

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

- 1) The continuity assumption is inappropriate when 1) _____
A) the business is just starting up.
B) fair values are higher than costs.
C) liquidation appears likely.
D) the business is organized as a proprietorship.
- 2) Shareholders' equity 2) _____
A) includes retained earnings and contributed capital.
B) is usually equal to cash on hand.
C) is shown on the income statement.
D) is equal to liabilities and retained earnings.
- 3) It is assumed that the activities of Petro Canada Corporation can be distinguished from those of Imperial Oil Limited because of the 3) _____
A) unit-of-measure assumption. B) periodicity assumption.
C) continuity assumption. D) separate-entity assumption.
- 4) Abe Cox is the sole owner and manager of Cox Auto Repair Shop. In 20X1, Cox purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Cox from recording the cost of the new automobile as an asset to the business? 4) _____
A) Revenue principle B) Separate-entity assumption
C) Historical cost principle D) Full disclosure
- 5) The main objective of financial reporting is to: 5) _____
A) meet the needs of all potential users.
B) compare a company's performance with its competitors.
C) provide information that is useful to individuals making investment and credit decisions.
D) provide information that will be used by a company's managers for product pricing decisions.
- 6) Which one of the following is *not* a qualitative characteristic of useful accounting information? 6) _____
A) Comparability B) Relevance
C) Materiality D) Faithful representation
- 7) The adoption of International Financial Reporting Standards can be viewed as an application of which of the following quality enhancing characteristics? 7) _____
A) Verifiability B) Representational faithfulness
C) Comparability D) Timeliness
- 8) The dominating criteria by which accounting information can be judged is that of 8) _____
A) timeliness. B) usefulness for decision making.
C) comparability. D) freedom from bias.
- 9) The assumption that a business enterprise will not be liquidated or sold in the near future is known

- A) going concern assumption.
- B) conservatism assumption.
- C) monetary unit assumption.
- D) economic entity assumption.

- 10) Accounting information is considered to be relevant when it 10) _____
- A) is verifiable and neutral.
 - B) is understandable by reasonably informed users of accounting information.
 - C) can be depended on to represent the economic conditions and events that it is intended to represent.
 - D) is capable of making a difference in a decision.
- 11) During the lifetime of an entity, accountants produce financial statements at arbitrary points in time in accordance with which accounting concept? 11) _____
- A) Periodicity
 - B) Comparability
 - C) Cost/benefit relationship
 - D) Monetary unit assumption
- 12) If Golden Company owed Eye Company \$500, where would Golden Company reflect this? 12) _____
- A) Statement of changes in equity.
 - B) Statement of financial position.
 - C) Statement of cash flows
 - D) Income statement.
- 13) Which of the following defines assets? 13) _____
- A) Probable future economic benefits owned by an entity as a result of future transactions.
 - B) Probable future economic benefits owned by an entity as a result of past transactions.
 - C) Possible future economic benefits owed by an entity as a result of future transactions.
 - D) Possible future economic benefits owed by an entity as a result of past transactions.
- 14) Which of the following defines liabilities? 14) _____
- A) Possible debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
 - B) Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
 - C) Probable debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
 - D) Possible debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
- 15) Which of the following defines shareholders' equity? 15) _____
- A) Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
 - B) Assets plus liabilities.
 - C) The financing provided by the owners and the operations of a business.
 - D) Probable future economic benefits owned by an entity as a result of past transactions.

