

Exam

Name \_\_\_\_\_

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

- 1) Which of the following would be listed as a noncurrent asset? 1) \_\_\_\_\_  
A) Total assets. B) Cash.  
C) Buildings and equipment. D) Supplies.
  
- 2) Which of the following would be listed as a current liability? 2) \_\_\_\_\_  
A) Cash in the bank.  
B) Bank loan due in 10 years.  
C) Notes payable due in two years.  
D) Accounts payable.
  
- 3) A long-term liability is one that the company: 3) \_\_\_\_\_  
A) has owed for over five years.  
B) will not pay off for at least over five years.  
C) will not pay off for at least over one year.  
D) has owed for over one year.
  
- 4) A current asset is one that: 4) \_\_\_\_\_  
A) the company will use up or convert into cash in one year or less.  
B) the company will use up or convert into cash in more than one year.  
C) the company has owned for over one year.  
D) the company will use up or convert into cash in five years or more.
  
- 5) At the start of the first year of operations, a company's retained earnings on the balance sheet would be: 5) \_\_\_\_\_  
A) equal to contributed capital.  
B) equal to zero.  
C) equal to the negative of liabilities.  
D) equal to shareholders' equity.
  
- 6) Which of the following is *not* true. Account names in the chart of accounts have to be: 6) \_\_\_\_\_  
A) consistent throughout the financial statements and records.  
B) sufficiently descriptive to enable users to quickly understand items.  
C) linked to account numbers.  
D) general purpose and do not have to indicate the nature of the account.
  
- 7) The local branch of the Universal Bank System (UBS) receives money from some of its customers as deposits and lends it to other customers as loans. Which of the following would be true about UBS's financial statements? 7) \_\_\_\_\_  
A) UBS reports both customers' deposits and customers' loans as

liabilities.

- B) UBS reports customers' deposits as assets and customers' loans as liabilities.
- C) UBS reports customers' deposits as liabilities and customers' loans as assets.
- D) UBS reports both customers' deposits and customers' loans as assets.
- 8) Which of the following is **not** an example of an asset? 8) \_\_\_\_\_  
A) Prepaid Insurance. B) Supplies.  
C) Unearned revenues. D) Notes receivable.
- 9) If a company borrows money from a bank and signs an agreement to repay the loan several years from now, in which account would the company report the amount borrowed? 9) \_\_\_\_\_  
A) Notes Payable B) Bonds Payable  
C) Accounts Payable D) Contributed Capital
- 10) The Sweet Smell of Success Fragrance Company borrowed \$60,000 from the bank and used all of the money to re-design its new store. Sweet Smell's balance sheet would show this as: 10) \_\_\_\_\_  
A) \$60,000 under Prepaid Expenses and \$60,000 under Accrued Liabilities.  
B) \$60,000 under Other Assets and \$60,000 under Other Liabilities.  
C) \$60,000 under Furnishings & Equipment and \$60,000 under Notes Payable.  
D) \$60,000 under Supplies and \$60,000 under Accounts Payable.
- 11) The Buddy Burger Corporation owes \$1.5 million to the Alberta Wholesale Meat Company from whom Buddy Burger buys its burger meat. Which account would Buddy Burger use to report the amount owed? 11) \_\_\_\_\_  
A) Accounts Receivable B) Supplies  
C) Unearned Revenue D) Accounts Payable
- 12) Which of the following describes the classification and normal balance of the retained earnings account? 12) \_\_\_\_\_  
A) Asset, debit  
B) Liability, credit  
C) Shareholders' equity, credit  
D) Shareholders' equity, debit
- 13) If a company is paid \$20,000 on accounts receivable and uses the money to pay \$20,000 on accounts payable then: 13) \_\_\_\_\_  
A) liabilities would decrease by \$20,000 while shareholders' equity would increase by \$20,000.  
B) assets would increase by \$20,000 while liabilities would decrease by \$20,000.  
C) Both assets and liabilities would decrease by \$20,000.

D) Both assets and shareholders' equity would decrease by \$20,000.

- 14) In 1999, the Denim Company bought land that cost \$15,000. In 2005, a similar piece of land was bought for \$28,000 and the company's existing land was estimated to be worth \$18,000. On the balance sheet at the end of 2005, the land that was purchased in 1999 would be reported at: 14) \_\_\_\_\_
- A) \$28,000.
  - B) \$15,000.
  - C) \$18,000.
  - D) the average of the three prices.
- 15) What is the minimum number of ways that a transaction could effect the basic accounting equation? 15) \_\_\_\_\_
- A) One.
  - B) Three.
  - C) Two.
  - D) No minimum.
- 16) Transactions include which two types of events? 16) \_\_\_\_\_
- A) Direct events and indirect events.
  - B) Current events and future events.
  - C) External exchanges and internal events.
  - D) Monetary events and production events.
- 17) A company disposes of \$1 million of its assets. Which of the following could **not** be true about its effects on the basic accounting equation? 17) \_\_\_\_\_
- A) Assets, liabilities, and shareholders' equity all remain the same.
  - B) Assets remain the same, and liabilities and shareholders' equity both decrease by \$1 million.
  - C) Assets decrease by \$1 million, liabilities decrease by \$1 million, and shareholders' equity is unchanged.
  - D) Assets decrease by \$1 million, and liabilities and shareholders' equity both decrease by \$500,000.
- 18) Your company orders and broadcasts a 30 second advertisement during the Super Bowl for \$1.2 million. It is legally obligated to pay for this service but has not yet done so. 18) \_\_\_\_\_
- A) This is an external unobservable event so it does **not** affect the balance sheet.
  - B) This is an internal unobservable event so it does **not** affect the balance sheet.
  - C) This is an internal observable event that affects the balance sheet.
  - D) This is an external observable event that affects the balance sheet.
- 19) In part, a transaction affects the accounting equation as follows: Which of the following must be true for this transaction to keep the accounting equation in balance? 19) \_\_\_\_\_

