

Chapter 2 Accounting and Financial Statements (Part A)

MULTIPLE CHOICE

1. What activities does bookkeeping include?
 - a. Collecting, classifying and reporting transactions that take place in the business.
 - b. Recording business transactions in journals.
 - c. Collecting, classifying and reporting the activities that take place in the business.
 - d. Ensuring that all transactions are reported in accordance with accepted accounting principles.

ANS: A PTS: 1 REF: 39 OBJ: LO 1
BLM: Remember

2. How is the gross profit of a business calculated?
 - a. Gross profit is the difference between revenues and cost of sales.
 - b. Gross profit is the excess of revenues over the sum of cost of sales and operating expenses.
 - c. Gross profit is the sum of revenue and cost of sales.
 - d. Gross profit is the difference between revenues and cost of sales.

ANS: D PTS: 1 REF: 45 OBJ: LO 2
BLM: Remember

3. What are debits and credits?
 - a. A debit is an increase in an asset or a decrease in a liability, and a credit is an increase in a liability and a decrease in an asset
 - b. A debit is an increase in a liability or a decrease in an asset, and a credit is an increase in an asset or a decrease in a liability
 - c. A debit is an increase in shareholders' equity, and a credit is a decrease in shareholders' equity
 - d. A debit is an increase in revenue or a decrease in expenses and a credit is a decrease in revenue and an increase in expenses entry

ANS: A PTS: 1 REF: 40 OBJ: LO 1
BLM: Remember

4. What are journals used for in the accounting cycle?
 - a. as the books of final entry
 - b. as the books used to record the days to day activities of a business
 - c. as the books of original entry
 - d. as the source of accounting information to prepare a trial balance

ANS: C PTS: 1 REF: 41 OBJ: LO 1
BLM: Remember

5. What statements are included in the statement of earnings?
 - a. The statements of comprehensive income and other comprehensive income
 - b. The statement of income and the statement of retained earnings
 - c. The statements of income and other comprehensive income
 - d. The statement of income and the statement of comprehensive income

ANS: D PTS: 1 REF: 44 OBJ: LO 2
BLM: Remember

6. What is the accounting equation?
- a. $A = E + L$
 - b. $E = A + L$
 - c. $A = L - E$
 - d. $A = E - L$

ANS: A PTS: 1 REF: 39 OBJ: LO 1
BLM: Remember

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

ANS: C PTS: 1 REF: 40 OBJ: LO 1
BLM: Remember

8. How is gross profit calculated?
- 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: 48 OBJ: LO 3
BLM: Remember

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

ANS: D PTS: 1 REF: 48 OBJ: LO 3
BLM: Remember

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

ANS: A PTS: 1 REF: 56 OBJ: LO 3
BLM: Remember

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: 62 OBJ: LO 3
BLM: Remember

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

ANS: C PTS: 1 REF: 61 OBJ: LO 3
BLM: Remember

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: 65 OBJ: LO 3
BLM: Remember

14. What term refers to payments made for services that have NOT yet been received?
- a. accrued liabilities
 - b. prepaid expenses
 - c. accrued expenses
 - d. prepaid liabilities

ANS: B PTS: 1 REF: 62 OBJ: LO 3
BLM: Remember

15. What type of asset is goodwill?
- a. a fixed asset
 - b. a current asset
 - c. an intangible asset
 - d. a prepaid asset

ANS: C PTS: 1 REF: 61 OBJ: LO 3
BLM: Remember

16. What do retained earnings represent?
- a. the net profit generated by a business less the dividends declared
 - b. a non-current liability
 - c. the earnings paid to shareholders
 - d. a current liability

ANS: A PTS: 1 REF: 62 OBJ: LO 3
BLM: Remember

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

ANS: D PTS: 1 REF: 59 OBJ: LO 3
BLM: Remember

18. What differences between accounting income and taxable income can lead to a future income tax liability?
- a. revenue and accumulated earnings
 - b. accumulated depreciation and depreciation
 - c. CCA and accumulated depreciation
 - d. CCA and depreciation