- 16) Liabilities are generally classified on a statement of financial position as 16) _____
 A) present liabilities and future liabilities.
 B) current liabilities and non-current liabilities.
 C) small liabilities and large liabilities.
 D) tangible liabilities and intangible liabilities.
- 17) The asset that results when a customer buys goods or services on credit is 17) _____
 A) notes receivable. B) accounts receivable.
 C) Cash. D) accounts payable.
- 18) The asset that results from the payment of expenses in advance is 18) _____
 A) short term investments. B) inventory.
 C) accounts receivable. D) prepaid expenses.
- 19) Where would we report changes in shareholders' equity caused by operating activities? 19) _____
 A) In a liability account. B) In the retained earnings account.
 C) In a contributed capital account. D) In an asset account.
- 20) How are goods, which are purchased for sale later, recorded in the financial statements 20) _____
 A) as cost of goods sold. B) as prepaid expenses.
 C) as inventory. D) as operating expenses.
- 21) On a classified balance sheet, prepaid expenses are classified as 21) _____
 A) a current asset. B) property, plant, and equipment.
 C) a long-term investment. D) a current liability.
- 22) Which of the following is *not* considered an asset? 22) _____
 A) Accounts receivable B) Dividends
 C) Equipment D) Inventory
- 23) Which of the following liability accounts is usually not satisfied by payment of cash? 23) _____
 A) Taxes payable. B) Unearned revenues.
 C) Short-term borrowings. D) Trade payables.
- 24) Accounting systems should record 24) _____
 A) only events that involve cash.
 B) all economic events.
 C) events that result in a change in assets, liabilities, or shareholders' equity items.
 D) items of interest to the shareholders.
- 25) Which of the following is least likely to have a liability called Deferred Revenue? 25) _____
 A) A university or college B) A retailer
 C) A magazine subscription company D) An insurance company
- 26) When a new business is just starting up, which of the following must be done first? 26) _____
 A) Generate positive cash flow through successful operations.
 B) These activities all occur simultaneously not sequentially.
 C) Acquire financing from issuance of shares and borrowing from creditors.
 D) Acquire the assets both long-lived and short-lived so they can operate.

27) An account is a part of the financial information system and is described by all except which one

of the 27) _____
followin _____
g?

- A) An account is a source document
- B) An account has a title
- C) An account consists of three parts
- D) An account has a debit and credit side

28) If total liabilities decreased by \$14,000, and shareholders' equity increased by \$6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n) 28) _____

- A) \$14,000 increase.
- B) \$20,000 increase.
- C) \$8,000 increase.
- D) \$8,000 decrease.

29) Collection of a \$600 accounts receivable 29) _____

- A) decreases an asset \$600; decreases a liability \$600.
- B) increases an asset \$600; decreases a liability \$600.
- C) decreases a liability \$600; increases shareholders' equity \$600.
- D) has no effect on total assets.

30) The purchase of an asset on credit 30) _____

- A) decreases assets and increases liabilities.
- B) has no effect on total assets.
- C) increases assets and shareholders' equity.
- D) increases assets and liabilities.

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

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

- A) Choice A
- B) Choice B
- C) Choice C
- D) Choice D

32) Winsome Inc. reports total assets and total liabilities of \$225,000 and \$100,000, respectively, at the end of its first year of business. The company earned \$75,000 during the first year and distributed \$30,000 in dividends. What was the corporation's contributed capital? 32) _____

- A) \$125,000
- B) \$80,000
- C) \$50,000
- D) \$95,000

33) Which one of the following represents the expanded basic accounting equation? 33) _____

- A) Assets = Revenues + Expenses - Liabilities
- B) Assets - Liabilities - Dividends = Contributed capital + Revenues - Expenses
- C) Assets + Liabilities = Dividends + Expenses + Contributed capital + Revenues

C) \$20,000 increase

D) \$30,000 increase

42) A new company signed a lease for office space during their first month of business. At that time, they paid a total of \$16,000 for first and last months' rent. At the end of the first month, the effect on the financial statements would be: 42) _____

A) \$14,000 prepaid rent

B) \$8,000 rent expense and \$8,000 prepaid rent

C) \$14,000 rent expense

D) Nothing is recorded because the company has not made any sales yet

43) Which of the following statements is true? 43) _____

A) The normal balance is always on the side of the T account that is decreasing.

B) The normal balance is always on the side of the T account that is increasing

C) The normal balance is always on the credit side of the T account.

D) The normal balance is always on the debit side of the T account.

44) The classification and normal balance of the dividend account is 44) _____

A) a liability with a credit balance.

B) revenue with a credit balance.

C) shareholders' equity with a debit balance.

D) an expense with a debit balance.

45) The best interpretation of the word credit is the 45) _____

A) right side of an account.

B) decrease side of an account.

C) increase side of an account.

D) offset side of an account.

46) In the first month of operations, the total of the debit entries to the cash account amounted to \$1,900 and the total of the credit entries to the cash account amounted to \$1,500. The cash account has a 46) _____

A) \$500 credit balance.

