

Chapter 2 Accounting and Financial Statements

MULTIPLE CHOICE

1. Which of the following statements is false?
- journals may be referred to as books of original entry
 - the word “debit” refers to an entry recorded on the right side of an asset account
 - the accounting equation reads as follows: $A = E + L$
 - business transactions are first recorded in journals

ANS: B PTS: 1 REF: 55

2. Which of the following statements is true?
- gross profit is the excess of revenue over cost of sales
 - the function of bookkeeping governs the way the four financial statements are prepared
 - gross profit is the sum of revenue and cost of sales
 - the trial balance shows only the statement of financial position accounts

ANS: A PTS: 1 REF: 64

3. Which of the following statements is false?
- retained earnings shows the amount of funds retained in the business since it began
 - assets can be tangible or intangible
 - intangible assets are generally current assets
 - dividends paid appear in the statement of changes in equity

ANS: C PTS: 1 REF: 73

4. Which of the following statements is true?
- non-current assets usually appreciate in value over time
 - Canadian federal corporate laws require that every limited company appoint a controller to represent shareholders and report to them annually on the company’s financial statements
 - current liabilities include accounts such as trade and other payables and accrued liabilities
 - the statement of cash flows links the statement of income to the statement of financial position

ANS: C PTS: 1 REF: 78

5. Which of the following statements is false?
- net working capital is the difference between current assets and current liabilities
 - the accounting equation may be expressed as $A + L = E$
 - capital cost allowance is usually calculated on a declining balance basis
 - future taxes payable are shown on the statement of financial position as a liability

ANS: B PTS: 1 REF: 54

6. What is the accounting equation?
- $A = E + L$
 - $E = A + L$
 - $A = L - E$
 - $A = E - L$

ANS: A PTS: 1 REF: 54

7. Which one of the following is considered a debit transaction?
- a. decrease in the inventory account
 - b. increase in the revenue account
 - c. increase in the trade receivables account
 - d. increase in the trade payables account

ANS: C PTS: 1 REF: 55

8. How is gross profit determined?
- a. income before taxes less operating expenses
 - b. revenue less cost of sales
 - c. profit before taxes less cost of sales
 - d. operating income less operating expenses

ANS: B PTS: 1 REF: 64

9. How is profit for the year determined?
- a. deduct operating expenses from profit before taxes
 - b. deduct cost of sales from profit before taxes
 - c. deduct cost of sales from revenue
 - d. deduct income tax expense from profit before taxes

ANS: D PTS: 1 REF: 59

10. To show the net change in retained earnings, what are dividends deducted from?
- a. profit for the year
 - b. expenses
 - c. profit before taxes
 - d. revenue

ANS: A PTS: 1 REF: 59

11. Which of the following is a current asset?
- a. goodwill
 - b. prepaid expenses
 - c. accrued liabilities
 - d. deferred revenue

ANS: B PTS: 1 REF: 74

12. What part of the balance sheet contains marketable securities?
- a. revenue accounts
 - b. current liability accounts
 - c. current asset accounts
 - d. non-current asset accounts

ANS: C PTS: 1 REF: 76

13. Which of the following is a current liability?
- a. marketable securities
 - b. prepaid expenses
 - c. mortgage debt
 - d. accrued expenses

ANS: D PTS: 1 REF: 78

14. What is the term for payments made for which services have not yet been received?
- accrued liabilities
 - prepaid expenses
 - accrued expenses
 - deferred liabilities

ANS: B PTS: 1 REF: 75

15. What is goodwill considered to be?
- a fixed asset
 - a current asset
 - an intangible asset
 - a prepaid asset

ANS: C PTS: 1 REF: 73

16. What does retained earnings represent?
- net profit generated by a business less dividends declared
 - a non-current liability
 - earnings paid to shareholders
 - a current liability

ANS: A PTS: 1 REF: 76

17. What does capital cost allowance represent?
- an amount used to calculate the book value of capital assets
 - an amount used to calculate the residual value of fixed assets
 - Canada Revenue Agency's equivalent of accumulated depreciation
 - Canada Revenue Agency's equivalent of depreciation

ANS: D PTS: 1 REF: 73

18. What differences can cause future income taxes payable?
- revenue and accumulated earnings
 - accumulated depreciation and depreciation
 - CCA and accumulated depreciation
 - CCA and depreciation

ANS: D PTS: 1 REF: 77

19. What is one adjustment required to calculate a company's cash flow?
- add accumulated depreciation to profit for the year
 - add depreciation to profit for the year
 - add depreciation to profit before taxes
 - add profit from operations to interest income

ANS: B PTS: 1 REF: 59

20. What is the opposite of a prepaid expense?
- intangible asset
 - accounts receivable
 - capital asset
 - accrued liability

ANS: D PTS: 1 REF: 79

21. If an entrepreneur invests \$100,000 cash in a business, which of the following correctly describes the effect on the financial statements?
- current liabilities increase and current assets increase
 - current assets increase and equity decreases
 - current assets decrease and equity decreases
 - current assets increase and equity increases

ANS: D PTS: 1 REF: 54

22. If an entrepreneur borrows \$50,000 from the bank for his business to be repaid in one year, which of the following correctly describes the effect on the financial statements?
- expenses increase and equity increases
 - current assets decrease and current liabilities increase
 - current assets increase and current liabilities increase
 - current assets increase and long-term liabilities increase

ANS: C PTS: 1 REF: 54

23. If an entrepreneur purchases advertising on credit, which of the following correctly describes the effect on the financial statements?
- expenses decrease and accounts payable increase
 - current assets increase and expenses increase
 - expenses decrease and accounts payable decrease
 - expenses increase and accounts payable increase

ANS: D PTS: 1 REF: 54

24. If an entrepreneur buys office furniture to be paid in 30 days, which of the following correctly describes the effect on the financial statements?
- capital assets increase and long-term debt increases
 - capital assets increase and current liabilities increase
 - current assets increase and cash decreases
 - current assets increase and current liabilities increase

ANS: B PTS: 1 REF: 54

25. If an entrepreneur sells \$13,000 worth of services for cash, which of the following correctly describes the effect on the financial statements?
- current assets increase and revenue increases
 - current assets increase and current liabilities increase
 - current assets decrease and revenue increases
 - current assets increase and current liabilities decrease

ANS: A PTS: 1 REF: 54

26. If an entrepreneur pays \$3,000 in cash for salaries, which of the following correctly describes the effect on the financial statements?
- current assets decrease and expenses increase
 - revenues decrease and current assets increase
 - expenses increase and current assets increase
 - current liabilities increase and expenses increase

ANS: A PTS: 1 REF: 54

27. If an entrepreneur repays a \$10,000 bank loan, which of the following correctly describes the effect on the financial statements?