ANS: D PTS: 1 REF: 64 OBJ: LO 3
BLM: Remember

19. What is one of the adjustments required to calculate a company's cash flow?
- a. adding accumulated depreciation to profit for the year
 - b. adding depreciation to profit for the year
 - c. adding depreciation to profit before taxes
 - d. adding profit from operations to interest income

ANS: B PTS: 1 REF: 45 OBJ: LO 2
BLM: Remember

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

ANS: D PTS: 1 REF: 65 OBJ: LO 3
BLM: Remember

21. An entrepreneur invests \$100,000 cash in a business. What is the effect on the financial statements?
- a. Current liabilities increase and current assets increase.
 - b. Current liabilities decrease and current assets decrease.
 - c. Current assets decrease and equity decreases.
 - d. Current assets increase and equity increases.

ANS: D PTS: 1 REF: 40 OBJ: LO 1
BLM: Higher Order

22. An entrepreneur borrows \$50,000 from the bank for his business, to be repaid in one year. What is the effect on the financial statements?
- a. Current assets increase and shareholder's equity increase.
 - b. Current assets decrease and current liabilities increase.
 - c. Current assets increase and current liabilities increase.
 - d. Current assets increase and long-term liabilities increase.

ANS: C PTS: 1 REF: 40 OBJ: LO 1
BLM: Higher Order

Chapter 2 Accounting and Financial Statements (Part A)

23. An entrepreneur purchases advertising on credit. What is the effect on the financial statements?
- a. Expenses decrease and accounts payable increase.
 - b. Expenses increase and accounts payable decrease.
 - c. Expenses decrease and accounts payable decrease.
 - d. Expenses increase and accounts payable increase.

ANS: D PTS: 1 REF: 40 OBJ: LO 1
BLM: Higher Order

24. An entrepreneur buys office furniture to be paid for in 30 days. What is the effect on the financial statements?
- a. Capital assets increase and long-term debt increases.
 - b. Capital assets increase and current liabilities increase.
 - c. Current assets increase and cash decreases.
 - d. Current assets increase and current liabilities increase.

ANS: B PTS: 1 REF: 40 OBJ: LO 1
BLM: Higher Order

25. An entrepreneur collects \$13,000 cash for services previously rendered. What is the effect on the financial statements?
- a. Current assets increase and revenue increases.
 - b. Current assets increase and current liabilities increase.
 - c. Current assets decrease and revenue increases.
 - d. Current assets increase and current assets decrease.

ANS: A PTS: 1 REF: 40 OBJ: LO 1
BLM: Higher Order

26. An entrepreneur pays \$3,000 in cash for salaries. What is the effect on the financial statements?
- a. Current assets decrease and expenses increase.
 - b. Revenues decrease and current assets decrease.
 - c. Expenses increase and current assets increase.
 - d. Current liabilities increase and expenses increase.

ANS: A PTS: 1 REF: 40 OBJ: LO 1
BLM: Higher Order

27. An entrepreneur repays a \$10,000 bank loan. What is the effect on the financial statements?
- a. Current assets decrease and expenses increase.
 - b. Current assets increase and current liabilities decrease.
 - c. Current assets decrease and expenses decrease.
 - d. Current assets decrease and current liabilities decrease.