B) \$400 credit balance.

C) \$400 debit balance.

D) \$900 debit balance.

47) Borrowing \$100,000 of cash from First National Bank, signing a note to be paid, would do which of the following? 47) _____

A) Increase notes payable by a debit.

B) Increase cash by a credit.

C) Increase notes payable by a credit.

D) Decrease cash by a debit.

48) Jet Corporation was organized on March 1, 20X2. Jet Corporation issued shares to each of the six owners who paid in a total of \$3,000 cash. On the basis of transaction analysis, the following entry should be recorded in the accounts (dr = debit and cr = credit) 48) _____

A) Cash (dr), \$3,000; Contributed capital (cr), \$3,000.

B) Cash (cr), \$3,000; Contributed capital (dr), \$3,000.

C) Cash (cr), \$3,000; Shareholders' equity (dr), \$3,000.

D) Cash (dr), \$3,000; Revenue (cr), \$3,000.

49) Salida Company paid a note payable of \$10,000 (interest had previously been paid). This transaction should be recorded as follows on the payment date.

A)	Accounts payable	10,000	
	Cash		10,000
B)	Cash	10,000	
	Note payable		10,000

C)	Note payable		
	Cash		
D)	Note payable		
	Cash		

A) Choice A B) Choice B C) Choice C D) Choice D

- 50) A T account is _____
 A) a special account used instead of a journal.
 B) a way of depicting the basic form of an account.
 C) is the actual account form used in real accounting systems.
 D) a special account used instead of a trial balance.
- 51) An accountant has debited an asset account for \$500 and credited a revenue account for \$1,000. What can be done to complete the recording of the transaction? _____
 A) Credit a different asset account for \$500.
 B) Debit a shareholders' equity account for \$500.
 C) Nothing further must be done.
 D) Debit another asset account for \$500.
- 52) The trade payables account has a beginning balance of \$1,000 and we purchased \$3,000 of inventory on credit during the month. The ending balance was \$800. How much did we pay our creditors during the month? _____
 A) \$3,200 B) \$3,000 C) \$4,800 D) \$2,800
- 53) When recording transactions in T-account format, we must add an additional step to the transaction analysis process. Which of the following is the additional step? _____
 A) Determine what accounts and elements in the equation are affected by the transaction.
 B) The accounting equation must remain in balance after each transaction.
 C) We must have equal debits and credits once the entry is recorded in the accounts.
 D) Determine if the affected accounts are increased or decreased by the transaction.
- 54) Assets normally show _____
 A) credit balances. B) debit balances.
 C) debit or credit balances. D) debit and credit balances.

Reference: 02-01

KOOL BILLIARDS LTD.			
Statement of Financial Position			
December 31, 20X6			

Cash	\$60,000	Accounts payable	\$70,000
Accounts receivable	50,000	Salaries payable	10,000
Inventory	70,000	Mortgage payable	<u>90,000</u>
Prepaid insurance	40,000		<u>\$170,000</u>
Land	190,000		
Building	100,000	Common shares	140,000
Less	<u>(20,000)</u>	Retained	<u>250,000</u>

accumulated amortization		80,000	earnings	
Trademark net of amortization		<u>70,000</u>	Total shareholders' equity	<u>\$390,000</u>

