

Chapter 2—Measuring and evaluating financial position and financial performance

MULTIPLE CHOICE

1. Which of the following statements about a balance sheet is true?
 - A. A balance sheet presents the financial performance of a company for a period of time.
 - B. A balance sheet presents the company's financial position at a point in time.
 - C. A balance sheet shows which source of finance produced each asset.
 - D. A balance sheet includes all the resources of a company.

ANS: B PTS: 1 DIF: Easy TOP: Introduction to the balance sheet

2. Which of the following questions CANNOT be answered from a balance sheet?
 - A. What has caused the changes in cash held during the period?
 - B. Is the company soundly financed?
 - C. Can the company pay its bills on time?
 - D. Should a dividend be declared?

ANS: A PTS: 1 DIF: Moderate TOP: Some preliminary analysis of the Sound and Light balance sheet

3. Which of the following statements about a balance sheet is NOT true?
 - A. A balance sheet is included in the annual report of a company.
 - B. A balance sheet lists the set of resources and sources of the enterprise.
 - C. A balance sheet relates to a particular point in time.
 - D. A balance sheet indicates exactly which source produced which assets.

ANS: D PTS: 1 DIF: Moderate TOP: Introduction to the balance sheet

4. The balance sheet:
 - A. indicates financial performance over a period of time
 - B. shows the relationship between receipts and payments
 - C. reflects changes in the assets and liabilities over a period of time
 - D. presents the financial position at a point in time.

ANS: D PTS: 1 DIF: Easy TOP: Introduction to the balance sheet

5. To which balance sheet grouping does the item 'accumulated depreciation on equipment' belong?
 - A. current asset
 - B. noncurrent asset
 - C. current liability
 - D. noncurrent liability.

ANS: B PTS: 1 DIF: Moderate TOP: A closer look at the balance sheet

6. Which of the following questions CANNOT be answered by reference to a single balance sheet?
 - A. Can the enterprise pay its bills on time?
 - B. Should a dividend be declared?
 - C. If a dividend is declared, how large should it be?

D. How profitable was the company during the year?

ANS: D PTS: 1 DIF: Easy TOP: Some preliminary analysis of the Sound and Light balance sheet

7. Which of the following statements is NOT true?
- A. If total assets owned by a business total \$110 000 and owners' equity totals \$30 000, then liabilities total \$80 000.
 - B. If total assets decreased by \$30 000 during a specific period and owners' equity decreased by \$35 000 during the same period, the period's change in total liabilities was a \$65 000 increase.
 - C. If total assets decreased by \$50 000 during a specific period and owners' equity decreased by \$40 000 during the same period, the period's change in total liabilities was a \$10 000 decrease.
 - D. If total assets increased by \$75 000 during a specific period and liabilities decreased by \$10 000 during the same period, the period's change in total owners' equity was an \$85 000 increase.

ANS: B PTS: 1 DIF: Difficult TOP: Maintaining the accounting equation

8. Which of the following statements about a balance sheet is NOT true?
- A. A balance sheet directly states how management has performed in using assets to earn profits.
 - B. Good profit performance is reflected by increased assets and retained profits.
 - C. A balance sheet provides a useful picture of the state of the company.
 - D. Many outsiders use the balance sheet to evaluate the quality of management's decisions on obtaining, deploying and financing assets.

ANS: A PTS: 1 DIF: Difficult TOP: Managers and the balance sheet

9. Which of the following items is normally classified as a current asset?
- A. inventories
 - B. prepayments
 - C. intangibles
 - D. accounts receivable.

ANS: A PTS: 1 DIF: Moderate TOP: Explanations of the three balance sheet categories: assets, liabilities and equity

10. To which balance sheet grouping does the item 'paid rent' belong?
- A. current asset
 - B. noncurrent asset
 - C. current liability
 - D. noncurrent liability.

ANS: A PTS: 1 DIF: Medium TOP: A closer look at the balance sheet

11. To which balance sheet grouping does the item 'bank overdraft' belong?
- A. current asset
 - B. noncurrent asset
 - C. current liability
 - D. noncurrent liability.

ANS: C PTS: 1 DIF: Easy TOP: Explanations of the three balance sheet categories: assets, liabilities and equity

12. Which of the following CANNOT be classified as a current liability?
- A. accounts payable
 - B. provision for long service leave
 - C. loans
 - D. wages owing.

