each increased by $ 2,500.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

117. The collection of a $ 600 Accounts Receivable

a) increases an asset $ 600; decreases an asset $ 600.

b) increases an asset $ 600; decreases a liability $ 600.

c) decreases a liability $ 600; increases owner's equity $ 600.

d) decreases an asset $ 600; decreases a liability $ 600.

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

118. If an individual asset, in a proprietorship, is increased, then

a) there may be an equal decrease in a specific liability.

b) there may be an equal decrease in owner's equity.

c) there may be an equal decrease in another asset.

d) None of these is possible.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

119. If services are provided for credit, in a proprietorship, then

a) assets will decrease.

b) liabilities will increase.

c) owner's equity will increase.

d) liabilities will decrease.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

120. If expenses, in a proprietorship, are paid in cash, then

a) assets will increase.

b) liabilities will decrease.

c) owner's equity will increase.

d) assets will decrease.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

121. If an owner makes a withdrawal of cash from a proprietorship, then

a) there has been a violation of accounting principles.

b) assets will decrease and owner's equity will increase.

c) assets will decrease and owner's equity will decrease.

d) assets will decrease and liabilities will increase.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

122. If store rent has been paid in cash for the month, then

a) a liability will increase.

b) an asset will increase.

c) owner's equity will decrease.

d) owner's equity will increase.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

123. Two or more items could be affected by a transaction. Which of the following statements is INCORRECT?

a) An increase in an asset may result in a decrease in another asset.

b) An increase in an asset may result in a decrease in an asset and increase in a liability.

c) An increase in a liability may result in a decrease in an asset.

d) An increase in a liability may result in a decrease in owner’s equity.

Answer: c

Bloomcode: Analysis

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

124. The cost of advertising purchased for the current month is considered an expense, NOT an asset because

a) the expense will generate future benefits.

b) the advertising will generate future cash inflows.

c) the benefits of the expense have already been used.

d) the expense has not yet been used.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

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

a) cash will increase.

b) cash will decrease.

c) will not be affected.

d) accounts receivable will increase.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

126. Payment of a liability for an expense that has been previously recorded

a) does not affect the owner’s equity account.

b) only affects the liability accounts.

c) does not affect the asset accounts.

d) only affects the asset accounts.

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

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

a) Assets increase and liabilities increase.

b) Assets decrease and liabilities decrease.

c) No impact on the accounting equation.

d) Owner’s equity increases and assets increase.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

128. Which of the following accounts would be affected by the transaction “purchase supplies on credit”?

a) Office Expense and Accounts Payable

b) Office Expense and Cash

c) Supplies and Cash

d) Supplies and Accounts Payable

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

129. Owner's equity, in a proprietorship, at the end of the period is equal to

a) owner's capital at the beginning of the period plus profit minus liabilities.

b) owner's capital at the beginning of the period plus profit minus drawings.

c) profit.

d) assets plus liabilities.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

130. Shareholders' equity, in a corporation, at the end of the period is equal to

a) shareholders' equity at the beginning of the period plus profit minus liabilities.

b) share capital plus retained earnings.

c) share capital plus dividends.

d) share capital plus this year's profit.

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

131. If the owner's equity account increases from the beginning of the year to the end of the year, the best explanation for this change is

a) profit is less than owner drawings.

b) a loss is less than owner drawings.

c) additional owner investments are less than a loss.

d) profit is greater than owner drawings.

Answer: d

Bloomcode: Analysis

Difficulty: Medium

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

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

a) $ 55,000.

b) $ 35,000.

c) $ 65,000.

d) $ 45,000.

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

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

a) $ 35,000.

b) $ 45,000.

c) $ 20,000.

d) $ 90,000.

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

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

a) $ 10,000.

b) $ 45,000.

c) $ 20,000.

d) $ 35,000.

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

135. In terms of the expanded accounting equation, the income statement is prepared from the data in the

a) assets column.

b) liabilities column.

c) owner’s equity column.

d) liabilities and owner’s equity column.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

136. In regards to the order of preparing financial statements, which of the following statements is correct?

a) Income statement, balance sheet, statement of changes in owner’s equity, cash flow statement

b) Balance sheet, income statement, cash flow statement, statement of changes in owner’s equity

c) Income statement, statement of changes in owner’s equity, balance sheet, cash flow statement

d) Income statement, statement of changes in owner’s equity, cash flow statement, balance sheet

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

137. The income statement is always prepared first in order to determine

a) the total assets to be reported on the balance sheet.

b) the cash outflow of the company.

c) the profit or loss which is then reported in the statement of changes in owner’s equity.

d) the amount of investments or withdrawals used in the statement of changes in owner’s equity.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

138. If a company reported a loss in the first month of operations, the loss would reduce owner’s capital and would be

a) added in the same section as owner’s investments.

b) deducted in the same section as owner’s investments.

c) deducted in the same section as owner’s drawings.

d) added in the same section as owner’s drawings.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

139. The heading of a balance sheet must identify the

a) company, statement, and time period.

b) statement and date.

c) company, statement, and date.

d) company and date.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

140. Which of the following would NOT be considered non-financial information disclosed in an annual report?

a) company’s mission statement

b) company’s market position

c) company’s goals and objectives

d) company’s key performance ratios

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare financial statements.

Section Reference: Preparing Financial Statements

CPA: Financial Reporting

AACSB: Analytic

### MATCHING QUESTIONS

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

 A. Codes of conduct F. Corporation

 B. Profit G. Assets

 C. Partnership H. Equity

 D. Proprietorship I. Expenses

 E. Reporting Entity Concept J. Transactions

141. Rules for ethical business practices \_\_\_\_

Answer: A

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the use and users of accounting and the objective of financial reporting.

Section Reference: Why Is Accounting Important?

CPA: Professional and Ethical Behaviour

AACSB: Ethics

142. Ownership is limited to one person \_\_\_\_

Answer: D

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

143. A separate legal entity under federal or provincial laws \_\_\_\_

Answer: F

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

144. Reflective of two or more owners \_\_\_\_

Answer: C

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

145. Economic events can be identified with a particular \_\_\_\_

reporting entity

Answer: E

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Compare the different forms of business organization.

Section Reference: Forms of Business Organization

CPA: Financial Reporting

AACSB: Analytic

146. Consumed assets or services \_\_\_\_

Answer: I

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

147 Ownership claims against the assets of the business \_\_\_\_

Answer: H

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

148. Results when revenues exceed expenses \_\_\_\_

Answer: B

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

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

Answer: G

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

Section Reference: Generally Accepted Accounting Principles

CPA: Financial Reporting

AACSB: Analytic

150. Economic events that cause changes in the business’s economic resources \_\_\_\_

Answer: J

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Analyze the effects of business transactions on the accounting equation.

Section Reference: Transaction Analysis

CPA: Financial Reporting

AACSB: Analytic

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