Total assets	<u>\$560,000</u>	Total liabilities and shareholders' equity	<u>\$560,000</u>
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- 55) The total dollar amount of assets to be classified as current assets is 55) _____
A) \$170,000 B) \$270,000 C) \$190,000 D) \$220,000
- 56) The total dollar amount of assets to be classified as investments is 56) _____
A) \$0 B) \$150,000 C) \$180,000 D) \$100,000
- 57) Long-term liabilities total 57) _____
A) \$390,000 B) \$90,000 C) \$170,000 D) \$560,000
- 58) The total dollar amount of assets to be classified as property, plant, and equipment is 58) _____
A) \$80,000 B) \$270,000 C) \$340,000 D) \$190,000
- 59) The total amount of working capital is 59) _____
A) \$40,000 B) \$140,000 C) \$60,000 D) \$370,000
- 60) The current ratio is: 60) _____
A) 2.75 to 1 B) 3.25 to 1 C) 1.75 to 1 D) 1.50 to 1
- 61) Earnings retained for use in the business are 61) _____
A) \$390,000 B) \$60,000 C) \$250,000 D) \$80,000
- 62) A weakness of the current ratio is 62) _____
A) that it can be expressed as a percentage, as a rate, or as a proportion.
B) that it doesn't take the composition of the current assets into account.
C) that it is rarely used by sophisticated analysts.
D) the difficulty of the calculation.
- 63) Financing activities involve 63) _____
A) acquiring long-lived assets. B) lending money.
C) issuing shares. D) acquiring investments.
- 64) Which of the following would be an example of a financing transaction? 64) _____
A) Purchasing equipment for cash.
B) Buying inventory from a supplier on credit.
C) Buying inventory from a supplier for cash.
D) Selling shares to investors for cash.
- 65) Investing activities include 65) _____
A) collecting the principal on loans made.

- B) repaying money previously borrowed.
- C) obtaining cash from creditors.
- D) obtaining capital from owners.

- 66) Which of the following would cause an inflow of cash? 66) _____
- A) Purchase of inventory for debt.
 - B) Sale of an asset for cash at less than its book value.
 - C) Payment of accounts payable.
 - D) Payment of a long-term mortgage.
- 67) Dow Construction Company reports a net use of cash for investing activities of \$1.2 million and a net source of cash provided by financing of \$.8 million. What was the effect on the cash balance? 67) _____
- A) To cause the balance to increase by \$.4 million.
 - B) Undeterminable because the beginning cash balance was not given.
 - C) To cause the balance to increase by \$.8 million.
 - D) To cause the balance to decrease by \$.4 million.
- 68) Which of the following expenses has no effect on the cash flow of a firm? 68) _____
- A) Cost of goods sold
 - B) Depreciation expense
 - C) Interest expense
 - D) Salaries expense

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

- 69) Qualitative characteristics of accounting information are not part of the conceptual framework of accounting. 69) _____
- 70) If you trade your computer plus cash for a new car, the cost of the new car is equal to the cash paid plus the market value of the computer. 70) _____
- 71) Faithful representation means information must be free from material error, neutral and complete. 71) _____
- 72) The unit-of-measure assumption states that financial information is reported in the national monetary unit. 72) _____
- 73) The separate-entity assumption assumes a stable monetary unit (not affected by inflation or deflation). 73) _____
- 74) Three of the four basic assumptions that underlie accounting measurement and reporting relate to the statement of financial position. 74) _____
- 75) The amount shown on the statement of financial position as shareholders' equity represents the current market value of the owners' residual claim against the company. 75) _____
- 76) Cash and supplies are both classified as current assets. 76) _____
- 77) Assets are economic resources controlled by an entity as a result of past transactions or events and for which future economic benefits may be obtained. 77) _____
- 78) Liability accounts are reported on the statement of financial position. 78) _____
- 79) The basic system of recording transactions has withstood the test of time, and has been in use for

more 79)
than 500
years.

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- 80) An individual accounting record for a specific asset, liability or shareholders' equity item is called an account. 80) _____
- 81) Long-term investments appear in the property, plant, and equipment section of the balance sheet. 81) _____
- 82) On the income statement, assets should always equal liabilities plus shareholders' equity. 82) _____
- 83) Transactions have a dual economic effect on the fundamental accounting model. 83) _____
- 84) The payment of a liability in cash will decrease shareholders' equity. 84) _____
- 85) If the correct accounts have been identified and the appropriate direction of the effect on each account has been determined, then the equation should remain in balance. 85) _____
- 86) The purchase of a delivery truck for cash increases assets and shareholders' equity. 86) _____
- 87) Recording the borrowing of cash with a note payable increases shareholders' equity. 87) _____
- 88) When a business owner invests cash in the business, the investment causes a liability to increase. 88) _____
- 89) When a business pays a previously recorded bill, the liabilities of the business decrease. 89) _____
- 90) The objective of transaction analysis is to determine the economic effects of each transaction in terms of the accounting model. 90) _____
- 91) If a company has assets of \$60,000 and shareholders' equity of \$30,000, then its liabilities must be \$90,000. 91) _____
- 92) A debit increases an account and a credit decreases an account. 92) _____
- 93) A T-account shows total debits of \$25,000 and total credits of \$22,000; therefore, it has a \$3,000 credit balance. 93) _____
- 94) In its simplest form, a T account consists of three parts: (1) its title, (2) a left or debit side and (3) a right or credit side. 94) _____
- 95) Debit and credit can be interpreted to mean "bad" and "good," respectively. 95) _____
- 96) A T-account is an accounting method of expressing the effects of a single transaction in a debits-equal-credits format. 96) _____
- 97) Normally, asset accounts will have credit balances and liability accounts will have debit balances. 97) _____
- 98) "Debit" is the designation for the left side of an account, and "credit" is the designation for the right side of an account. 98) _____