- a. current assets decrease and expenses increase
- b. current assets increase and current liabilities increase
- c. current assets decrease and expenses decrease
- d. current assets decrease and current liabilities decrease

ANS: D PTS: 1 REF: 54

28. If an entrepreneur pays \$13,000 in cash for merchandise that was previously purchased on credit, which of the following correctly describes the effect on the financial statements?

- a. current assets decrease and current liabilities increase
- b. current liabilities decrease and expenses increases
- c. current assets decrease and current liabilities decrease
- d. current liabilities decrease and long-term debt increases

ANS: C PTS: 1 REF: 54

29. Which of the following is an administrative expense?

- a. cost of merchandise
- b. depreciation
- c. dividends
- d. office salaries

ANS: D PTS: 1 REF: 65

30. Which of the following accounts is found on the statement of income?

- a. taxes payable
- b. accumulated amortization
- c. bank loan
- d. salaries

ANS: D PTS: 1 REF: 65

31. Which of the following accounts is found on the statement of financial position?

- a. finance costs
- b. office salaries
- c. depreciation
- d. cash

ANS: D PTS: 1 REF: 74

32. Which of the following appears in the statement of changes in equity?

- a. bank loans
- b. dividends payable
- c. income taxes
- d. profit for the year

ANS: D PTS: 1 REF: 59

33. Which of the following is a current liability?

- a. trade receivables
- b. prepaid expenses
- c. preferred shares
- d. short-term borrowings

ANS: D PTS: 1 REF: 78

34. Given the following, what is the closing cash balance?
opening cash balance \$37,000
cash flow from operations \$137,500
cash flow from financing activities \$25,500
cash flow used in investing activities \$125,000
- \$325,000
 - \$24,000
 - \$75,000
 - \$274,000

ANS: C PTS: 1 REF: 59

35. What is included in the share capital segment of the statement of changes in equity?
- change in property revaluation
 - dividend reinvestment and share purchase plan
 - retained earnings
 - dividends paid to shareholders

ANS: B PTS: 1 REF: 70

36. Which statement contains assets, liabilities, and equity?
- statement of cash flows
 - statement of income
 - statement of changes in equity
 - statement of financial position

ANS: D PTS: 1 REF: 71

37. Which statement contains revenues and expenses?
- statement of cash flows
 - statement of income
 - statement of financial position
 - statement of changes in equity

ANS: B PTS: 1 REF: 62

38. Which statement contains retained earnings (beginning of year), profit for the year, dividends paid, and retained earnings (end of year)?
- statement of cash flows
 - statement of income
 - statement of financial position
 - statement of changes in equity

ANS: D PTS: 1 REF: 70

39. Which statement contains operating activities, investing activities, and financing activities?
- statement of changes in equity
 - statement of financial position
 - statement of income
 - statement of cash flows

ANS: D PTS: 1 REF: 60

40. What is the order in which the following would be listed on the statement of financial position?
- current assets
 - property, plant, and equipment

(3) intangible assets

- a. 2, 3, 1
- b. 1, 3, 2
- c. 3, 1, 2
- d. 3, 2, 1

ANS: A PTS: 1 REF: 72|73

41. Which of the following is not a current asset?

- a. prepaid expenses
- b. cash
- c. trade receivables
- d. office equipment

ANS: D PTS: 1 REF: 71

42. Which of the following is classified as a capital asset?

- a. land
- b. inventories
- c. trade receivables
- d. cash

ANS: A PTS: 1 REF: 71

43. What is the order in which the following would be listed on the statement of financial position?

- (1) current liabilities
 - (2) long-term borrowings
 - (3) equity
- a. 2, 1, 3
 - b. 1, 3, 2
 - c. 3, 2, 1
 - d. 1, 2, 3

ANS: C PTS: 1 REF: 72

44. Which of the following is a long-term debt?

- a. a mortgage
- b. a note payable due in six months
- c. accruals
- d. trade and other payables

ANS: A PTS: 1 REF: 77

45. Which of the following is a current liability?

- a. trade and other payables
- b. common shares
- c. mortgage
- d. retained earnings

ANS: A PTS: 1 REF: 78

46. Which of the following is in the equity section of the statement of financial position?

- a. trade receivables
- b. future income taxes
- c. common shares
- d. owners' assets

ANS: C PTS: 1 REF: 76

47. Which of the following is the correct date line for a statement of financial position?
- a. as at December 31, 2010
 - b. from December 31, 2010
 - c. for the accounting year ended December 31, 2010
 - d. for the year ended December 31, 2010

ANS: A PTS: 1 REF: 71

48. Which of the following is the correct date line for a statement of income?
- a. from June 30, 2010
 - b. for the year ended June 30, 2010
 - c. for the accounting year ended June 30, 2010
 - d. as at June 30, 2010

ANS: B PTS: 1 REF: 63

49. What is the order in which the following would be listed on the statement of income?
- (1) cost of sales
 - (2) gross profit
 - (3) profit for the year
 - (4) distribution costs
 - (5) administrative expenses
 - (6) revenue
- a. 6, 1, 2, 4, 5, 3
 - b. 6, 4, 5, 3, 1, 2
 - c. 6, 4, 1, 2, 5, 3
 - d. 6, 2, 1, 5, 4, 3

ANS: A PTS: 1 REF: 63

50. What does “Resources that a business owns to produce goods and services” represent?
- a. revenue
 - b. liabilities
 - c. assets
 - d. equity

ANS: C PTS: 1 REF: 71

51. What does “Debts of a business” represent?
- a. liabilities
 - b. equity
 - c. assets
 - d. revenue

ANS: A PTS: 1 REF: 76

52. What does “Funds provided in a business by its shareholders” represent?
- a. assets
 - b. equity
 - c. revenue
 - d. liabilities