- A) If shareholders' equity remains the same, another asset must decrease.
- B) If other assets remain the same, shareholders' equity must remain the same.
- C) If shareholders' equity remains the same, all other assets must remain the same.
- D) If other assets remain the same, shareholders' equity must increase.
- 20) A company buys equipment for \$500,000 and signs a promissory note for the full amount. How does this transaction affect the accounting equation? 20) \_\_\_\_\_
- A) Assets: ↑ Property and equipment; Liabilities: no change; Shareholders' Equity: ↓ Retained earnings.
- B) Assets: ↑ Property and equipment; Liabilities: ↑ Notes payable; Shareholders' Equity: no change.
- C) Assets: ↑ Property and equipment, ↓ Cash; Liabilities: no change; Shareholders' Equity: no change.
- D) Assets: ↑ Property and equipment; Liabilities: no change; Shareholders' Equity: ↓ Contributed capital.
- 21) Your company pays back \$2 million on a loan it had received earlier from a bank. How does this transaction affect the accounting equation? 21) \_\_\_\_\_
- A) Assets are unchanged, liabilities increase by \$2 million, contributed capital decreases by \$2 million.
- B) Assets decrease by \$2 million, liabilities decrease by \$2 million, shareholders' equity is unchanged.
- C) Assets decrease by \$2 million, liabilities are unchanged, contributed capital decreases by \$2 million.
- D) Assets are unchanged, liabilities and shareholders' equity both increase by \$2 million.
- 22) A company issues \$20 million in new stock. It later uses this money to pay off promissory notes. How many different accounts and which account names are affected by these two transactions? 22) \_\_\_\_\_
- A) 3 accounts are affected: cash, assets, and accounts payable.
- B) 3 accounts are affected: contributed capital, cash, and notes payable.
- C) 4 accounts are affected: contributed capital, cash, liabilities, and accounts payable.
- D) 3 accounts are affected: contributed capital, investments, and accounts payable.
- 23) A company borrows \$2 million from its bank. It then uses this money to buy equipment. How does this transaction affect the accounting equation? 23) \_\_\_\_\_
- A) Shareholders' Equity rises \$2 million and Liabilities fall \$2 million.
- B) Assets and Shareholders' Equity both fall \$2 million.
- C) Assets, Liabilities, and Shareholders' Equity are unchanged.

D) Assets and Liabilities both rise \$2 million.

- 24) A company receives \$10 million cash from investors in exchange for new common stock. Several weeks later, the company buys a \$25 million machinery using all of the cash from the stock issue and signing a promissory note for the remainder. The accounts involved in these two transactions are: 24) \_\_\_\_\_
- A) Long-term Investments; Cash; Equipment; and Accounts Payable.
  - B) Retained Earnings; Equipment; and Notes Payable.
  - C) Contributed Capital; Cash; Equipment; and Notes Payable.
  - D) Shareholders' Equity; Cash; Long-term Investments; and Notes Payable.
- 25) A company purchases \$23,000 of supplies in the current month and promises to pay for them next month. How would the company record a liability for the supplies? 25) \_\_\_\_\_
- A) \$23,000 would be posted as a debit to Note Payable.
  - B) \$23,000 would be posted as a debit to Accounts Payable.
  - C) \$23,000 would be posted as a credit to Accounts Payable.
  - D) This liability is not a recognized liability until the payment is due.
- 26) If total liabilities decreased by \$25,000 and shareholders' equity increased by \$5,000 during a period of time, then total assets must change by what amount and direction during the same time period? 26) \_\_\_\_\_
- A) \$30,000 decrease.
  - B) \$20,000 increase.
  - C) \$30,000 increase.
  - D) \$20,000 decrease.
- 27) The characteristic shared by all liabilities is that they: 27) \_\_\_\_\_
- A) always end in the word "payable."
  - B) provide a future economic benefit.
  - C) result in an inflow of resources to the company.
  - D) obligate the company to do something in the future.
- 28) A company issues \$50 million in new stock. The company later uses this money to buy construction machinery. How many accounts will be affected by these transactions and which particular account names are most likely to be used to record the effects of these transactions? 28) \_\_\_\_\_
- A) 3 accounts affected: Cash, Accounts Receivable, and Equipment.
  - B) 3 accounts affected: Contributed Capital, Investments, and Notes Payable.
  - C) 3 accounts affected: Contributed Capital, Cash, and Equipment.
  - D) 4 accounts affected: Contributed Capital, Cash, Supplies and Accounts Payable.
- 29) Park & Company was recently formed with a \$5,000 investment in the

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- A) \$7,000.
- C) \$11,000.