- 99) Some legal contracts, such as the signing of a contract to hire a new employee, are not reflected in the financial statements. 99) _____
- 100) Contributed capital results when a company buys a new delivery truck. 100) _____
- 101) Usually when a short-term, interest-bearing note payable is paid on its maturity date, an asset is credited and a liability is debited. 101) _____
- 102) By themselves, journal entries do not provide the balances in accounts. 102) _____
- 103) Calculating financial ratios can give clues to underlying conditions that may not be noticed by examining each financial statement item separately. 103) _____
- 104) The current ratio takes into account the composition of current assets. 104) _____
- 105) The sale of land for cash would be classified as a cash inflow from an investing activity. 105) _____
- 106) The activity from the balance sheet to be presented in the financing activities section of the cash flow statement is based on an analysis of shareholders' equity only. 106) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 107) Match the terminology with the description by entering the proper letter in the space to the left. A. Credits B. Share Capital C. Cost principle D. Transaction E. Debits F. Liability G. Statement of financial position H. Primary objective of external financial reporting I. Separate-entity assumption J. Retained earnings K. As at December 31, 20X1 L. For the period ended December 31, 20X1 M. None of the above is correct ____ 1. Increase assets and decreases shareholders' equity. ____ 2. An exchange between an entity and another party. ____ 3. Normal balances for liabilities. ____ 4. To provide useful economic information about a business to help external parties make sound financial decisions. ____ 5. Accounting assumption that requires assets to be recorded at their cash equivalent cost. ____ 6. Cumulative earnings that have not been distributed to the owners. ____ 7. A debt owed by the entity. ____ 8. Statement of financial position. ____ 9. Account for a business separate from its owners. ____ 10. Dating of the statement of financial position (20X1).

108) Why is the continuity assumption so important for statement of financial position reporting?

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

110) Why is the historical cost principle so important for statement of financial position reporting?

111) Classify the following statement of financial position accounts for White Goose Linen Co.

_____	a. Investments in associates
_____	b. Retained Earnings
_____	c. Notes Payable due in 3 months
_____	d. Land
_____	e. Short-term investments
_____	f. Bonds Payable
_____	g. Supplies
_____	h. Share Capital
_____	i. Notes Payable due in 5 years

	j. Income Taxes Payable
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112) For each of the following events, which ones result in an exchange transaction for the O'Brien Company?

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

113) For each item below, indicate whether the account will be debited or credited:
 1. Decrease in Accounts Payable
 2. Increase in Dividends
 3. Increase in Common Shares
 4. Increase in Unearned Revenue
 5. Decrease in Interest Payable
 6. Increase in Prepaid Insurance
 7. Decrease in Wages Expense
 8. Decrease in Supplies
 9. Increase in Revenues
 10. Decrease in Accounts Receivable

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

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

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

Element	Debit		Credit	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
A Assets				
B Liabilities				
C Share				

	Capit	Earnings				
D	Retained					

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

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

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

118) The accounts with identification letters for Wild World Inc. are listed below. Letter Account Title
 A Cash
 B Trade Receivables
 C Office supplies
 D Equipment
 E Land
 F Trade Payables
 G Notes Payable
 H Share Capital
 I Retained Earnings
 During 20X1, the company completed the transactions given below. You are to indicate the appropriate journal entry for each transaction by giving the account letter and amount. Some entries may need three letters. The first transaction is given as an example.