ANS: B PTS: 1 REF: 76

53. What is the term for the amount a business earns from the sale of its products and services?
- a. revenue
 - b. retained earnings
 - c. accounts receivable
 - d. other income

ANS: A PTS: 1 REF: 64

54. What is the term for the costs incurred in making or producing goods that are sold?
- a. cost of sales
 - b. revenue
 - c. distribution costs
 - d. administration expenses

ANS: A PTS: 1 REF: 65

55. What is the term for assets that are expected to be converted into cash within one year?
- a. current assets
 - b. intangible assets
 - c. deferred assets
 - d. non-current assets

ANS: A PTS: 1 REF: 74

56. What is the term for assets that are permanent and are to be used over an extended period of years?
- a. intangible assets
 - b. non-current assets
 - c. intellectual capital
 - d. current assets

ANS: B PTS: 1 REF: 71

57. What is the term for a debt that a business must pay within one year?
- a. current assets
 - b. long-term borrowings
 - c. prepaid expenses
 - d. current liabilities

ANS: D PTS: 1 REF: 78

58. What is the term for debts that are not due for at least one year?
- a. retained liabilities
 - b. capital stock
 - c. current liabilities
 - d. long-term borrowings

ANS: D PTS: 1 REF: 77

59. How is profit for the year calculated?
- a. deduct liabilities from assets
 - b. deduct income tax expense from profit before taxes
 - c. deduct cost of sales from sales revenue
 - d. deduct assets from liabilities

ANS: B PTS: 1 REF: 64

60. Which of the following sections are included in the statement of changes in equity?
- a. contributed surplus and non-current assets
 - b. current assets and non-current assets
 - c. retained earnings and intangible assets
 - d. share capital and retained earnings

ANS: D PTS: 1 REF: 70

61. Which of the following is a tax-deductible expense?
- a. accumulated amortization
 - b. depreciation
 - c. accrued expenses
 - d. freight-out

ANS: D PTS: 1 REF: 68

62. Which of the following is part of the statement of income?
- a. administrative expenses
 - b. future income taxes payable
 - c. long-term assets
 - d. retained earnings

ANS: A PTS: 1 REF: 65

63. What is included in equity?
- a. current assets
 - b. revenue
 - c. deferred revenue
 - d. retained earnings

ANS: D PTS: 1 REF: 76

64. Which of the following must an NFP organization prepare?
- a. statement of comprehensive income
 - b. statement of financial position
 - c. statement of retained earnings
 - d. statement of assets

ANS: B PTS: 1 REF: 89

65. What is the accounting equation of an NFP organization?
- a. $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
 - b. $\text{Assets} = \text{Liabilities} + \text{Net Assets}$
 - c. $\text{Net Assets} = \text{Liabilities} + \text{Assets}$
 - d. $\text{Contributions} = \text{Net Assets} - \text{Liabilities}$

ANS: B PTS: 1 REF: 90

66. What is grants receivable considered to be in an NFP organization?
- a. current asset
 - b. capital asset
 - c. long-term liability
 - d. current liability

ANS: A PTS: 1 REF: 91

67. In an NFP organization, what is deducted from the organization's residual amount in its assets to arrive at net assets?
- all fixed assets
 - all current assets
 - the accumulated depreciation
 - all debts to purchase these assets

ANS: D PTS: 1 REF: 91

68. Which of the following is shown on an NFP organization's statement of operations?
- revenues
 - assets
 - capital assets (net)
 - grants receivable

ANS: A PTS: 1 REF: 92

69. Which of the following is TRUE?
- the profit for the year shown on the statement of financial position is transferred to the statement of retained earnings
 - the profit before taxes is transferred to the statement of cash flows
 - the profit for the year shown on the statement of changes in equity is transferred to the statement of income
 - the profit for the year shown on the statement of income is transferred to the statement of changes in equity

ANS: D PTS: 1 REF: 76

70. What is the term for the categories by which accounting transactions are recorded?
- trial balance
 - statement of income
 - chart of accounts
 - statement of financial position

ANS: C PTS: 1 REF: 53

71. What is the name for the books of original entry?
- journals
 - T accounts
 - trial balance accounts
 - ledgers

ANS: A PTS: 1 REF: 56

72. Which of the following ensures that the debits equal the credits?
- sales journal
 - trial balance
 - journal entries
 - statement of income

ANS: B PTS: 1 REF: 56

73. What is the broad set of rules or guidelines that accountants must follow when preparing the financial statements?
- IFRS

- b. ROPA
- c. ACCP
- d. GPA

ANS: A PTS: 1 REF: 52

74. What is the last line on the statement of income?
- a. contribution margin
 - b. gross profit
 - c. profit for the year
 - d. profit before taxes

ANS: C PTS: 1 REF: 64

75. What is the first level of profitability shown on the statement of income?
- a. profit for the year
 - b. profit before taxes
 - c. operating income
 - d. gross profit

ANS: D PTS: 1 REF: 64

76. What appears in the equity section of the statement of financial position?
- a. retained earnings and gross profit
 - b. gross profit and profit for the year
 - c. current assets and non-current assets
 - d. share capital and retained earnings

ANS: D PTS: 1 REF: 72

77. How is the net sales revenue determined?
- a. gross sales revenue less administrative expenses
 - b. gross sales revenue less trade discounts
 - c. gross sales revenue less operating expenses
 - d. gross sales revenue less cost of sales

ANS: B PTS: 1 REF: 64

78. Which departments incur distribution costs and administrative expenses?
- a. manufacturing and research and development departments
 - b. manufacturing and marketing departments
 - c. marketing and human resources departments
 - d. manufacturing and production departments

ANS: C PTS: 1 REF: 65

79. What is included in the statement of changes in equity?
- a. other income
 - b. contributed surplus
 - c. earnings before income taxes
 - d. deferred income

ANS: B PTS: 1 REF: 70

80. Where are non-current liabilities and current liabilities included?
- a. in the working capital section of the statement of financial position

- b. in the asset section of the statement of financial position
- c. in the retained earnings section of the statement of changes in equity
- d. in the liability section of the statement of financial position

ANS: D PTS: 1 REF: 76

81. What are the three sections on the statement of financial position?
- a. retained earnings section, liability section, and contributed surplus section
 - b. equity section, liability section, and asset section
 - c. financing section, operating section and investing section
 - d. operating section, retained earnings section, and non-operating section