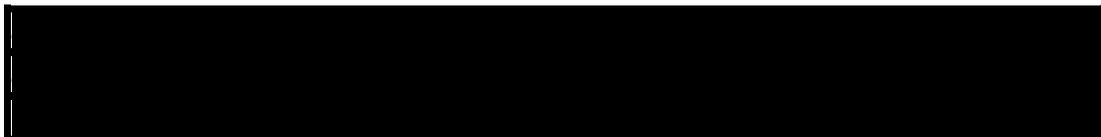
- B) \$10,000.
- D) \$9,000.

30) Which of the following is the common characteristic possessed by all assets? 30) \_\_\_\_\_

- A) future economic benefits.
- C) great financial value.
- B) physical substance.
- D) long life.

- 31) Current liabilities are expected to be: 31) \_\_\_\_\_  
A) paid within one year.  
B) used in the business within one year.  
C) converted to cash within one year.  
D) acquired within one year.
- 32) If Accounts Payable had a balance of \$18,200 at the beginning of the month, and the six amounts shown below were posted to this account, what should be the ending balance? Three debits posted to Accounts Payable this month: \$4,700, \$11,300, and \$14,800. Three credits posted to Accounts Payable this month: \$3,600, \$9,500, and \$12,700. 32) \_\_\_\_\_  
A) \$5,000. B) \$49,000.  
C) \$23,200. D) \$13,200.
- 33) In a T-account debits appear in what manner? 33) \_\_\_\_\_  
A) They are always listed on the left.  
B) They are on the left under assets but on the right under liabilities and shareholders' equity.  
C) They are on the right under assets but on the left under liabilities and shareholders' equity.  
D) They are always listed on the right.
- 34) A company uses \$100,000 in cash to pay off \$100,000 in notes payable. This would result in a: 34) \_\_\_\_\_  
A) \$100,000 credit to Cash and a \$100,000 debit to Notes Payable.  
B) \$100,000 debit to Cash and a \$100,000 debit to Notes Payable.  
C) \$100,000 debit to Cash and a \$100,000 credit to Notes Payable.  
D) \$100,000 credit to Cash and a \$100,000 credit to Notes Payable.
- 35) PetPlanet Ltd., uses \$10,000 in cash to pay \$10,000 on Accounts Payable. This would result in a: 35) \_\_\_\_\_  
A) \$10,000 credit to Cash and a \$10,000 debit to Accounts Payable.  
B) \$10,000 debit to Cash and a \$10,000 debit to Accounts Payable.  
C) \$10,000 debit to Cash and a \$10,000 credit to Accounts Payable.  
D) \$10,000 credit to Cash and a \$10,000 credit to Accounts Payable.
- 36) The best interpretation of the word credit is that it's the: 36) \_\_\_\_\_  
A) decrease side of an account.  
B) increase side of an account.  
C) left side of an account.  
D) right side of an account.

- 37) A credit would decrease the balance in which of the following account? 37) \_\_\_\_\_  
A) Notes Payable. B) Inventories.  
C) Contributed Capital. D) Retained Earnings.
- 38) Your company buys a \$2 million warehouse paying \$300,000 in cash and issuing \$1.7 million in promissory notes. This will be posted as: 38) \_\_\_\_\_  
A) \$2 million credited and \$300,000 debited to assets; \$1.7 million debited to liabilities.  
B) \$2 million debited to assets and \$2 million credited to liabilities.  
C) \$2 million credited to assets and \$2 million debited to liabilities.  
D) \$2 million debited and \$300,000 credited to assets; \$1.7 million credited to liabilities.
- 39) Cash had a beginning balance of \$68,900. During the month, Cash was credited for \$16,000 and debited for \$18,300. At the end of the month, the balance is: 39) \_\_\_\_\_  
A) \$66,700. B) \$71,200.  
C) \$2,300. D) \$(2,300).
- 40) On January 1, 2010, Yukon Inc., had assets of \$156,000 and shareholders's equity of \$88,000. During the year assets increased by \$35,000 and shareholders's equity decreased by \$27,500. What were the liabilities on December 31, 2010? 40) \_\_\_\_\_  
A) \$251,500. B) \$130,500.  
C) \$7,500. D) \$68,000.
- 41) Which of the following is true? 41) \_\_\_\_\_  
A) Assets have credit balances and liabilities have debit balances.  
B) Assets and liabilities have debit balances.  
C) Assets and liabilities have credit balances.  
D) Assets have debit balances and liabilities have credit balances.
- 42) The standard formatting for a journal entry: 42) \_\_\_\_\_  
A) lists credits first and then debits, both aligned to the left.  
B) lists debits first and then credits, indented underneath.  
C) lists debits first and then credits, both aligned to the right.  
D) lists credits first and then debits, indented underneath.
- 43) Which of the following scenarios could explain the journal entry below? 43) \_\_\_\_\_



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

44) Which of the following statements is *not* true? 44) \_\_\_\_\_

- A) The net changes in assets must always equal the sum of the net changes in liabilities and shareholders' equity.
- B) The number of credits posted must equal to number of debits posted.
- C) The total value of credits in all accounts must always equal the total value of debits in all accounts.
- D) Assets must always equal liabilities plus shareholders' equity.