ANS: D PTS: 1 DIF: Easy TOP: Explanations of the three balance sheet categories: assets, liabilities and equity

13. Which of the following statements about assets is NOT true?
- A. Assets provide future economic benefits.
 - B. Assets are economic resources controlled by an organisation.
 - C. Assets result from past transactions or other events.
 - D. Assets are items which can be physically identified.

ANS: D PTS: 1 DIF: Difficult TOP: Explanations of the three balance sheet categories: assets, liabilities and equity

14. Which of the following is NOT true of liabilities?
- A. Liabilities are future obligations of economic benefits.
 - B. Liabilities must be legally owed debts.
 - C. Liabilities must involve either the future sacrifice of assets, or the future performance of services.
 - D. Liabilities can be estimates of future payments based on past agreements.

ANS: B PTS: 1 DIF: Difficult TOP: Explanations of the three balance sheet categories: assets, liabilities and equity

15. Which of the following is a liability?
- A. retained profits
 - B. prepaid advertising
 - C. accumulated depreciation
 - D. expenses payable.

ANS: D PTS: 1 DIF: Easy TOP: Explanations of the three balance sheet categories: assets, liabilities and equity

16. The purpose of dividing assets and liabilities into current and noncurrent classes is to help the reader of the balance sheet to determine:
- A. the short-term financial position of the firm
 - B. the long-term financial position of the firm
 - C. the likely future financial performance of the firm
 - D. none of the above.

ANS: A PTS: 1 DIF: Moderate TOP: Some preliminary analysis of the Sound and Light balance sheet

17. Given only the following information, what is the balance of current assets?

	\$
Accounts receivable	150 000
Accounts payable	80 000

Revenue received in advance	50 000
Prepayments	40 000
Accrued revenue receivable	20 000

- A. \$190 000
- B. \$210 000
- C. \$260 000
- D. \$240 000.

ANS: B PTS: 1 DIF: Moderate TOP: A closer look at the balance sheet

18. Which of the following is NOT an asset?

- A. accounts payable
- B. inventory
- C. land
- D. work in progress.

ANS: A PTS: 1 DIF: Easy TOP: Explanations of the three balance sheet categories: assets, liabilities and equity

19. Which of the following is NOT an intangible asset?

- A. prepayment
- B. goodwill
- C. copyright
- D. brand name.

ANS: A PTS: 1 DIF: Moderate TOP: A closer look at the balance sheet

20. Which of the following is NOT a liability?

- A. provision for long service leave
- B. interest payable
- C. share capital
- D. creditors.

ANS: C PTS: 1 DIF: Moderate TOP: A closer look at the balance sheet

21. Given only the following information, what is the balance of shareholders' equity?

	\$
Cash	10 000
Inventory	30 000
Equipment	200 000
Accounts payable	50 000
Taxes payable	40 000
Loans to the company	100 000

- A. \$40 000
- B. \$50 000
- C. \$100 000
- D. \$140 000.

ANS: B PTS: 1 DIF: Moderate TOP: Maintaining the

accounting equation

22. Working capital equals:
- A. noncurrent assets less noncurrent liabilities
 - B. cash on hand
 - C. current assets less current liabilities
 - D. shareholders' equity

ANS: C PTS: 1 DIF: Easy TOP: Some preliminary analysis of the Sound and Light balance sheet

23. The summarised balance sheet of Apcor Ltd at 30 June 2012 was as follows:

	\$		\$
Current assets	500 000	Current liabilities	300 000
Noncurrent assets	1500 000	Noncurrent liabilities	1300 000
		Share capital	<u>400 000</u>
	<u>2000 000</u>		<u>2000 000</u>

What was Apcor Ltd's working capital at 30 June 2012?

- A. \$2 000 000
 - B. \$500 000
 - C. \$400 000
 - D. \$200 000.
24. Which of the following statements about accumulated depreciation is true?
- A. Accumulated depreciation is the amount of depreciation recognised at the date of disposal of the asset.
 - B. Cost less accumulated depreciation gives net book value.
 - C. Accumulated depreciation represents the depreciation charge for the current period.
 - D. Accumulated depreciation is ignored when an asset is sold.