ANS: B PTS: 1 REF: 71

82. What does the statement of changes in equity link together?
- a. statement of income to the statement of financial position
 - b. trial balance to the statement of income
 - c. statement of income to the statement of cash flows
 - d. statement of financial position to the statement of cash flows

ANS: A PTS: 1 REF: 68

83. What does retained earnings represent?
- a. the amount the company retains after paying dividends
 - b. the amount the company retains after paying the cost of sales
 - c. the amount shareholders retain after paying their taxes
 - d. the amount the company retains after paying its operating expenses

ANS: A PTS: 1 REF: 76

84. Which of the following are considered assets?
- a. goodwill, land, common shares
 - b. cash, depreciation, land
 - c. prepaid expenses, accrued expenses, gross capital assets
 - d. cash, buildings, intangible assets

ANS: D PTS: 1 REF: 71|74

85. What do typical current assets include?
- a. cash, trade receivables, inventories
 - b. prepaid expenses, land, cash
 - c. trade receivables, inventories, research and development
 - d. cash, trade receivables, equipment

ANS: A PTS: 1 REF: 74

86. What do typical current liabilities include?
- a. trade and other payables, accrued expenses, taxes payable
 - b. mortgage, bond payable, preferred shares
 - c. prepaid expenses, mortgage, share capital
 - d. notes payable, mortgage, bond payable

ANS: A PTS: 1 REF: 78

87. What does equity include?
- a. preferred shares and loans to owners

- b. contributed surplus and future income taxes
- c. common shares and retained earnings
- d. common shares and mortgage

ANS: C PTS: 1 REF: 70

88. What do non-current assets include?
- a. land, buildings, and trade receivables
 - b. goodwill, trademarks, and amortization
 - c. buildings, equipment, and machinery
 - d. inventories, equipment, and income taxes receivable

ANS: C PTS: 1 REF: 71

89. What is the term for the estimated decrease in the value of property, plant, and equipment that is due to wear and tear and/or obsolescence?
- a. accumulated reduction
 - b. depreciation
 - c. value reduction
 - d. capital cost allowance

ANS: B PTS: 1 REF: 65

90. Which accounts are included in working capital?
- a. cash, marketable securities, non-current assets
 - b. land, buildings, machinery
 - c. cash, inventories, land
 - d. inventories, trade receivables, trade and other payables

ANS: D PTS: 1 REF: 60

91. Net working capital is the difference between:
- a. total current assets and inventories
 - b. total current assets and total current expenses
 - c. total non-current assets and accumulated depreciation
 - d. total operating assets and total operating liabilities

ANS: B PTS: 1

92. Who is responsible for the financial statements?
- a. accountants
 - b. external auditors
 - c. company management
 - d. internal auditors

ANS: C PTS: 1 REF: 80

93. Which of the following are all intangible assets?
- a. trade receivables, goodwill, cash
 - b. goodwill, trademarks, patents
 - c. cash, marketable securities, patents
 - d. patents, trademarks, buildings

ANS: B PTS: 1 REF: 73

94. Who prepares and signs the auditors' report?

- a. the company's accounting department
- b. the company's internal auditors
- c. the treasurer of the company
- d. an independent accounting firm

ANS: D PTS: 1 REF: 82

95. What is the accumulated depreciation at the end of year four of a capital asset acquired for \$200,000, with an estimated life of five years, and a salvage value of \$50,000?
- a. \$ 140,000
 - b. \$ 80,000
 - c. \$ 120,000
 - d. \$ 100,000

ANS: C PTS: 1 REF: 66

96. Under generally accepted accounting principles, what should corporations do?
- a. use the same depreciation methods
 - b. use its straight-line depreciation as a tax deductible expense
 - c. record depreciation
 - d. use accelerated depreciation

ANS: C PTS: 1 REF: 65

97. What is the tax liability called that results from the difference between depreciation and capital cost allowance?
- a. sales taxes payable
 - b. income tax expense
 - c. future income taxes payable
 - d. current taxes payable

ANS: C PTS: 1 REF: 77

98. What are the two basic types of accounting methods?
- a. sum-of-the-digits method and straight-line depreciation method
 - b. deferred accounting and cash accounting
 - c. trial balance method and bookkeeping method
 - d. cash method and accrual method

ANS: D PTS: 1 REF: 62

99. What is the scrap/salvage value deducted from to calculate depreciation?
- a. depreciated cost
 - b. discounted cost
 - c. purchase price
 - d. estimated useful value

ANS: C PTS: 1 REF: 66

100. What is the name of the statement of income for an NFP organization?
- a. statement of operations
 - b. statement of changes in net assets
 - c. statement of financial position
 - d. statement of gross assets

ANS: A PTS: 1 REF: 92

TRUE/FALSE

1. Accounting involves collecting, classifying, and recording information that arises from the multitude of transactions taking place in a business.

ANS: F PTS: 1

2. Financial statements include reports such as the statement of financial position and the statement of income.

ANS: T PTS: 1

3. Bookkeeping is considered the language of business.

ANS: F PTS: 1

4. Bookkeeping begins with the preparation of a chart of accounts.

ANS: T PTS: 1

5. Chart of accounts is a set of categories by which accounting transactions are recorded.

ANS: T PTS: 1

6. Double-entry bookkeeping is a system for posting financial transactions in order to reduce the level of financial fraud as much as possible.

ANS: F PTS: 1

7. The accounting equation is expressed as follows: $A = E + L$.

ANS: T PTS: 1

8. A debit entry is an accounting transaction that is usually recorded on the left side of an account.

ANS: T PTS: 1

9. In the bookkeeping process, journalizing means recording transactions in ledger accounts.

ANS: F PTS: 1

10. Usually, transactions are posted from the ledgers onto the journals.

ANS: F PTS: 1

11. The trial balance is a statement that ensures that the general ledger is in balance (debit transactions = credit transactions).

ANS: T PTS: 1

12. Accounting is the process of recording and summarizing business transactions on a company's financial statements.

ANS: T PTS: 1

13. GAAP stands for "generally accepted actuarial postings".

ANS: F PTS: 1

14. The statement of income can be described as a "movie" of a business. It shows the flow of sales revenue and expenses.