ANS: D PTS: 1 REF: 40 OBJ: LO 1
BLM: Higher Order

Chapter 2 Accounting and Financial Statements (Part A)

28. An entrepreneur pays \$13,000 in cash for merchandise that was previously purchased on credit. What is 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: 40 OBJ: LO 1
BLM: Higher Order

29. Which of the following is an administrative expense?
- a. the cost of merchandise
 - b. depreciation
 - c. dividends
 - d. office salaries

ANS: D PTS: 1 REF: 48 OBJ: LO 3
BLM: Remember

30. What account is found on the statement of income?
- a. taxes payable
 - b. accumulated amortization
 - c. bank loan
 - d. salaries

ANS: D PTS: 1 REF: 48 OBJ: LO 3
BLM: Remember

31. What account is found on the statement of financial position?
- a. finance costs
 - b. office salaries
 - c. depreciation
 - d. cash

ANS: D PTS: 1 REF: 57 OBJ: LO 3
BLM: Remember

32. Which of the following is included 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: 56 OBJ: LO 3
BLM: Remember

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: 65 OBJ: LO 3
BLM: Remember

34. Given the following information, 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

- a. \$24,000
- b. \$75,000
- c. \$274,000
- d. \$325,000

ANS: B PTS: 1 REF: 47 OBJ: LO 2
BLM: Higher Order

35. What is included in the share capital segment of the statement of changes in equity?

- a. the change in property revaluation
- b. the dividend reinvestment and share purchase plan
- c. retained earnings
- d. the dividends paid to shareholders

ANS: B PTS: 1 REF: 46 OBJ: LO 2
BLM: Remember

36. Which statement contains assets, liabilities, and equity?

- a. the statement of cash flows
- b. the statement of income
- c. the statement of changes in equity
- d. the statement of financial position

ANS: D PTS: 1 REF: 46 OBJ: LO 2
BLM: Remember

37. Which statement contains revenues and expenses?

- a. the statement of cash flows
- b. the statement of income
- c. the statement of financial position
- d. the statement of changes in equity

ANS: B PTS: 1 REF: 46 OBJ: LO 2
BLM: Remember

38. Which statement contains retained earnings (beginning of year); profit for the year, dividends paid, and retained earnings (end of year)?

- a. the statement of cash flows
- b. the statement of income
- c. the statement of financial position
- d. the statement of changes in equity

ANS: D PTS: 1 REF: 46 OBJ: LO 2
BLM: Remember

Chapter 2 Accounting and Financial Statements (Part A)

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

ANS: D PTS: 1 REF: 46 OBJ: LO 2
BLM: Remember

40. In what order are the following items listed on the statement of financial position?
- current assets
 - property, plant, and equipment
 - intangible assets
- 2, 3, 1
 - 1, 3, 2
 - 3, 1, 2
 - 3, 2, 1

ANS: A PTS: 1 REF: 57-58 OBJ: LO 3
BLM: Remember

41. Which of the following is NOT a current asset?
- prepaid expenses
 - cash
 - trade receivables
 - office equipment

ANS: D PTS: 1 REF: 58 OBJ: LO 3
BLM: Remember

42. Which of the following is an example of a capital asset?
- land
 - inventories
 - trade receivables
 - cash

ANS: A PTS: 1 REF: 58 OBJ: LO 3
BLM: Remember

43. Which of the following is a long-term debt?
- a mortgage
 - a note payable due in six months
 - accruals
 - trade and other payables

ANS: A PTS: 1 REF: 63 OBJ: LO 3
BLM: Remember

Chapter 2 Accounting and Financial Statements (Part A)

44. 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: 65 OBJ: LO 3
BLM: Remember

45. What item is shown 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: 57 OBJ: LO 3
BLM: Remember

46. What is the correct date line for a statement of financial position?

- a. as at December 31, 2013
- b. from December 31, 2013
- c. for the accounting year ended December 31, 2013
- d. for the year ended December 31, 2013

ANS: A PTS: 1 REF: 57 OBJ: LO 3
BLM: Remember

47. What is the correct date line for a statement of income?

- a. from June 30, 2013
- b. for the year ended June 30, 2013
- c. for the accounting year ended June 30, 2013
- d. as at June 30, 2013

