

*Student:* \_\_\_\_\_

1. The continuity assumption is inappropriate when
  - A. the business is just starting up.
  - B. liquidation appears likely.
  - C. fair values are higher than costs.
  - D. the business is organized as a proprietorship.
  
2. Shareholders' equity
  - A. is equal to liabilities and retained earnings.
  - B. includes retained earnings and contributed capital.
  - C. is shown on the income statement.
  - D. is usually equal to cash on hand.
  
3. If Golden Company owed Eye Company \$500, where would Golden Company reflect this?
  - A. Statement of financial position.
  - B. Income statement.
  - C. Statement of cash flows
  - D. Statement of changes in equity.

4. It is assumed that the activities of Petro Canada Corporation can be distinguished from those of Imperial Oil Limited because of the
- A. Continuity assumption.
  - B. Separate-entity assumption.
  - C. Unit-of-measure assumption.
  - D. Periodicity assumption.
5. Which of the following defines assets?
- A. Probable future economic benefits owned by an entity as a result of past transactions.
  - B. Possible future economic benefits owed by an entity as a result of past transactions.
  - C. Probable future economic benefits owned by an entity as a result of future transactions.
  - D. Possible future economic benefits owed by an entity as a result of future transactions.
6. Which of the following defines liabilities?
- A. Possible debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
  - B. Possible debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
  - C. Probable debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
  - D. Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.

7. Which of the following defines shareholders' equity?
- A. Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
  - B. Assets plus liabilities.
  - C. Probable future economic benefits owned by an entity as a result of past transactions.
  - D. The financing provided by the owners and the operations of a business.
8. Abe Cox is the sole owner and manager of Cox Auto Repair Shop. In 20A, Cox purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Cox from recording the cost of the new automobile as an asset to the business?
- A. Separate-entity assumption.
  - B. Revenue principle.
  - C. Full disclosure.
  - D. Historical cost principle.
9. The main objective of financial reporting is to:
- A. Compare a company's performance with its competitors.
  - B. Meet the needs of all potential users.
  - C. Provide information that is useful to individuals making investment and credit decisions.
  - D. Provide information that will be used by a company's managers for product pricing decisions.

10. Which one of the following is *not* a qualitative characteristic of useful accounting information?
- A. Relevance
  - B. Faithful representation
  - C. Materiality
  - D. Comparability
11. Where would we report changes in shareholders' equity caused by operating activities?
- A. In the retained earnings account.
  - B. In a contributed capital account.
  - C. In a liability account.
  - D. In an asset account.
12. The best interpretation of the word credit is the
- A. offset side of an account.
  - B. increase side of an account.
  - C. right side of an account.
  - D. decrease side of an account.

13. Which of the following is least likely to have a liability called Deferred Revenue?

- A. an insurance company
- B. a retailer
- C. a magazine subscription company
- D. a university or college

14. On a classified balance sheet, prepaid expenses are classified as

- A. a current liability.
- B. property, plant, and equipment.
- C. a current asset.
- D. a long-term investment.

15. Which of the following is *not* considered an asset?

- A. Equipment
- B. Dividends
- C. Accounts receivable
- D. Inventory

16. Which of the following liability accounts is usually not satisfied by payment of cash?

- A. Trade payables.
- B. Unearned revenues.
- C. Taxes payable.
- D. Short-term borrowings.

17. Accounting systems should record

- A. all economic events.
- B. events that result in a change in assets, liabilities, or shareholders' equity items.
- C. only events that involve cash.
- D. items of interest to the shareholders.

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

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

19. Collection of a \$600 accounts receivable

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

20. The purchase of an asset on credit

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

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

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

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

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

- A. \$500 credit balance.
- B. \$900 debit balance.
- C. \$400 debit balance.
- D. \$400 credit balance.



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

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

24. Which one of the following represents the expanded basic accounting equation?

- A.  $\text{Assets} = \text{Liabilities} + \text{Contributed capital} + \text{Retained Earnings} + \text{Revenues} - \text{Expenses} - \text{Dividends}$
- B.  $\text{Assets} + \text{Liabilities} = \text{Dividends} + \text{Expenses} + \text{Contributed capital} + \text{Revenues}$
- C.  $\text{Assets} - \text{Liabilities} - \text{Dividends} = \text{Contributed capital} + \text{Revenues} - \text{Expenses}$
- D.  $\text{Assets} = \text{Revenues} + \text{Expenses} - \text{Liabilities}$

25. The collection of a trade receivable from a customer would do which of the following?

- A. Increase liabilities.
- B. Decrease liabilities.
- C. Not affect liabilities.
- D. Decrease shareholders' equity.