ANS: T PTS: 1

15. The statement of changes in equity shows what a business owns and what it owes.

ANS: F PTS: 1

16. A statement of financial position shows three things: assets, equity and liabilities.

ANS: T PTS: 1

17. The statement of cash flows shows the flow of funds in terms of where they come from and where they went.

ANS: T PTS: 1

18. The first level of profitability of the statement of income is the profit for the year.

ANS: F PTS: 1

19. The gross profit is the difference between revenue and cost of sales.

ANS: T PTS: 1

20. The statement of comprehensive income includes items such as profit for the year and gain or loss on property revaluation.

ANS: T PTS: 1

21. Both, distribution costs and administrative expenses are part of the cost of goods sold in the statement of income.

ANS: F PTS: 1

22. The statement of changes in equity includes four sections: share capital, contributed surplus, retained earnings and total other comprehensive income/(loss) for the year.

ANS: T PTS: 1

23. The statement of retained earnings makes the link between the statement of income and the statement of changes in equity.

ANS: F PTS: 1

24. The assets section of the statement of financial position includes current assets, non-current assets and equity.

ANS: F PTS: 1

25. Current assets include accounts such as cash and prepaid expenses.

ANS: T PTS: 1

26. Prepaid expenses are considered a liability account.

ANS: F PTS: 1

27. The difference between non-current assets and administrative expense gives the net capital assets which is the amount shown on the statement of financial position.

ANS: F PTS: 1

28. Intangible assets include items such as trademarks, goodwill and patents.

ANS: T PTS: 1

29. Current liabilities include accounts such as trade and other payables and accrued expenses.

ANS: T PTS: 1

30. Current liabilities are debts that must be paid within a twelve-month period.

ANS: T PTS: 1

31. Equity includes accounts such as share capital and retained earnings.

ANS: T PTS: 1

32. Retained earnings represent the amount of debt that a business owes to its shareholders.

ANS: F PTS: 1

33. The treasurer of a public company usually prepares the auditors' report.

ANS: F PTS: 1

34. Both, horizontal analysis and vertical analysis are financial management tools that can be used to analyze the statement of financial position and the statement of income.

ANS: T PTS: 1

35. There are two basic types of accounting methods: cash accounting and accrual accounting.

ANS: T PTS: 1

36. Amortization is a tax-deductible expense that Canadian tax laws allow a business to claim for the loss in value of non-current assets due to wear and tear.

ANS: F PTS: 1

37. Depreciation is usually calculated on a straight-line basis.

ANS: T PTS: 1

38. Future income taxes payable is a future tax liability resulting from the difference between depreciation and capital cost allowance.

ANS: T PTS: 1

39. By adding back depreciation/amortization to the profit before taxes figure shown on the statement of income reveals the amount of cash generated by a business.

ANS: F PTS: 1

40. Working capital includes all current asset and liability accounts appearing on a company's statement of financial position.

ANS: T PTS: 1

COMPLETION

1. _____ involves collecting, classifying, and recording information that arises from the multitude of transactions taking place in a business.
ANS: Bookkeeping
PTS: 1
2. _____ is the activity that arranges the financial information into separate and distinct financial statements.
ANS: Accounting
PTS: 1
3. The _____ is a set of categories by which accounting transactions are recorded.
ANS: chart of accounts
PTS: 1
4. _____ are also referred to as books of original entry.
ANS: Journals
PTS: 1
5. The fourth step in the bookkeeping process is to transfer the amounts recorded in the journals into _____ which also called the books of final entry.
ANS: ledgers
PTS: 1
6. The _____ is a statement that ensures that the general ledger is in balance (debit transactions = credit transactions).
ANS: trial balance
PTS: 1
7. The _____ shows the flow of revenue and expenses incurred by a business during a given period.
ANS: statement of income
PTS: 1
8. The difference between revenue and cost of sales on the statement of income gives the _____ profit.
ANS: gross
PTS: 1

9. There are two categories of assets in the statement of financial position, the current assets and the _____ assets.

ANS: non-current

PTS: 1

10. The third level of profitability on the statement of income is called _____.

ANS: profit for the year

PTS: 1

11. There are four section in the statement of changes in equity, contributed surplus, total other comprehensive income/(loss) for the year, _____ and share capital.

ANS: retained earnings

PTS: 1

12. In order to arrive at the profit for the year on the statement of income, you have to deduct the _____ expense from the profit before taxes.

ANS: income tax

PTS: 1

13. The statement of _____ shows the amount of money kept by a company after paying dividends to its shareholders.

ANS: retained earnings

PTS: 1

14. _____ are resources that a business owns to produce goods and services.

ANS: Assets

PTS: 1

15. Trade receivables and inventories are typical _____ accounts appearing on the statement of financial position.

ANS: current asset; working capital

PTS: 1

16. _____ is an account that appears on the statement of financial position indicating how much money is owed to the business by its regular business customers.

ANS: Trade receivables

PTS: 1

17. Land, buildings and equipment are considered typical _____ accounts that appear on a company's statement of financial position.
- ANS: non-current
- PTS: 1
18. _____ assets represent value of trademarks, goodwill, franchises, and patents.
- ANS: Intangible
- PTS: 1
19. _____ or debts are what a company owes to its lenders.
- ANS: Liabilities
- PTS: 1
20. _____ liabilities are debts that have to be paid by a business within the current operating year.
- ANS: Current
- PTS: 1
21. _____ borrowings are used to finance non-current assets.
- ANS: Long-term
- PTS: 1
22. An independent accounting firm prepares the _____ report which is presented to a company's shareholders.
- ANS: auditors'
- PTS: 1
23. _____ is defined as the estimated decrease in the value of non-current assets due to wear and tear and/or obsolescence.
- ANS: Depreciation
- PTS: 1
24. _____ is a tax-deductible expense that applies to intangible assets such as goodwill and trademarks.
- ANS: Amortization
- PTS: 1

25. In order to find the amount of cash flow generated by a business, all that is required is to add the _____ expense to the profit for the year amount shown on the statement of income.

ANS: depreciation

PTS: 1

26. The total current assets and total current liabilities are referred to as _____ accounts.

ANS: working capital

PTS: 1

MATCHING

Match the words with the term.