ANS: D PTS: 1 DIF: Easy TOP: Some preliminary analysis of the Sound and Light balance sheet

25. Which of the following statements about the current ratio is NOT true?
- A. The current ratio is also known as the working capital ratio.
 - B. The interpretation of the current ratio depends very much on the nature of the enterprise and its way of doing business.
 - C. A ratio greater than 2:1 is a guarantee of survival.
 - D. A positive working capital indicates that the business has sufficient funds to pay its commitments.

ANS: C PTS: 1 DIF: Difficult TOP: Some preliminary analysis of the Sound and Light balance sheet

26. Lalor Ltd has current assets of \$90 000 and current liabilities of \$40 000. Its current ratio is:
- A. \$50 000
 - B. 0.44:1
 - C. 2.25:1

D. \$90 000.

ANS: C PTS: 1 DIF: Moderate TOP: Some preliminary analysis of the Sound and Light balance sheet

27. The balance sheet of Hemp Ltd at 30 June 2012 showed: noncurrent assets \$500 000; noncurrent liabilities \$320 000; total liabilities \$400 000; and shareholders' equity \$300 000. What was the working capital of Hemp Ltd at 30 June 2012?

A. \$300 000
B. \$120 000
C. \$200 000
D. \$180 000.

ANS: B PTS: 1 DIF: Difficult TOP: Some preliminary analysis of the Sound and Light balance sheet

28. The balance sheet of Hemp Ltd at 30 June 2012 showed: noncurrent assets \$500 000; noncurrent liabilities \$320 000; total liabilities \$400 000; and shareholders' equity \$300 000. What was the working capital ratio of Hemp Ltd at 30 June 2012?

A. 2.5:1
B. 1.75:1
C. \$120 000
D. 1.56:1.

ANS: A PTS: 1 DIF: Difficult TOP: Some preliminary analysis of the Sound and Light balance sheet

29. Bruce operates a coffee stall at the university. On 30 June 2012, he has \$400 in his business bank account, the stall and equipment are worth \$5200, ingredients on hand cost \$60 and paper cups cost \$10. Students owe him \$120 and he owes his suppliers \$370. He also owes his mother \$4100, which enabled him to get started. What is Bruce's owners' equity?

A. \$5420
B. \$1320
C. \$400
D. \$4000.

ANS: B PTS: 1 DIF: Difficult TOP: Maintaining the accounting equation

Use the information given below to answer the following 3 questions.

James has a business mowing lawns. On 31 December 2012, he has a utility truck worth \$7000, a mower worth \$250 and an edger worth \$110. Fuel on hand cost \$70. Customers owe him \$360 and he owes his fuel supplier \$90. He owes his sister \$5000, which is a long-term loan, and he has \$110 in his business bank account.

30. What is James's owners' equity?

A. \$7810
B. \$2810
C. \$110
D. \$2590.

ANS: B PTS: 1 DIF: Difficult TOP: Maintaining the accounting equation

31. What is James's working capital?

- A. \$2810
- B. \$450
- C. \$380
- D. \$430.

ANS: B PTS: 1 DIF: Moderate TOP: Some preliminary analysis of the Sound and Light balance sheet

32. What is James's current ratio?

- A. 6:1
- B. 5:1
- C. 4.2:1
- D. 4.7:1.

ANS: A PTS: 1 DIF: Moderate TOP: Some preliminary analysis of the Sound and Light balance sheet

33. Which of the following statements is true?

- A. If the liabilities owed by a business total \$450 000, then the assets also total \$450 000.
- B. If the assets owned by a business total \$500 000, then shareholders' equity also totals \$500 000.
- C. If the assets owned by a business total \$90 000 and liabilities total \$50 000, then shareholders' equity totals \$40 000.
- D. If the assets owned by a business total \$90 000 and liabilities total \$50 000, then shareholders' equity totals \$140 000.

ANS: C PTS: 1 DIF: Moderate TOP: Maintaining the accounting equation

34. If a company pays a 12-month insurance premium for \$2400 on 1 June 2012, then at 30 June 2012 the accounts will show:

- A. a prepayment of \$2200 in the balance sheet and an insurance expense of \$200 in the profit and loss account
- B. a prepayment of \$200 in the balance sheet and an insurance expense of \$2000 in the profit and loss account
- C. a \$2400 asset in the balance sheet
- D. a \$2400 expense in the profit and loss statement.