45) The normal balance of any account is the: 45) \_\_\_\_\_

- A) right side.
- B) left side.
- C) side which decreases that account.
- D) side which increases that account.

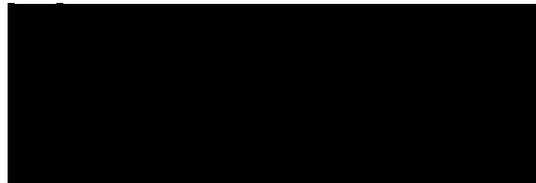
46) During the month you purchased \$12,000 of supplies on credit and \$19,000 of equipment for cash. When you prepare a balance sheet, assets are \$24,000 more than liabilities plus shareholders' equity. 46) \_\_\_\_\_

- A) You may have neglected to post the change in accounts payable.
- B) You may have posted the increase in supplies as a credit rather than a debit.
- C) You may have posted the increase in accounts payable as a debit rather than a credit.
- D) All would have resulted in the \$24,000 error.

47) If no transactions were posted to a particular asset, liability, or shareholders' equity account during a period then: 47) \_\_\_\_\_

- A) the account is posted as zero on the current balance sheet for that account.
- B) the account is left off of the balance sheet.
- C) the words "no change" are entered in the current balance sheet.
- D) the amounts from the previous balance sheet are repeated unchanged on the current balance sheet.

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



48)

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

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The amount of Total Current Assets that would be reported on the company's balance sheet at the end of the year would be:

- A) \$180,800.
- B) \$298,800.
- C) \$145,700.
- D) \$368,500.

49) Which of the following is *not* an example of a liability? 49) \_\_\_\_\_

- A) Account receivable.
- B) Wages payable.
- C) Bonds payable.
- D) Interest payable.

50) According to the principle of conservatism, when faced with uncertainty about the value of an item, a company should use the measure that avoids: 50) \_\_\_\_\_

- A) understating assets and liabilities.
- B) overstating assets and liabilities.
- C) understating assets and overstating liabilities.
- D) overstating assets and understating liabilities.

51) Your company's president donates a large amount of her own money to

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- A) It would appear as a current asset.
- B) It would appear as a liability.
- C) It would not appear on the balance sheet.
- D) It would appear as a long-term asset.

52) Which of the following would a company be most likely to overstate on its balance sheet if the company was trying to mislead potential external investors or creditors?

52) \_\_\_\_\_

- A) Unearned Revenues.
- B) Accounts Receivable.
- C) Notes Payable.
- D) Accounts Payable.

53) Which of the following would *not* be recorded as an identifiable accounting transaction?

53) \_\_\_\_\_

- A) Putting a deposit down on a new vehicle.
- B) Obtaining a bank loan.
- C) Hiring a new employee.
- D) Receiving a deposit from a customer.

54) Which concept should be applied when reporting a piece of land that was bought for \$50,000 five years ago, and which would probably now sell for \$80,000?

54) \_\_\_\_\_

- A) The separate entity concept.
- B) The cost principle.
- C) The duality of effects.
- D) The asset principle.

55) Conservatism means:

55) \_\_\_\_\_

- A) using the most optimistic measurement when faced with uncertainty about the value of assets and liabilities.

- B) using the least optimistic measurement when faced with uncertainty about the value of assets and liabilities.
- C) not underestimating asset values, when faced with uncertainty about the value of assets and liabilities.
- D) not overestimating liabilities, when faced with the uncertainty about the value of assets and liabilities.

- 56) The MegaBuck movie studio's name has become famous for adventure movies. Another studio once offered to buy the name for \$20 million, but MegaBuck turned down the offer. The MegaBuck balance sheet will show: 56) \_\_\_\_\_
- A) The company's name under Other Assets, valued conservatively at \$10 million.
  - B) The company's name will not be shown as an asset on the balance sheet.
  - C) The company's name under Accounts Receivable, valued at \$20 million.
  - D) The company's name under Other Assets, valued at \$20 million.
- 57) Which of the following is the financing that a business acquires through owners' contributions and reinvestment of profits? 57) \_\_\_\_\_
- A) Current Assets.
  - B) Equity.
  - C) External Exchanges.
  - D) Debt.
- 58) Which of the following is the financing a business acquires through borrowing money? 58) \_\_\_\_\_
- A) Current Assets.
  - B) Debt.
  - C) External Exchanges.
  - D) Equity.
- 59) When supplies are paid in cash, which of the following would hold true? 59) \_\_\_\_\_
- A) Total assets will increase.
  - B) Total assets will decrease.
  - C) Total liabilities will decrease.
  - D) Total assets will remain unchanged.
- 60) Which of the following are the three steps applied to daily transactions in the accounting cycle? 60) \_\_\_\_\_
- A) Analyze, record, summarize.
  - B) Analyze, determine, record.
  - C) Present, process, summarize.
  - D) Determine, Scrutinize, record.
- 61) The two sources of financing available to businesses are known as, 61) \_\_\_\_\_
- A) equity and debt.
  - B) common shares and loans.
  - C) equity and liabilities.
  - D) common and preferred shares.