- a. bookkeeping
- b. accounting
- c. chart of accounts
- d. financial statement
- e. GAAP

- 1. ledgers needed to record transactions
- 2. arranging financial statements
- 3. collecting and classifying
- 4. profession
- 5. statement of retained earnings

- 1. ANS: C PTS: 1
- 2. ANS: B PTS: 1
- 3. ANS: A PTS: 1
- 4. ANS: E PTS: 1
- 5. ANS: D PTS: 1

Match the words with the term.

- a. inventories
- b. credit
- c. increase
- d. decrease
- e. trial balance

- 6. right side of an account
- 7. balance sheet
- 8. debits equal credits
- 9. debit a liability account
- 10. debit an asset account

- 6. ANS: B PTS: 1
- 7. ANS: A PTS: 1
- 8. ANS: E PTS: 1

9. ANS: D PTS: 1
10. ANS: C PTS: 1

Match the words with the term.

- a. journals
b. ledgers
c. assets, liabilities
d. statement of income
e. trial balance
11. books of original entry
12. books of final entry
13. statement of financial position
14. revenue and expenses
15. shows that debits = credits

11. ANS: A PTS: 1
12. ANS: B PTS: 1
13. ANS: C PTS: 1
14. ANS: D PTS: 1
15. ANS: E PTS: 1

Match the words with the term.

- a. retained earnings
b. dividends
c. gross profit
d. operating activities
e. debits = credits
16. statement of retained earnings
17. statement of income
18. statement of financial position
19. statement of cash flow
20. trial balance

16. ANS: B PTS: 1
17. ANS: C PTS: 1
18. ANS: A PTS: 1
19. ANS: D PTS: 1
20. ANS: E PTS: 1

Match the words with the term.

- a. cash
b. buildings
c. mortgage
d. trade payables
e. goodwill
21. long-term borrowings
22. non-current asset
23. intangible asset
24. current liability
25. current asset

21. ANS: C PTS: 1
22. ANS: B PTS: 1
23. ANS: E PTS: 1
24. ANS: D PTS: 1
25. ANS: A PTS: 1

Match the words with the term.

- a. gross profit
b. goodwill
c. profit for the year
d. profit before taxes
e. cash flow
26. intangible assets
27. profit for the year + depreciation
28. 1st level of profitability
29. 2nd level of profitability
30. 4th level of profitability

26. ANS: B PTS: 1
27. ANS: E PTS: 1
28. ANS: A PTS: 1
29. ANS: D PTS: 1
30. ANS: C PTS: 1

Match the words with the term.

- a. revenue
b. prepaid expenses
c. trial balance
d. dividends
e. operating activities
31. statement of financial position
32. statement of income
33. statement of cash flows
34. debits = credits
35. statement of retained earnings

31. ANS: B PTS: 1
32. ANS: A PTS: 1
33. ANS: E PTS: 1
34. ANS: C PTS: 1
35. ANS: D PTS: 1

Match the words with the term.

- a. share capital
b. inventories
c. taxes payable
d. land
e. trademark
36. intangible asset

- 37. equity
- 38. non-current asset
- 39. current liability
- 40. current asset

- 36. ANS: E PTS: 1
- 37. ANS: A PTS: 1
- 38. ANS: D PTS: 1
- 39. ANS: C PTS: 1
- 40. ANS: B PTS: 1

Match the words with the term.

- a. investing activities
 - b. gross profit
 - c. non-current assets
 - d. accounting firm
 - e. dividends
- 41. statement of income
 - 42. statement of cash flows
 - 43. auditor's report
 - 44. statement of retained earnings
 - 45. statement of financial position

- 41. ANS: B PTS: 1
- 42. ANS: A PTS: 1
- 43. ANS: D PTS: 1
- 44. ANS: E PTS: 1
- 45. ANS: C PTS: 1

Match the words with the term.

- a. depreciation
 - b. CCA
 - c. working capital
 - d. mortgage
 - e. goodwill
- 46. tax deductible expense
 - 47. long-term borrowings
 - 48. intangible assets
 - 49. loss in value of assets
 - 50. current assets

- 46. ANS: B PTS: 1
- 47. ANS: D PTS: 1
- 48. ANS: E PTS: 1
- 49. ANS: A PTS: 1
- 50. ANS: C PTS: 1

PROBLEM

At the end of December 31, 2010, Centennial Company's accounts are as follows.

Purchases	\$175,000
Salaries	80,000
Advertising	3,000
Travel	2,000
Revenue	350,000
Finance costs	10,000
Freight-in	2,000
Income tax expense	13,000
Sales commission	2,000
Depreciation	38,000

1. Cost of sales is _____ .

ANS:

Cost of sales is \$ 177,000.

PTS: 1

2. Gross profit is _____ .

ANS:

Gross profit is \$ 173,000

PTS: 1

3. Total expenses are _____ .

ANS:

Total expenses are \$ 135,000

PTS: 1

4. Profit before taxes is _____ .

ANS:

Profit before taxes is \$ 38,000.

PTS: 1

5. Profit for the year is _____ .

ANS:

Profit for the year is \$ 25,000.

PTS: 1

6. The cash flow is _____ .

ANS:

Cash flow is \$ 63,000

Centennial Company
Statement of Income

for the year ended December 31, 2010

Revenue		\$ 350,000
Cost of sales		
Purchases	(\$ 175,000)	
Freight in	<u>(2,000)</u>	
Total cost of sales	<u>(177,000)</u>	
Gross profit	173,000	
Expenses		
Salaries	(80,000)	
Advertising	(3,000)	
Travel		(2,000)
Sales commission	(2,000)	
Depreciation	(38,000)	
Finance costs	<u>(10,000)</u>	
Total expenses	<u>(135,000)</u>	
Profit before taxes	38,000	
Income tax expense	<u>(13,000)</u>	
Profit for the year	<u>\$ 25,000</u>	
Cash flow		
Add back depreciation		<u>38,000</u>
Cash flow		<u>\$ 63,000</u>

PTS: 1

At the end of December 31, 2010, Palm Manor Inc.'s accounts are as follows:

Trade receivables	\$ 35,000
Cash	10,000
Short-term borrowings	35,000
Share capital	100,000
Long-term borrowings	60,000
Marketable securities	5,000
Property, plant and equipment	170,000
Prepaid expenses	5,000
Retained earnings	25,000
Accumulated depreciation	38,000
Inventories	50,000
Trade and other payables	\$ 17,000

7. Total current assets are _____ .

ANS:

Total current assets are \$ 105,000

PTS: 1

8. Total non-current assets are _____ .

ANS:

Total non-current assets are \$ 132,000

PTS: 1

9. Total assets are _____ .

ANS:

Total assets are \$ 237,000

PTS: 1

10. Total current liabilities are _____ .

ANS:

Total current liabilities are \$ 52,000

PTS: 1

11. Long-term borrowings are _____ .

ANS:

Long-term borrowings are \$ 60,000

PTS: 1

12. Total liabilities amount to _____ .

ANS:

Total liabilities amount to \$ 112,000

PTS: 1

13. Total equity is _____ .

ANS:

Total equity is \$ 125,000.