ANS: B PTS: 1 REF: 48 OBJ: LO 3
BLM: Remember

48. What term is defined as “resources that a business owns to produce goods and services”?

- a. revenue
- b. liabilities
- c. assets
- d. equity

ANS: C PTS: 1 REF: 58 OBJ: LO 3
BLM: Remember

49. What term refers to the debts of a business?

- a. liabilities
- b. equity
- c. assets
- d. revenue

ANS: A PTS: 1 REF: 63 OBJ: LO 3
BLM: Remember

Chapter 2 Accounting and Financial Statements (Part A)

50. What term refers to funds provided in a business by its shareholders?
- a. assets
 - b. equity
 - c. revenue
 - d. liabilities

ANS: B PTS: 1 REF: 62 OBJ: LO 3
BLM: Remember

51. What term refers to 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: 46 OBJ: LO 2
BLM: Remember

52. What term refers to 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: 46-50 OBJ: LO 2/3
BLM: Remember

53. What term refers to 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: 61 OBJ: LO 3
BLM: Remember

54. What term refers to 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: 58 OBJ: LO 3
BLM: Remember

55. What term refers to 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: 65 OBJ: LO 3
BLM: Remember

Chapter 2 Accounting and Financial Statements (Part A)

56. What term refers to debts that are NOT due for at least one year?
- retained liabilities
 - capital stock
 - current liabilities
 - long-term borrowings

ANS: D PTS: 1 REF: 63 OBJ: LO 3
BLM: Remember

57. How is profit for the year calculated?
- by deducting liabilities from assets
 - by deducting income tax expense from profit before taxes
 - by deducting cost of sales from sales revenue
 - by deducting assets from liabilities

ANS: B PTS: 1 REF: 52 OBJ: LO 3
BLM: Remember

58. What sections are included in the statement of changes in equity?
- contributed surplus and non-current assets
 - current assets and non-current assets
 - retained earnings and intangible assets
 - share capital and retained earnings

ANS: D PTS: 1 REF: 55 OBJ: LO 3
BLM: Remember

59. Which of the following is a tax-deductible expense?
- accumulated amortization
 - depreciation
 - accrued expenses
 - freight-out

ANS: D PTS: 1 REF: 53 OBJ: LO 3
BLM: Remember

60. Which of the following sections is part of the statement of income?
- administrative expenses
 - future income taxes payable
 - long-term assets
 - retained earnings

ANS: A PTS: 1 REF: 48 OBJ: LO 3
BLM: Remember

61. Which of the following is included in equity?
- current assets
 - revenue
 - deferred revenue
 - retained earnings

ANS: D PTS: 1 REF: 46 OBJ: LO 2
BLM: Remember

Chapter 2 Accounting and Financial Statements (Part A)

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

ANS: B PTS: 1 REF: 70 OBJ: LO 6
BLM: Remember

63. 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: 71 OBJ: LO 6
BLM: Remember

64. What section includes grants receivable in an NFP organization?
- a. current assets
 - b. capital assets
 - c. long-term liabilities
 - d. current liabilities

ANS: A PTS: 1 REF: 71 OBJ: LO 6
BLM: Remember

65. What is deducted from an NFP organization's residual amount in its assets to arrive at net assets?
- a. all fixed assets
 - b. all current assets
 - c. the accumulated depreciation
 - d. all debts to purchase these assets

ANS: D PTS: 1 REF: 71 OBJ: LO 6
BLM: Remember

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

ANS: A PTS: 1 REF: 73 OBJ: LO 6
BLM: Remember

Chapter 2 Accounting and Financial Statements (Part A)

67. Where is the profit for the year transferred?
- a. The profit for the year shown on the statement of financial position is transferred to the statement of retained earnings.
 - b. The profit before taxes is transferred to the statement of cash flows.
 - c. The profit for the year shown on the statement of changes in equity is transferred to the statement of income.
 - d. 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: 53 OBJ: LO 3
BLM: Remember

68. What term refers to the categories used to record accounting transactions?
- a. trial balance
 - b. statement of income
 - c. chart of accounts
 - d. statement of financial position