ANS: A PTS: 1 DIF: Moderate TOP: Maintaining the accounting equation

35. If the last wages bill for the year is paid on 28 June and \$6000 is owing at 30 June in unpaid wages, then:

- A. the \$6 000 would appear as accrued wages payable in the balance sheet but it would not be included in the expenses for the year
- B. the \$6 000 would appear as accrued wages payable in the balance sheet and would be included in the expenses for the year
- C. the \$6 000 would not be included in either the balance sheet or the profit and loss statement
- D. the \$6 000 would appear as an expense in the profit and loss statement.

ANS: B PTS: 1 DIF: Moderate TOP: Maintaining the accounting equation

36. If a business pays a 12-month insurance premium of \$600 on 1 February 2012, at 30 June 2012 the prepayment will be equal to:
- A. \$600
 - B. \$350
 - C. \$300
 - D. \$250.

ANS: B PTS: 1 DIF: Easy TOP: Maintaining the accounting equation

37. Shareholders invest \$100 000 in a business. Inventory of \$80 000 is bought on account and damaged inventory that was purchased on credit for \$10 000 was returned. Equipment costing \$200 000 was purchased, which was financed by a loan from the seller, repayable in 5 years. The business paid \$40 000 to accounts payable. Total assets increased by:
- A. \$100 000
 - B. \$170 000
 - C. \$330 000
 - D. none of the above.

ANS: C PTS: 1 DIF: Moderate TOP: Maintaining the accounting equation

38. Consider the following transactions:
- (i) repayment of a loan in June 2012
 - (ii) depreciation of equipment in June 2012
 - (iii) payment of accounts payable in June 2012
 - (iv) payment of an insurance bill in June 2012, which covers 1 July 2012 to 30 June 2013.

Which of the above transactions increase June 2012 expenses?

- A. (ii) only
- B. (i) and (ii) only
- C. (i), (ii) and (iii) only
- D. (i), (ii) and (iv) only
- E. (ii), (iii) and (iv) only.

ANS: A PTS: 1 DIF: Moderate TOP: Maintaining the accounting equation

39. Which of the following is NOT a revenue of a company?
- A. cash sales
 - B. credit sales
 - C. interest on investments
 - D. borrowing from a bank.

ANS: D PTS: 1 DIF: Easy TOP: The income statement

40. Which of the following is NOT an expense of a company?
- A. cost of goods sold
 - B. repayment of principal on a loan
 - C. repayment of interest on a loan
 - D. sales commission.

ANS: B PTS: 1 DIF: Easy TOP: The income statement

41. Given only the following information, calculate net profit.

	\$
Sales	100 000
Cost of sales	40 000
Wages	30 000
Dividends paid	10 000
Dividends received	15 000

- A. \$30 000
- B. \$45 000
- C. \$35 000
- D. \$20 000.

ANS: B PTS: 1 DIF: Moderate TOP: The income statement

42. Which of the following is NOT a revenue of a company?

- A. sale of goods
- B. dividends received on shares
- C. obtaining a loan from the bank
- D. rent from premises.

ANS: C PTS: 1 DIF: Easy TOP: The income statement

43. Which of the following is NOT an expense of a company?

- A. cost of goods sold
- B. dividend paid to shareholders
- C. interest paid to bank
- D. depreciation on factory.

ANS: B PTS: 1 DIF: Easy TOP: The income statement

44. Which of the following is NOT an expense?

- A. dividends declared
- B. amount owed to electrician to be paid in the next period
- C. cost of goods sold
- D. wages.

ANS: A PTS: 1 DIF: Easy TOP: The income statement

45. A company buys 100 televisions for \$500 each. It sells 60 televisions for \$900 each. What is the 'cost of goods sold' expense?

- A. \$50 000
- B. \$24 000
- C. \$54 000
- D. \$30 000.