- 62) The basic accounting equation can be represented as,: 62) \_\_\_\_\_
- A)  $A - SE = L$
  - B)  $A = L + SE$
  - C)  $SE = A - L$
  - D) All of these choices are correct.
- 63) When analyzing transactions and exploring their financial effects, journals are used to: 63) \_\_\_\_\_
- A) record the daily effects of the transactions; organized by account.
  - B) record the daily effects of the transactions; organized by date.
  - C) summarize the effects on each account; organized by account.
  - D) summarize the effects on each account; organized by date.
- 64) The three basic steps of the systematic accounting process used to capture and report the financial effects of a company's activities are: 64) \_\_\_\_\_
- A) Analyze, Capture, Report.
  - B) Analyze, Record, Summarize.
  - C) Analyze, Journalize, Report.
  - D) Picture, Name, Analyze.
- 65) Pizza Place Co. went ahead and prepaid one of its expenses, but the clerk looking after the transaction mistakenly debited the transaction as an expense. As a result,: 65) \_\_\_\_\_
- A) The Trial Balance will have Debits < Credits.
  - B) The Trial Balance will have Debits = Credits.
  - C) The Trial Balance will have Debits > Credits.
  - D) All of the choices are correct.
- 66) A debit balance in the retained earnings account can result from: 66) \_\_\_\_\_
- A) a loss exceeding the amount of profit previously recorded in retained earnings.
  - B) expenses exceeding revenues.
  - C) dividends being greater than accumulated earnings.
  - D) All of the choices are correct.
- 67) When dealing with claims on company assets,: 67) \_\_\_\_\_
- A) creditors take precedence over owners.
  - B) owners take precedence over creditors.
  - C) owners and creditors are treated equally.
  - D) All of the choices are possible; it depends on the situation.
- 68) The Supply Company buys \$30,000 of equipment and funds the purchase through liquidating common shares that it owns. What is the impact of this transaction on the basic accounting equation? 68) \_\_\_\_\_
- A) There is no effect.
  - B) Only the right-hand side is impacted.
  - C) Only the left-hand side is impacted.
  - D) Both the right-hand side and left-hand side are impacted.

- 69) The Demand Company buys \$30,000 of equipment and funds half the purchase through liquidating common shares that it owns, while incurring an informal promise to pay the remainder at the end of the month. What is the impact of this transaction on the basic accounting equation? 69) \_\_\_\_\_
- A) Only the right-hand side is impacted.
  - B) Only the left-hand side is impacted.
  - C) Both sides are impacted and the right-hand side equals the left-hand side.
  - D) Both sides are impacted and the right-hand side does not equal the left-hand side.
- 70) The Delivery Company has placed an order for \$2,000 of supplies and intends to pay on account once the goods have been received. Transaction analysis requires the accounting clerk to, 70) \_\_\_\_\_
- A) record supplies as an asset and debit accounts payable on the order date.
  - B) record supplies as an asset on the order date, but wait to record the liability until supplies are received.
  - C) record supplies as an asset and credit accounts payable on the order date.
  - D) do nothing.
- 71) A company goes ahead and purchases inventory. The impact on the current ratio is: 71) \_\_\_\_\_
- A) positive, if  $CA < CL$  to start with and inventory is purchased on credit.
  - B) zero, if inventory was purchased using cash.
  - C) negative, if  $CA > CL$  to start with and inventory is purchased on credit.
  - D) All of the choices are correct.
- 72) Your company has just sold some inventory. What impact does this have on the company's current ratio? 72) \_\_\_\_\_
- A) The current ratio will increase as a result of sale.
  - B) The current ratio will decline as a result of the sale.
  - C) There is no impact; the current ratio remains the same.
  - D) More information is needed to determine the impact.
- 73) A client has settled his outstanding credit account with your company; at the same time, you have just received cash for inventory that you sold at cost. What is the overall impact of these concurrent changes on the current ratio? 73) \_\_\_\_\_
- A) The inflow of cash caused the current ratio to rise.
  - B) There is no impact.
  - C) Depends on the actual dollar amounts.
  - D) None of the choices are correct.
- 74) According to the accounting equation, *ceteris paribus*, which of the following could offset an increase in profits so as to maintain equity? 74) \_\_\_\_\_

74)

- \_\_\_\_\_
- A) Dividends, assets, or liabilities increase; alternatively, common shares decrease.
  - B) Dividends, common shares or liabilities decrease; alternatively, assets increase.
  - C) Dividends, assets, or common shares increase; alternatively, liabilities decrease.
  - D) Dividends or assets increase; alternatively, common shares or liabilities decrease.