ANS: C PTS: 1 REF: 39 OBJ: LO 1
BLM: Remember

69. What is the name for the books of original entry?
- a. journals
 - b. T accounts
 - c. trial balance accounts
 - d. ledgers

ANS: A PTS: 1 REF: 41 OBJ: LO 1
BLM: Remember

70. Which of the following ensures that the debits equal the credits?
- a. sales journal
 - b. trial balance
 - c. journal entries
 - d. statement of income

ANS: B PTS: 1 REF: 41-42 OBJ: LO 1
BLM: Remember

71. What is the broad set of rules or guidelines that accountants must follow when preparing financial statements?
- a. IFRS
 - b. ROPA
 - c. ACCP
 - d. GPA

ANS: A PTS: 1 REF: 45 OBJ: LO 2
BLM: Remember

72. 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: 48 OBJ: LO 3
BLM: Remember

73. 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: 48 OBJ: LO 3
BLM: Remember

74. 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: 57 OBJ: LO 3
BLM: Remember

75. What calculation determines the net revenue?
- 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: 50 OBJ: LO 3
BLM: Remember

76. 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: 56 OBJ: LO 3
BLM: Remember

77. 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: 58 OBJ: LO 3
BLM: Remember

Chapter 2 Accounting and Financial Statements (Part A)

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

ANS: B PTS: 1 REF: 57 OBJ: LO 3
BLM: Remember

79. What two items are linked by the statement of changes in equity?
- the statement of income and the statement of financial position
 - the trial balance and the statement of income
 - the statement of income and the statement of cash flows
 - the statement of financial position and the statement of cash flows

ANS: A PTS: 1 REF: 45-46 OBJ: LO 2
BLM: Remember

80. What do retained earnings represent?
- the amount the company retains after paying dividends
 - the amount the company retains after paying the cost of sales
 - the amount shareholders retain after paying their taxes
 - the amount the company retains after paying its operating expenses

ANS: A PTS: 1 REF: 46 OBJ: LO 2
BLM: Remember

81. Which of the following are assets?
- goodwill, land, common shares
 - cash, depreciation, land
 - prepaid expenses, accrued expenses, gross capital assets
 - cash, buildings, intangible assets

ANS: D PTS: 1 REF: 57-58 OBJ: LO 3
BLM: Remember

82. What do typical current assets include?
- cash, trade receivables, inventories
 - prepaid expenses, land, cash
 - trade receivables, inventories, research and development
 - cash, trade receivables, equipment

ANS: A PTS: 1 REF: 61 OBJ: LO 3
BLM: Remember

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

ANS: A PTS: 1 REF: 65 OBJ: LO 3
BLM: Remember

84. 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: 45 OBJ: LO 2
BLM: Remember

85. 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: 58 OBJ: LO 3
BLM: Remember

86. What term refers to 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: 51 OBJ: LO 3
BLM: Remember

87. What 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: 46 OBJ: LO 2
BLM: Higher Order

88. Who communicates with shareholders through the financial statements?
- a. accountants
 - b. external auditors
 - c. company management
 - d. internal auditors

ANS: C PTS: 1 REF: 67 OBJ: LO 3
BLM: Remember

89. Which of the following are 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: 59 OBJ: LO 3
BLM: Remember

90. Who prepares 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: 67 OBJ: LO 3
BLM: Remember

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

ANS: C PTS: 1 REF: 51 OBJ: LO 3
BLM: Higher Order

92. Under generally accepted accounting principles, how should corporations match the use of depreciable assets with the revenue produced?
- a. by using the same depreciation methods
 - b. by using its straight-line depreciation as a tax deductible expense
 - c. by recording depreciation
 - d. by using accelerated depreciation

ANS: C PTS: 1 REF: 51 OBJ: LO 3
BLM: Remember

93. What tax liability 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: 63 OBJ: LO 3
BLM: Remember

94. 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: 47 OBJ: LO 2
BLM: Remember

Chapter 2 Accounting and Financial Statements (Part A)