ANS: D PTS: 1 DIF: Moderate TOP: The income statement

46. In which of the following circumstances is revenue NOT earned by a company?

- A. In return for goods supplied, a customer paid \$1000 in cash.
- B. In return for goods supplied, a customer promised to pay \$1000 later.
- C. In return for goods supplied, a customer gave the company \$1000 in equipment.
- D. A customer paid \$500 deposit for goods to be supplied in the next accounting period.

ANS: D PTS: 1 DIF: Difficult TOP: The income statement

47. Which of the following events does NOT give rise to an expense?
A. A building depreciated by \$600.
B. A customer paid \$600 on account.
C. The company promised to pay an employee \$600 in wages at a later stage.
D. A customer returned goods valued at \$200 previously purchased.
- ANS: B PTS: 1 DIF: Moderate TOP: The income statement
48. What is total revenue for the period in which credit sales are \$20 000, cash sales are \$16 000 and \$14 000 cash is received from a customer as a deposit for work done in the next period?
A. \$34 000
B. \$36 000
C. \$50 000
D. \$16 000.
- ANS: B PTS: 1 DIF: Easy TOP: The income statement
49. What is total revenue for the period in which: (i) credit sales are \$100 000 of which \$30 000 was received at year-end; (ii) \$10 000 cash was received from customers for work done in the previous year; (iii) \$12 000 was received from customers for work to be done in the next accounting period?
A. \$30 000
B. \$100 000
C. \$110 000
D. \$112 000.
- ANS: B PTS: 1 DIF: Moderate TOP: The income statement
50. Which of the following is an expense?
A. prepaid insurance
B. dividends paid
C. purchase of inventory
D. wages owing but not paid at the end of the accounting period.
- ANS: D PTS: 1 DIF: Difficult TOP: The income statement
51. What are total expenses for June 2012? Wages of \$30 000 were paid in June for work done in June; \$5000 of wages were owed at end of June for work done in June; and an invoice for \$8000 was received for June advertising to be paid in July.
A. \$30 000
B. \$35 000
C. \$43 000
D. \$30 000
- ANS: C PTS: 1 DIF: Moderate TOP: The income statement
52. Which of the following statements about retained profits is true?
A. Retained profits is the sum of past net profits/losses minus dividends declared.
B. Retained profits indicates the total profits earned by a company since its inception.
C. If a company does not pay a dividend, it cannot decrease.
D. Retained profits is the current years profit.
- ANS: A PTS: 1 DIF: Moderate TOP: The income statement
53. Sales less cost of goods sold equals:

- A. gross profit
- B. net profit
- C. net assets
- D. net sales.

ANS: A PTS: 1 DIF: Easy TOP: The income statement

54. Gross profit is the difference between:
- A. sales revenue and operating expenses
 - B. sales revenue and cost of goods sold
 - C. operating profit before tax and income tax expense
 - D. sales and sales returns.

ANS: B PTS: 1 DIF: Moderate TOP: The income statement

55. The balance of retained profits at the beginning of a period was \$1000 and at the end of the period it was \$850. A dividend of \$50 was declared and paid. What was the net profit/loss for the period?
- A. net loss \$100
 - B. net profit \$100
 - C. net loss \$200
 - D. net profit \$200.

ANS: A PTS: 1 DIF: Difficult TOP: The income statement

56. The connecting link between the balance sheet and the income statement is:
- A. dividends paid to shareholders
 - B. the opening balance of retained profits
 - C. total shareholders' equity
 - D. net profit after tax.

ANS: D PTS: 1 DIF: Moderate TOP: Connecting balance sheets and income statements

Use the information given below (as at 30 June 2012) to answer the following 2 questions.

	\$
Share capital	100 000
Equipment	150 000
Inventory	30 000
Accounts receivable	20 000
Accounts payable	30 000
Retained profits	80 000
Cash	10 000

Assume no dividends were declared during the year.

57. What is the balance of total assets at 30 June 2012?
- A. \$200 000
 - B. \$210 000
 - C. \$290 000
 - D. \$310 000.

ANS: B PTS: 1 DIF: Moderate TOP: Connecting balance sheets and income

58. If the balance of retained profits at the start of the year was \$50 000, what was the profit for the year?
- A. \$30 000
 - B. \$80 000
 - C. \$50 000
 - D. \$40 000.

ANS: A PTS: 1 DIF: Moderate TOP: Connecting balance sheets and income

Use the information given below to answer the following 3 questions.