26. The following amounts are reported in the ledger of Bowers Company:

Assets	\$25,000 (debit)
Liabilities	15,000 (credit)
Retained earnings	3,000 (credit)

What is the balance in the contributed capital account?

- A. \$7,000 credit.
- B. \$8,000 debit.
- C. \$12,000 credit.
- D. \$12,000 debit.

27. The purchase of an asset on credit

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

28. Which of the following will not result in recording a transaction?

- A. Signing a contract to have an outside cleaning service clean offices nightly.
- B. Paying our employees their wages.
- C. Selling shares to investors.
- D. Buying equipment and agreeing to pay a note payable and interest at the end of a year.

29. Which of the following transactions will cause both the left and right side of the equation to increase?
- A. We collect cash from a customer who owed us money
  - B. We pay a supplier for inventory we previously bought on account
  - C. We borrow money from the bank
  - D. We purchase equipment for cash
30. When a company buys equipment for \$60,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?
- A. Cash decreases by \$60,000.
  - B. Equipment increases by \$20,000.
  - C. Liabilities increase by \$40,000.
  - D. Total assets increase by \$60,000.
31. The payment of a liability
- A. decreases assets and shareholders' equity.
  - B. increases assets and decreases liabilities.
  - C. decreases assets and increases liabilities.
  - D. decreases assets and liabilities.

32. If total liabilities increased by \$25,000 and shareholders' equity increased by \$5,000 during a period of time, then total assets must change by what amount and direction during that same period?
- A. \$20,000 decrease
  - B. \$25,000 increase
  - C. \$30,000 increase
  - D. \$20,000 increase
33. Borrowing \$100,000 of cash from First National Bank, signing a note to be paid, would do which of the following?
- A. Increase cash by a credit.
  - B. Increase notes payable by a debit.
  - C. Increase notes payable by a credit.
  - D. Decrease cash by a debit.
34. Jet Corporation was organized on March 1, 20B. Jet Corporation issued shares to each of the six owners who paid in a total of \$3,000 cash. On the basis of transaction analysis, the following entry should be recorded in the accounts (dr = debit and cr = credit)
- A. Cash (dr), \$3,000; Revenue (cr), \$3,000.
  - B. Cash (cr), \$3,000; Shareholders' equity (dr), \$3,000.
  - C. Cash (dr), \$3,000; Contributed capital (cr), \$3,000.
  - D. Cash (cr), \$3,000; Contributed capital (dr), \$3,000.

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

- A) Accounts payable      \$10,000  
    Cash                      \$10,000
- B) Cash                      10,000  
    Note Payable              10,000
- C) Note Payable            10,000  
    Cash                      10,000
- D) Note payable expense 10,000  
    Cash                      10,000

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

36. A T account is

- A. a way of depicting the basic form of an account.
- B. a special account used instead of a journal.
- C. a special account used instead of a trial balance.
- D. is the actual account form used in real accounting systems.

37. An accountant has debited an asset account for \$500 and credited a revenue account for \$1,000. What can be done to complete the recording of the transaction?
- A. Nothing further must be done.
  - B. Debit a shareholders' equity account for \$500.
  - C. Debit another asset account for \$500.
  - D. Credit a different asset account for \$500.
38. The trade payables account has a beginning balance of \$1,000 and we purchased \$3,000 of inventory on credit during the month. The ending balance was \$800. How much did we pay our creditors during the month?
- A. \$2,800
  - B. \$3,000
  - C. \$3,200
  - D. \$4,800
39. When recording transactions in T-account format, we must add an additional step to the transaction analysis process. Which of the following is the additional step?
- A. Determine what accounts and elements in the equation are affected by the transaction.
  - B. Determine if the affected accounts are increased or decreased by the transaction.
  - C. We must have equal debits and credits once the entry is recorded in the accounts.
  - D. The accounting equation must remain in balance after each transaction.

40. Assets normally show

- A. credit balances.
- B. debit balances.
- C. debit and credit balances.
- D. debit or credit balances.

41. Financing activities involve

- A. lending money.
- B. acquiring investments.
- C. issuing shares.
- D. acquiring long-lived assets.

42. A weakness of the current ratio is

- A. the difficulty of the calculation.
- B. that it doesn't take into account the composition of the current assets.
- C. that it is rarely used by sophisticated analysts.
- D. that it can be expressed as a percentage, as a rate, or as a proportion.

43. Liabilities are generally classified on a statement of financial position as

- A. small liabilities and large liabilities.
- B. present liabilities and future liabilities.
- C. tangible liabilities and intangible liabilities.
- D. current liabilities and non-current liabilities.