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

119) Analyze the effect of the following transactions using the basic accounting equation and the format provided below.
 i. Bought land with an estimated fair value of \$150,000 by issuing 100,000 shares.
 ii. Issued 10,000 common shares for \$15,000 cash
 iii. Purchased a 2-year insurance policy for \$4,800.
 iv. Paid rent of \$3,000
 v. Bought equipment for \$50,000. Paid 20% down in cash and the balance on a 5-year, 6% note payable.
 vi. Purchased \$9,000 of merchandise inventory on credit.
 vii. Paid utilities bill for \$750.
 viii. Sold \$8,000 of merchandise inventory for \$16,000 cash.
 ix. Paid

owners. (1) Borrowed \$100,000 on one-year note payable. (2) Paid \$5,000 of trade payables. (3) Purchased land by signing a \$20,000 note payable. (4) Accepted a promissory note of \$1,000 from a customer. (5) Purchased two service vehicles, \$21,000 each; paid cash. (6) Borrowed \$20,000 on one-year note payable. (B) Complete the following based only on the 6 transactions above: Assets \$ Liabilities \$ Shareholders' equity \$

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

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

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

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

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

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

- 52) A
- 53) C
- 54) B
- 55) D
- 56) A
- 57) B
- 58) B
- 59) B
- 60) A
- 61) C
- 62) B
- 63) C
- 64) D
- 65) A
- 66) B
- 67) D
- 68) B
- 69) FALSE
- 70) TRUE
- 71) TRUE
- 72) TRUE
- 73) FALSE
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- 93) FALSE
- 94) TRUE
- 95) FALSE
- 96) FALSE
- 97) FALSE
- 98) TRUE
- 99) TRUE
- 100) FALSE
- 101) TRUE
- 102) TRUE
- 103) TRUE

- 104) FALSE
 105) TRUE
 106) FALSE
 107) 1. E; 2. D; 3. A; 4. H; 5. C; 6. J; 7. F; 8. G; 9. I; 10. K
 108) The continuity assumption is also known as the going-concern assumption. It is important for statement of financial position reporting because of valuation issues. If a business is expected to operate into the foreseeable future, amounts presented on the statement of financial position for assets and liabilities are based on the cost principle. If the continuity assumption is not followed, assets and liabilities might be reported at liquidation values as if they are going out of business.
 109) The separate-entity assumption is important for statement of financial position reporting because a business should present only its own assets and liabilities on the statement. A business is a separate accounting entity from its owners. Therefore, the owners' assets and liabilities would appear on their own (personal) financial statement.
 110) The cost principle is important for statement of financial position reporting because of valuation issues. The cash-equivalent cost is verifiable. If it were not for the cost principle, assets and liabilities could be reported at more subjective values. This could lead to manipulation of statement of financial position amounts.
 111) (a) NCA, (b) SE, (c) CL, (d) NCA, (e) CA, (f) NCL, (g) CA, (h) SE, (i) NCL, (j) CL
 112) (a) Y, (b) N, (c) Y, (d) N, (e) Y, (f) N
 113) Please review the following information:

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

- 114) Please review the following information:

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

10. Billed customers for services performed.	+		+
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115) Please review the following information:

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

116) Please review the following information:

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

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

118) Please review the following information:

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

	o	supplies in (F).				
G		Paid for the office	F	2,000	A	2,000

119) Please review the following information:

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

120) (A)

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

(B) Cash increase, \$19,000(+ 20,000 + 5,000 - 1,000 + 5,000 - 10,000)

121) a)

1.	Cash(30,000 × 3) (A)	90,000	
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		Cash (A)		42,000
2.		Purchased two service vehicles, \$21,000 each (paid cash)		
	6.	Notes receivable (A)	1,000	
		Cash (A)		1,000
3.		Accepted a \$1,000 promissory note from a customer.		
	b)	Purchased land by signing a \$20,000 note		
		Assets	\$205,000	
4.		Liabilities	\$115,000	5,000
		Shareholders' equity	\$90,000	5,000
		Paid \$5,000 of trade payables.		
5.		Equipment (A)	42,000	

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

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

123) Please review the following information:

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