During 2012, Avion Ltd incurred expenses of \$250 and earned a net profit of \$50. Retained profits at 1 January 2012 stood at \$70 and dividends declared and paid totalled \$30. At 31 December 2012, liabilities were \$200 and share capital \$110. There were no transfers to reserves during 2012.

59. What were the revenues of Avion Ltd during 2012?
- A. \$200
 - B. \$250
 - C. \$300
 - D. \$330.

ANS: C PTS: 1 DIF: Difficult TOP: Connecting balance sheets and income

60. What was the balance of Avion Ltd's retained profits at 31 December 2012?
- A. \$90
 - B. \$150
 - C. \$30
 - D. \$50.

ANS: A PTS: 1 DIF: Difficult TOP: Connecting balance sheets and income

61. What was the value of Avion Ltd's assets at 31 December 2012?
- A. \$200
 - B. \$310
 - C. \$360
 - D. none of the above.

ANS: D PTS: 1 DIF: Difficult TOP: Connecting balance sheets and income

62. During 2009, Hillary Ltd earned revenue of \$1000 and a net profit of \$200. Retained profits at 31 December 2009 were \$540 and dividends declared and paid totalled \$160. At the same date, liabilities were \$260 and assets \$1800. There were no transfers to reserves during 2009. What was the balance of Hillary Ltd's retained profits at 1 January 2009?
- A. \$540
 - B. \$580
 - C. \$400
 - D. the balance cannot be determined from the above information.

ANS: D PTS: 1 DIF: Difficult TOP: Connecting balance sheets and income

Use the information given below to answer the following 2 questions.

During 2012, Bull Ltd earned revenues of \$500 and incurred expenses of \$650. Retained profits at 1 January 2012 were \$400, and at 31 December 2012 they were \$225. At 31 December 2012, assets totalled \$1125 and share capital \$300. There were no transfers to reserves during 2012.

63. What was the net profit or loss of Bull Ltd for the year?

- A. net profit \$150
- B. net profit \$500
- C. net loss \$150
- D. net loss \$500.

ANS: C PTS: 1 DIF: Difficult TOP: Connecting balance sheets and income

64. What was the dividend declared by Bull Ltd during the year?

- A. \$25
- B. \$175
- C. \$325
- D. \$50.

ANS: A PTS: 1 DIF: Moderate TOP: Connecting balance sheets and income

Use the information given below to answer the following 2 questions.

On 30 June 2011, Easter Ltd declared a final dividend. During the year ended 30 June 2012, Easter Ltd earned revenues of \$1200 and incurred expenses of \$800. Retained profits at 1 July 2011 were \$700, and at 30 June 2012, \$850. At 30 June 2012, assets totalled \$2800 and share capital \$1500. There were no transfers to reserves during the year ended 30 June 2012.

65. What was the net profit or loss of Easter Ltd for the year?

- A. net profit \$2000
- B. net profit \$1200
- C. net loss \$400
- D. net profit \$0.

ANS: D PTS: 1 DIF: Easy TOP: Connecting balance sheets and income

66. What was the dividend declared by Easter Ltd during the year?

- A. \$150
- B. \$250
- C. \$550
- D. this cannot be determined from the above information.

ANS: B PTS: 1 DIF: Moderate TOP: Connecting balance sheets and income

Use the information given below to answer the following 3 questions.

During the year, Grasso Ltd sold 2000 items at \$30 each. The cost price of the items was \$22 each. Operating expenses totalled \$7000 and income tax expense was \$4000.

67. What was the gross profit of Grasso Ltd for the year?

- A. \$60 000
- B. \$16 000
- C. \$11 000
- D. \$5000.

ANS: B PTS: 1 DIF: Easy TOP: The income statement

68. What was the operating profit before tax of Grasso Ltd for the year?

- A. \$53 000
- B. \$16 000
- C. \$9000
- D. \$5000.

ANS: C PTS: 1 DIF: Easy TOP: The income statement

69. If this were the first year of Grasso Ltd's operations, what is the maximum amount that could be paid out in dividends to shareholders?

- A. \$5000
- B. \$16 000
- C. \$60 000
- D. \$9000

ANS: A PTS: 1 DIF: Easy TOP: The income statement