95. What is the scrap/salvage value deducted from to calculate depreciation?
- the depreciated cost
 - the discounted cost
 - the purchase price
 - the estimated useful value

ANS: C PTS: 1 REF: 51 OBJ: LO 3
BLM: Remember

96. What is the name of the statement of income for an NFP organization?
- statement of operations
 - statement of changes in net assets
 - statement of financial position
 - statement of gross assets

ANS: A PTS: 1 REF: 70 OBJ: LO 6
BLM: Remember

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 REF: 39

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

ANS: T PTS: 1 REF: 44

3. Bookkeeping is considered the language of business.

ANS: F PTS: 1 REF: 39

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

ANS: T PTS: 1 REF: 39

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

ANS: T PTS: 1 REF: 39

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 REF: 39

Chapter 2 Accounting and Financial Statements (Part A)

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

ANS: T PTS: 1 REF: 39

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

ANS: T PTS: 1 REF: 40

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

ANS: F PTS: 1 REF: 41

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

ANS: F PTS: 1 REF: 41

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

ANS: T PTS: 1 REF: 41

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

ANS: T PTS: 1 REF: 44

13. IFRS stands for "Introductory Financial Reporting Standards."

ANS: F PTS: 1 REF: 38

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 REF: 46

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

ANS: F PTS: 1 REF: 46

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

ANS: T PTS: 1 REF: 46

Chapter 2 Accounting and Financial Statements (Part A)

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 REF: 46

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

ANS: F PTS: 1 REF: 46

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

ANS: T PTS: 1 REF: 45

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 REF: 46

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

ANS: F PTS: 1 REF: 45

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 REF: 46

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 REF: 46

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

ANS: F PTS: 1 REF: 46

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

ANS: T PTS: 1 REF: 61

26. Prepaid expenses are considered a liability account.

ANS: F PTS: 1 REF: 62

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 REF: 57

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

ANS: T PTS: 1 REF: 59

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

ANS: T PTS: 1 REF: 65

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

ANS: T PTS: 1 REF: 65

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

ANS: T PTS: 1 REF: 55

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

ANS: F PTS: 1 REF: 55

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

ANS: F PTS: 1 REF: 67

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 REF: 68

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

ANS: T PTS: 1 REF: 47

Chapter 2 Accounting and Financial Statements (Part A)

36. Depreciation 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 REF: 51

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

ANS: T PTS: 1 REF: 51

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

ANS: T PTS: 1 REF: 63

COMPLETION

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

ANS: Bookkeeping

PTS: 1 REF: 39

2. _____ is the activity that arranges the financial information into separate and distinct financial statements.

ANS: Accounting

PTS: 1 REF: 44

3. The _____ is a set of categories by which accounting transactions are recorded.

ANS: chart of accounts

PTS: 1 REF: 39

4. _____ are also referred to as books of original entry.

ANS: Journals

PTS: 1 REF: 41

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 REF: 41

Chapter 2 Accounting and Financial Statements (Part A)

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 REF: 46

8. The difference between revenue and cost of sales on the statement of income gives the _____ profit.

ANS: gross

PTS: 1 REF: 45

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

ANS: non-current

PTS: 1 REF: 46

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

ANS: profit for the year

PTS: 1 REF: 46

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 REF: 46

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 REF: 46

Chapter 2 Accounting and Financial Statements (Part A)

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

ANS: retained earnings

PTS: 1 REF: 46

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

ANS: Assets

PTS: 1 REF: 58

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

ANS: current asset; working capital

PTS: 1 REF: 61

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 REF: 61

17. Land, buildings, and equipment are considered typical _____ accounts that appear on a company's statement of financial position.

ANS: non-current

PTS: 1 REF: 58

18. _____ assets represent value of trademarks, goodwill, franchises, and patents.

ANS: Intangible

PTS: 1 REF: 59

19. _____ or debts are what a company owes to its lenders.