PTS: 1

14. Total equity and liabilities is _____ .

ANS:

Total equity and liabilities is \$ 237,000.

Palm Manor Inc.

Statement of Changes in Financial Position

As at December 31, 2010

Property, plant and equipment	\$ 170,000	Equity	
Accumulated depreciation	<u>(38,000)</u>	Share capital	\$100,000
Total non-current assets	132,000	Retained earnings	<u>25,000</u>
		Equity	125,000
		Long-term borrowings	60,000

Current assets		Current liabilities	
Inventories	50,000	Trade and other payables	17,000
Trade receivables	35,000	Short-term borrowings	<u>35,000</u>
Marketable securities	5,000		
Prepaid expenses	5,000		
Cash	<u>10,000</u>		
Total current assets	<u>105,000</u>	Total current liabilities	<u>52,000</u>
		Total liabilities	<u>112,000</u>
Total assets	<u>\$ 237,000</u>	Total equity and liabilities	<u>\$ 237,000</u>

PTS: 1

Purchases	\$ 209,000
Marketable securities	5,000
Property, plant and equipment	210,000
Leasing	7,000
Retained earnings	58,000
Depreciation	40,000
Long-term borrowings	50,000
Revenue	420,000
Short-term borrowings	40,000
Distribution costs	66,000
Share capital	100,000
Trade receivables	45,000
Trade and other payables	20,000
Accumulated depreciation	78,000
Cash	16,000
Administrative expenses	38,000
Inventories	65,000
Other expenses	14,000
Prepaid expenses	5,000
Income tax expense	13,000

15. Cost of sales is _____ .

ANS:

Cost of sales is \$209,000

PTS: 1

16. Total operating expenses are _____ .

ANS:

Total operating expenses are \$165,000

PTS: 1

17. Profit before taxes is _____ .

ANS:

Profit before taxes is \$46,000

PTS: 1

18. Profit for the year is _____ .

ANS:

Profit for the year is \$33,000

PTS: 1

19. Total current assets are _____ .

ANS:

Total current assets are \$136,000

PTS: 1

20. Total non-current assets are _____ .

ANS:

Total non-current assets are \$132,000

PTS: 1

21. Total assets are _____ .

ANS:

Total assets are \$268,000

PTS: 1

22. Total current liabilities are _____ .

ANS:

Total current liabilities are \$60,000

PTS: 1

23. Long-term borrowings are _____ .

ANS:

Long-term borrowings are \$50,000

PTS: 1

24. Total liabilities are _____ .

ANS:

Total liabilities are \$110,000

PTS: 1

25. Total equity is _____ .

ANS:
Total equity is \$158,000

PTS: 1

26. Total cash flow is _____ .

ANS:
Total cash flow is \$73,000.

PTS: 1

Trade receivables	\$45,000
Cash	10,000
Short-term borrowings	40,000
Share capital	100,000
Long-term borrowings	100,000
Marketable securities	10,000
Property, plant and equipment	300,000
Prepaid expenses	10,000
Retained earnings	100,000
Accumulated depreciation	70,000
Trade and other payables	35,000
Inventories	\$70,000

27. Total current assets are _____ .

ANS:
Total current assets are \$ 145,000

PTS: 1

28. Total non-current assets are _____ .

ANS:
Total non-current assets are \$ 230,000

PTS: 1

29. Total assets are _____ .

ANS:
Total assets are \$ 375,000

PTS: 1

30. Total current liabilities are _____ .

ANS:
Total current liabilities are \$ 75,000

PTS: 1

31. Total liabilities are _____ .

ANS:

Total liabilities are \$ 175,000

PTS: 1

32. Total equity is _____ .

ANS:

Total equity is \$ 200,000

PTS: 1

33. Total equity and liabilities is _____ .

ANS:

Total equity and liabilities is \$ 375,000

Apollo Inc.

Statement of Financial Position

As at December 31, 2010

Property, plant and equipment	\$300,000	Equity	
Accumulated depreciation	<u>(70,000)</u>	Share capital	\$ 100,000
Total non-current assets	230,000	Retained earnings	<u>100,000</u>
		Total equity	200,000
		Long-term borrowings	100,000
Current assets		Current liabilities	
Inventories	70,000	Trade and other payables	35,000
Trade receivables	45,000	Short-term borrowings	<u>40,000</u>
Prepaid expenses	10,000		
Marketable securities	10,000	Total current liabilities	<u>75,000</u>
Cash	<u>10,000</u>	Total liabilities	<u>175,000</u>
Total current assets	<u>145,000</u>		
Total assets	<u>\$ 375,000</u>	Total equity and liabilities	<u>\$ 375,000</u>

PTS: 1

Purchases	\$ 194,000
Salaries	90,000
Advertising	5,000
Travel	4,000
Revenue	400,000
Finance costs	15,000
Freight-in	4,000
Income tax expense	20,000

Sales commission	5,000
Depreciation	\$ 40,000

34. Cost of sales is _____ .

ANS:
Cost of sales is \$ 198,000.

PTS: 1

35. Gross profit is _____ .

ANS:
Gross profit is \$ 202,000.