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

- 75) Current assets are those assets that a company will use up or convert into cash within the next three months. 75) \_\_\_\_\_
- 76) A "classified" balance sheet is one that contains privileged information. 76) \_\_\_\_\_
- 77) All liabilities require that the company sacrifice resources at some time in the future. 77) \_\_\_\_\_
- 78) A chart of accounts is a list of account titles used to record financial transactions. 78) \_\_\_\_\_
- 79) A summary of account names and account numbers is kept by a company in the table of contents of its annual report. 79) \_\_\_\_\_
- 80) A transaction is an exchange or event that directly affects the assets, liabilities, or shareholders' equity of a company. 80) \_\_\_\_\_
- 81) A vitamin manufacturer combines ingredients when making its vitamin pills. This is an observable internal event. 81) \_\_\_\_\_
- 82) A transaction can cause only one account on the balance sheet to change. 82) \_\_\_\_\_
- 83) If a company uses \$100 million in cash to pay off debt, its shareholders' equity will increase by \$100 million. 83) \_\_\_\_\_
- 84) General Motors (GM) signs a new labour agreement agreeing to give its workers a 5% wage increase next year. This transaction will affect GM's financial statements in the current year. 84) \_\_\_\_\_
- 85) The basic accounting equation must always balance for each transaction. 85) \_\_\_\_\_
- 86) All of a company's business activities have a direct economic effect on the company. 86) \_\_\_\_\_
- 87) If total assets increase, then either liabilities or shareholders' equity also must increase. 87) \_\_\_\_\_
- 88) Assets are typically listed on the balance sheet in order of how soon they

are used 88)  
or  
quickly  
they can  
be  
turned  
into  
cash.

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- 89) Facebook issues new stock worth \$40 million for cash. This would **not** affect the shareholders' equity on the balance sheet because as new shares are sold the value of existing shares will decline by the same amount. 89) \_\_\_\_\_
- 90) The current ratio is used to assess a company's ability to pay its current liabilities. 90) \_\_\_\_\_
- 91) Any item on a balance sheet labelled payable is a liability of that company. 91) \_\_\_\_\_
- 92) A credit to an asset account will cause a decrease in assets on the financial statements. 92) \_\_\_\_\_
- 93) Across all accounts, the total value of all debits must equal the total value of all credits. 93) \_\_\_\_\_
- 94) The total value of all debits to a particular account must equal the total value of all credits to that account. 94) \_\_\_\_\_
- 95) Within a journal entry, credits are written first and debits are written beneath them indented to the right. 95) \_\_\_\_\_
- 96) You are pleasantly surprised to discover that a popular actress appears on The Tonight Show wearing your company's jeans. As a result of that your company's sales increase by \$500,000. When the actress appeared on TV, you would have recorded an asset because the TV appearance was expected to bring future economic benefits to your company. 96) \_\_\_\_\_
- 97) If the total dollar value of credits to an account exceed the total dollar value of debits to that account, the ending balance of the account will be a debit balance. 97) \_\_\_\_\_
- 98) Posting journal entries involves copying the dollar amounts from the journal into the ledger. 98) \_\_\_\_\_
- 99) If a \$100 debit is erroneously posted to an account as a \$100 credit, the accounts will be out of balance by \$100. 99) \_\_\_\_\_
- 100) The accounting equation will still balance if a \$5,000 liability is misclassified as shareholders' equity. 100) \_\_\_\_\_

- 101) A company buys land for \$5 million dollars in 1983. The land is now worth \$15 million. The company should increase the book value of this asset on its balance sheet to reflect its current value. 101) \_\_\_\_
- 102) All events affecting the current value of a company are reported on the statement of financial position. 102) \_\_\_\_
- 103) According to the cost principle, assets are valued at their replacement cost. 103) \_\_\_\_
- 104) Double-entry accounting always captures what the company receives, while at the same time capturing what it gives. 104) \_\_\_\_
- 105) Under IFRS, a public company has a choice as to how the company's statement of financial position is prepared. 105) \_\_\_\_
- 106) Signing a rental agreement results in an activity that has a direct and measurable financial effect on the company. 106) \_\_\_\_
- 107) The duality of effects in transaction analysis implies that every transaction has two effects on the basic accounting equation. 107) \_\_\_\_
- 108) To maintain consistency, the accounting profession requires companies to use the same chart of accounts, whether operating under IFRS or ASPE. 108) \_\_\_\_
- 109) The current ratio will remain unaffected for a company that has simply declared a cash dividend (as opposed to paying it out). 109) \_\_\_\_
- 110) Debits equaling credits in a Trial Balance provides a check to ensure transactions have been recorded correctly. 110) \_\_\_\_
- 111) Under the rules governing ASPE and IFRS, companies must list assets in order of liquidity. 111) \_\_\_\_
- 112) Under the rules governing ASPE and IFRS, companies must list liabilities in order of maturity. 112) \_\_\_\_
- 113) A public company following IFRS is entitled to set aside the cost principle. 113) \_\_\_\_
- 114) It is possible for a firm to have a negative balance in the retained earnings account. 114) \_\_\_\_
- 115) A creditor's claim on a company's assets will always take precedence over the owners of the company. 115) \_\_\_\_
- 116) An exchange containing a promise is never considered an accounting transaction. 116) \_\_\_\_