ANS: Liabilities

PTS: 1 REF: 63

20. _____ liabilities are debts that have to be paid by a business within the current operating year.

ANS: Current

PTS: 1 REF: 61

21. _____ borrowings are used to finance non-current assets.

ANS: Long-term

PTS: 1 REF: 63

22. An independent accounting firm prepares the _____ report which is presented to a company's shareholders.

ANS: auditors'

PTS: 1 REF: 67

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 REF: 51

MATCHING

Match the words with the term.

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

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

- | | | |
|-----------|--------|---------|
| 1. ANS: C | PTS: 1 | REF: 39 |
| 2. ANS: B | PTS: 1 | REF: 38 |
| 3. ANS: A | PTS: 1 | REF: 38 |
| 4. ANS: E | PTS: 1 | REF: 45 |
| 5. ANS: D | PTS: 1 | REF: 45 |

Chapter 2 Accounting and Financial Statements (Part A)

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 | REF: 40 |
| 7. | ANS: A | PTS: 1 | REF: 57 |
| 8. | ANS: E | PTS: 1 | REF: 41 |
| 9. | ANS: D | PTS: 1 | REF: 40 |
| 10. | ANS: C | PTS: 1 | REF: 40 |

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 | REF: 41 |
| 12. | ANS: B | PTS: 1 | REF: 41 |
| 13. | ANS: C | PTS: 1 | REF: 46 |
| 14. | ANS: D | PTS: 1 | REF: 46 |
| 15. | ANS: E | PTS: 1 | REF: 41 |

Chapter 2 Accounting and Financial Statements (Part A)

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 | REF: 45 |
| 17. | ANS: C | PTS: 1 | REF: 45 |
| 18. | ANS: A | PTS: 1 | REF: 57 |
| 19. | ANS: D | PTS: 1 | REF: 46 |
| 20. | ANS: E | PTS: 1 | REF: 41 |

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 | REF: 63 |
| 22. | ANS: B | PTS: 1 | REF: 58 |
| 23. | ANS: E | PTS: 1 | REF: 59 |
| 24. | ANS: D | PTS: 1 | REF: 65 |
| 25. | ANS: A | PTS: 1 | REF: 61 |

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 | REF: 59 |
| 27. | ANS: E | PTS: 1 | REF: 46 |
| 28. | ANS: A | PTS: 1 | REF: 46 |
| 29. | ANS: D | PTS: 1 | REF: 46 |
| 30. | ANS: C | PTS: 1 | REF: 46 |

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 | REF: 46 |
| 32. | ANS: A | PTS: 1 | REF: 46 |
| 33. | ANS: E | PTS: 1 | REF: 46 |
| 34. | ANS: C | PTS: 1 | REF: 41 |
| 35. | ANS: D | PTS: 1 | REF: 46 |

Chapter 2 Accounting and Financial Statements (Part A)

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 | REF: 59 |
| 37. | ANS: A | PTS: 1 | REF: 46 |
| 38. | ANS: D | PTS: 1 | REF: 58 |
| 39. | ANS: C | PTS: 1 | REF: 65 |
| 40. | ANS: B | PTS: 1 | REF: 61 |

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 changes in equity
- 45. statement of financial position

- | | | | |
|-----|--------|--------|---------|
| 41. | ANS: B | PTS: 1 | REF: 46 |
| 42. | ANS: A | PTS: 1 | REF: 46 |
| 43. | ANS: D | PTS: 1 | REF: 67 |
| 44. | ANS: E | PTS: 1 | REF: 46 |
| 45. | ANS: C | PTS: 1 | REF: 46 |

Chapter 2 Accounting and Financial Statements (Part A)

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 | REF: 53 |
| 47. ANS: D | PTS: 1 | REF: 63 |
| 48. ANS: E | PTS: 1 | REF: 59 |
| 49. ANS: A | PTS: 1 | REF: 51 |
| 50. ANS: C | PTS: 1 | REF: 61 |