PTS: 1

36. Total operating expenses is _____ .

ANS:
Total operating expenses is \$ 159,000

PTS: 1

37. Profit before taxes is _____ .

ANS:
Profit before taxes is \$ 43,000

PTS: 1

38. Profit for the year is _____ .

ANS:
Profit for the year is \$ 23,000

PTS: 1

39. Cash flow from operations is _____ .

ANS:
Cash flow from operations is \$ 63,000

Eastern Products Ltd.
Statement of Income
for the year ended December 31, 2010

Revenue		\$ 400,000
Cost of sales		
Purchases	\$ 194,000	
Freight in	<u>4,000</u>	
Total cost of sales		<u>198,000</u>
Gross profit		202,000
Operating expenses		

Salaries	90,000	
Advertising	5,000	
Travel	4,000	
Sales commission	5,000	
Depreciation	40,000	
Finance costs	<u>15,000</u>	
Total operating expenses		<u>159,000</u>
Profit before taxes		43,000
Income tax expense		<u>20,000</u>
Profit for the year		<u>\$ 23,000</u>
Add back depreciation		<u>40,000</u>
Cash flow from operations		<u>\$ 63,000</u>

PTS: 1

Use the following information, to prepare Aboni's 2010 financial statements:

40. The statement of income

ANS:

Aboni Electronics Ltd.
Statement of Income
for the year ended October 31, 2010

Revenue		\$4,000,000
Cost of sales		<u>(3,000,000)</u>
Gross profit		1,000,000
Other income	\$ 40,000	
Operating expenses		
Distribution costs	(250,000)	
Administrative expenses	(250,000)	
Depreciation	(55,000)	
Other expenses	<u>(55,000)</u>	
Total expenses and other income		<u>(570,000)</u>
Profit before taxes		430,000
Income tax expense		<u>(170,000)</u>
Profit for the year		<u>\$ 260,000</u>

PTS: 1

41. The statement of retained earnings.

ANS:

Aboni Electronics Ltd.
Statement of Retained Earnings
for the year ended October 31, 2010

Retained earnings (beginning of year)		\$ 1,000,000
Earnings for the year	260,000	
Less: dividends	<u>50,000</u>	<u>210,000</u>
Retained earnings (end of year)		<u>\$ 1,210,000</u>

PTS: 1

42. The statement of financial position.

Trade and other payable	\$ 80,000
Trade receivables	150,000
Accrued expenses	100,000
Accumulated depreciation	550,000
Administrative expenses	250,000
Plant, property and equipment	2,350,000
Share capital	930,000
Cash	525,000
Cost of sales	3,000,000
Depreciation	55,000
Dividends	50,000
Income tax expense	170,000
Intangible assets	165,000
Inventories	450,000
Long-term borrowings	610,000
Marketable securities	60,000
Other expenses	55,000
Other income	40,000
Prepaid expenses	30,000
Revenue	4,000,000
Distribution costs	250,000
Retained earnings (beginning)	1,000,000
Short-term borrowings	\$ 250,000

ANS:

Aboni Electronics Ltd.
Statement of Financial Position
as at October 31, 2010

Assets

Non-current assets	
Property, plant and equipment	\$2,350,000
Intangible assets	<u>165,000</u>
Total	2,515,000
Accumulated depreciation	<u>(550,000)</u>
Total non-current assets	1,965,000
Current assets	
Inventories	450,000
Trade receivables	150,000
Prepaid expenses	30,000
Marketable securities	60,000
Cash	<u>525,000</u>

Total current assets	<u>1,215,000</u>
Total assets	<u>\$3,180,000</u>
Equity	
Share capital	930,000
Retained earnings	<u>1,210,000</u>
Total equity	<u>2,140,000</u>
Liabilities	
Long-term borrowings	610,000
Current liabilities	
Trade and other payables	80,000
Accrued expenses	100,000
Short-term borrowings	<u>250,000</u>
Total current liabilities	<u>430,000</u>
Total liabilities	<u>1,040,000</u>
Total equity and liabilities	<u>\$3,180,000</u>

PTS: 1

Cost of the asset	\$100,000
Life of the asset	5 years
Depreciation rate	20%
Capital cost allowance rate	50%
Residual value of the asset	nil
Income tax rate	50%

43. Calculate the internal depreciation for the 5-year period using the straight-line method.

ANS:

Calculate the internal depreciation for the 5-year period using the straight-line method.

	Original value <u>\$100,000</u>	Depreciation rate <u>20%</u>	Depreciated value <u>End of year</u>
Year 1		\$ 20,000	\$80,000
Year 2		20,000	60,000
Year 3		20,000	40,000
Year 4		20,000	20,000
Year 5		<u>20,000</u>	---
Total depreciation			<u>\$100,000</u>

PTS: 1

44. Calculate the internal depreciation for the 5-year period using the sum-of-the digits method.

ANS:

Calculate the internal depreciation for the 5-year period using the sum-of-the digits method.

	<u>Original value</u>	<u>Fraction</u>	<u>Depreciation rate %</u>	<u>Depreciated value</u>
Year 1	\$100,000	5/15	33.7	\$33,333
Year 2	100,000	4/15	26.7	26,667
Year 3	100,000	3/15	20.0	20,000
Year 4	100,000	2/15	13.3	13,333
Year 5	100,000	1/15	6.7	<u>6,667</u>
Total depreciation				<u>\$100,000</u>

PTS: 1

45. Calculate the capital cost allowance for the 5-year period.

ANS:

Calculate the capital cost allowance for the 5-year period.

	<u>Balance</u>	<u>CCA rate</u>	<u>CCA</u>
Year 1	\$100,000	50%	\$25,000
Year 2	75,000	50%	37,500
Year 3	37,500	50%	18,750
Year 4	18,750	50%	9,375
Year 5	9,375	50%	4,687

PTS: 1

46. Calculate the annual future income taxes payable.

ANS:

Calculate the annual future income taxes payable.

	<u>CCA</u>	<u>Depreciation</u>	<u>Difference</u>	<u>After 50% Tax</u>
Year 1	\$25,000	\$20,000	\$ 5,000	\$ 2,500
Year 2	37,500	20,000	17,500	8,750
Year 3	18,750	20,000	(1,250)	(625)
Year 4	9,375	20,000	(10,625)	(5,312)
Year 5	4,687	20,000	(15,313)	(7,656)

PTS: 1

47. Calculate the cumulate future income taxes payable.

ANS:

Calculate the cumulate future income taxes payable.

	<u>Annual Difference</u>	<u>After 50% Tax</u>	<u>Cumulative Difference</u>
Year 1	\$ 5,000	\$ 2,500	\$ 2,500
Year 2	17,500	8,750	11,250
Year 3	(1,250)	(625)	10,625
Year 4	(10,625)	(5,312)	5,313
Year 5	(15,313)	(7,656)	---

PTS: 1