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

**the question.**

- 117) If a purchase of supplies for \$400 was mistakenly recorded as a credit to Supplies, but the cash paid for the supplies was correctly recorded, what would be the effect on the accounting equation? 117) \_\_\_\_\_
- 118) On January 1, 2007, NWK, Inc.'s assets were \$300,000 and its shareholders' equity was \$140,000. During the year, assets increased \$15,000 and liabilities decreased \$10,000. What was the shareholders' equity on December 31, 2007? 118) \_\_\_\_\_
- 119) On March 3, 2011, your company pays \$4,000 to acquire supplies. Should this be a recognized accounting transaction? If so, what accounts are affected and by how much each? 119) \_\_\_\_\_
- 120) Use the following information as of December 31, 2011 to calculate the amounts of cash and retained earnings. The company's total assets are \$36,000. This company doesn't have other accounts. 120) \_\_\_\_\_
- 121) For each of the following, indicate how the line item would be categorized on a classified balance sheet. 121) \_\_\_\_\_

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

- \_\_\_\_\_ Property and Equipment
- \_\_\_\_\_ Contributed Capital
- \_\_\_\_\_ Accrued Liabilities
- \_\_\_\_\_ Supplies
- \_\_\_\_\_ Unearned Revenue
- \_\_\_\_\_ Retained Earnings
- \_\_\_\_\_ Wages Payable
- \_\_\_\_\_ Accounts Receivable
- \_\_\_\_\_ Inventory
- \_\_\_\_\_ Bonds Payable
- \_\_\_\_\_ Accounts Payable

- 122) Match the term and the explanation. There are more definitions than terms. \_\_\_\_\_ Journal entry
- \_\_\_\_\_ dr \_\_\_\_\_ Acc Unearned
  - \_\_\_\_\_ Unobservable event \_\_\_\_\_ ountRevenues
  - \_\_\_\_\_ Classified balance sheet \_\_\_\_\_ s \_\_\_\_\_
  - \_\_\_\_\_ Contributed capital \_\_\_\_\_ pay Prepaid Rent
  - \_\_\_\_\_ Accounting equation \_\_\_\_\_ able
  - \_\_\_\_\_ Transaction \_\_\_\_\_ A. The

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

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

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

\_\_\_\_\_ A company sells \$2 million in goods for immediate payment.

\_\_\_\_\_ The company uses up office supplies.

\_\_\_\_\_ The stock market rises 10% and the value of a company's stock increases.

\_\_\_\_\_ Each day the company owes more interest on a loan.

\_\_\_\_\_ A company pays cash to an inventor for the legal rights to produce a new product.

\_\_\_\_\_ Management pays workers an overtime bonus as required by their union contract.

\_\_\_\_\_ A company uses up supplies to manufacture a product.

\_\_\_\_\_ A company receives orders worth \$1 million but no down payments.

123) \_\_\_\_\_

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

\_\_\_\_\_ Decrease in Wages Payable.

\_\_\_\_\_ Increase in Cash.

\_\_\_\_\_ Increase in Accounts Payable.

\_\_\_\_\_ Decrease in Notes Payable.

\_\_\_\_\_ Increase in Inventory.

\_\_\_\_\_ Increase in Contributed Capital.

\_\_\_\_\_ Decrease in Accrued Liabilities.

\_\_\_\_\_ Decrease in Property and Equipment.

124) \_\_\_\_\_

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

\_\_\_\_\_ Duality of effects

\_\_\_\_\_ Journal entry

\_\_\_\_\_ Posting

\_\_\_\_\_ Conservatism

\_\_\_\_\_ Debit

\_\_\_\_\_ Chart of accounts

\_\_\_\_\_ T-account

\_\_\_\_\_ Credit

\_\_\_\_\_ Cost principle

A. A journal entry that lowers the balance of the account.

B. ate  
Wh T-account.  
en C. The  
jour concept that a  
nal company  
entr must keep  
ies separate  
are accounts by  
copitime period.  
ed D. A  
to simplified  
the version of an  
appraccount in the  
opri General

Ledger. balance sheet items from two different time periods.

E. The J. An entry that is posted on the left side of a T-account or  
mechani ledger.

sm used K. The principle that a company should use the least  
to optimistic measure, when uncertainty exists.

record L. Assets and liabilities are initially recorded at their  
each original cost to the company.

transacti M. A journal entry that raises the balance of the account.

on in the N. A balance sheet where assets appear on the top,  
General liabilities in the middle and shareholders' equity appears on  
Journal. the bottom.

F. When O. An entry that is posted on the right side of a T-account.

a P. A summary of account names and numbers.

compan

y's

balance

sheet

has been

verified

by an

outside

auditor.

G. The

concept

that any

transacti

on must

have at

least

two

effects

on the

accounti

ng

equation

.

H.

When a

dollar

value is

assigned

to an

item

recorded

in the

accounti

ng

system.

I.

Compar

es

- 126) In performing some due diligence with respect to the work of your new bookkeeper, you notice that a debit posting for prepaid rent of \$900 was mistakenly recorded as a debit to rent expense. Furthermore, a debit to salary expense, which was supposed to be recorded as 754, instead got recorded as \$745. What impact will these two transactions have on debits and credits in trial balance? 126) \_\_\_\_\_
- 127) In computing the statement of financial position, some data was misplaced and they are attempting to reconstruct the missing data from that which is available. You know that total assets for the current year are \$33,000. Non-current liabilities are \$8,000 and Shareholders equity is \$23,000. The current ratio is 2.50. Find the values for current assets, fixed assets and current liabilities. 127) \_\_\_\_\_
- 128) Assume that current assets are greater than current liabilities. What would happen to the current ratio if a company purchased inventory? 128) \_\_\_\_\_

- 1) C
- 2) D
- 3) C
- 4) A
- 5) B
- 6) D
- 7) C
- 8) C
- 9) A
- 10) C
- 11) D
- 12) C
- 13) C
- 14) B
- 15) C
- 16) C
- 17) B
- 18) D
- 19) B
- 20) B
- 21) B
- 22) B
- 23) D
- 24) C
- 25) C
- 26) D
- 27) D
- 28) C
- 29) C
- 30) A
- 31) A
- 32) D
- 33) A
- 34) A
- 35) A
- 36) D
- 37) B
- 38) D
- 39) B
- 40) B
- 41) D
- 42) B
- 43) C
- 44) B
- 45) D
- 46) C
- 47) D
- 48) D
- 49) A
- 50) D
- 51) C

- 52) B
- 53) C
- 54) B
- 55) B
- 56) B
- 57) B
- 58) B
- 59) D
- 60) A
- 61) A
- 62) D
- 63) B
- 64) B
- 65) B
- 66) D
- 67) A
- 68) C
- 69) C
- 70) D
- 71) D
- 72) D
- 73) B
- 74) D
- 75) FALSE
- 76) FALSE
- 77) TRUE
- 78) TRUE
- 79) FALSE
- 80) TRUE
- 81) TRUE
- 82) FALSE
- 83) FALSE
- 84) FALSE
- 85) TRUE
- 86) FALSE
- 87) TRUE
- 88) TRUE
- 89) FALSE
- 90) TRUE
- 91) TRUE
- 92) TRUE
- 93) TRUE
- 94) FALSE
- 95) FALSE
- 96) FALSE
- 97) FALSE
- 98) TRUE
- 99) FALSE
- 100) TRUE
- 101) FALSE
- 102) FALSE
- 103) FALSE

- 104) TRUE  
 105) TRUE  
 106) FALSE  
 107) FALSE  
 108) FALSE  
 109) FALSE  
 110) FALSE  
 111) FALSE  
 112) FALSE  
 113) TRUE  
 114) TRUE  
 115) TRUE  
 116) FALSE  
 117) Assets would be \$800 less than liabilities plus shareholders' equity.  
 118) On January 1, 2007,  $A = L + SE$ , so  $L = 300,000 - 140,000 = 160,000$ . At year end,  $A = L + SE$ , so  $SE = (300,000 + 15,000) - (160,000 - 10,000) = 165,000$ .  
 119) It should be a recognized transaction. Supplies (an asset) are increased by \$4,000 and Cash (also an asset) is decreased by \$4,000.  
 120) Cash: \$5,000; Retained Earnings: \$19,000.

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

- 121) LTA, SE, CL, CA, CL, SE, CL, CA, CA, LTL, CL  
 122) H, J, N, A, I, C, K, F, Q, E  
 123) OE, OI, NT, UE, OE, OE, OI, NT  
 124) dr, dr, cr, dr, dr, cr, dr, cr  
 125) G, E, B, K, J, P, D, O and L.  
 126) The Trial Balance credit balance will be \$9 greater than that of the debit column.  
 127) \$5,000, \$28,000, \$2,000, respectively.  $33,000 = CL + 8,000 + 23,000$ , therefore  $CL = 2,000$ . Use the CL value in the current ratio to get CA.  $Current\ Ratio = 2.50 = CA / 2,000$ , therefore,  $CA = 5,000$ . Subtract the CA value from total assets to get fixed assets;  $33,000 - 5,000 = 28,000$ .  
 128) It depends. If inventory is purchased using cash, nothing would happen. If it is purchased on credit, CL would increase, as well as CA, and it would cause the current ratio to decrease based on our assumption of  $CA > CL$ .