44. The classification and normal balance of the dividend account is

- A. revenue with a credit balance.
- B. an expense with a debit balance.
- C. a liability with a credit balance.
- D. shareholders' equity with a debit balance.

45. Which of the following would be an example of a financing transaction?

- A. Purchasing equipment for cash.
- B. Buying inventory from a supplier on credit.
- C. Selling shares to investors for cash.
- D. Buying inventory from a supplier for cash.



46. Investing activities include

- A. collecting the principal on loans made.
- B. obtaining cash from creditors.
- C. obtaining capital from owners.
- D. repaying money previously borrowed.

47. Which of the following would cause an inflow of cash?

- A. Payment of a long-term mortgage.
- B. Sale of an asset for cash at less than its book value.
- C. Payment of accounts payable.
- D. Purchase of inventory for debt.

48. Dow Construction Company reports a net use of cash for investing activities of \$1.2 million and a net source of cash provided by financing of \$.8 million. What was the effect on the cash balance?

- A. To cause the balance to increase by \$.8 million.
- B. To cause the balance to decrease by \$.4 million.
- C. To cause the balance to increase by \$.4 million.
- D. Undeterminable because the beginning cash balance was not given.

49. When a new business is just starting up, which of the following must be done first?

- A. Generate positive cash flow through successful operations.
- B. Acquire the assets both long-lived and short-lived so they can operate.
- C. Acquire financing from issuance of shares and borrowing from creditors.
- D. These activities all occur simultaneously not sequentially.

50. If a company has assets of \$60,000 and shareholders' equity of \$30,000, then its liabilities must be \$90,000.

True False

51. A debit increases an account and a credit decreases an account.

True False

52. Assets are economic resources controlled by an entity as a result of past transactions or events and for which future economic benefits may be obtained.

True False

53. Liability accounts are reported on the statement of financial position.

True False

54. Qualitative characteristics of accounting information are not part of the conceptual framework of accounting.

True False

55. On the income statement, assets should always equal liabilities plus shareholders' equity.

True False

56. Calculating financial ratios can give clues to underlying conditions that may not be noticed by examining each financial statement item separately.

True False

57. Faithful representation means information must be free from material error, neutral and complete.

True False

58. The unit-of-measure assumption states that financial information is reported in the national monetary unit.

True False

59. The separate-entity assumption assumes a stable monetary unit (not affected by inflation or deflation).

True False

60. Three of the four basic assumptions that underlie accounting measurement and reporting relate to the statement of financial position.

True False

61. The amount shown on the statement of financial position as shareholders' equity represents the current market value of the owners' residual claim against the company.

True False

62. Cash and supplies are both classified as current assets.

True False

63. Transactions have a dual economic effect on the fundamental accounting model.

True False

64. The payment of a liability in cash will decrease shareholders' equity.

True False

65. The basic system of recording transactions has withstood the test of time, and has been in use for more than 500 years.

True False

66. If you trade your computer plus cash for a new car, the cost of the new car is equal to the cash paid plus the market value of the computer.

True False

67. The purchase of a delivery truck for cash increases assets and shareholders' equity.

True False

68. Recording the borrowing of cash with a note payable increases shareholders' equity.

True False

69. When a business owner invests cash in the business, the investment causes a liability to increase.

True False

70. When a business pays a previously recorded bill, the liabilities of the business decrease.

True False

71. The objective of transaction analysis is to determine the economic effects of each transaction in terms of the accounting model.

True False

72. An individual accounting record for a specific asset, liability or shareholders' equity item is called an account.

True False

73. A T-account shows total debits of \$25,000 and total credits of \$22,000; therefore, it has a \$3,000 credit balance.

True False

74. In its simplest form, a T account consists of three parts: (1) its title, (2) a left or debit side and (3) a right or credit side.

True False

75. Debit and credit can be interpreted to mean "bad" and "good," respectively.

True False

76. If the correct accounts have been identified and the appropriate direction of the effect on each account has been determined, then the equation should remain in balance.

True False

77. A T-account is an accounting method of expressing the effects of a single transaction in a debits-equal-credits format.

True False

78. Normally, asset accounts will have credit balances and liability accounts will have debit balances.

True False

79. "Debit" is the designation for the left side of an account, and "credit" is the designation for the right side of an account.

True False

80. Some legal contracts, such as the signing of a contract to hire a new employee, are not reflected in the financial statements.

True False

81. Contributed capital results when a company buys a new delivery truck.

True False

82. Usually when a short-term, interest-bearing note payable is paid on its maturity date, an asset is credited and a liability is debited.

True False

83. By themselves, journal entries do not provide the balances in accounts.

True False

84. The current ratio takes into account the composition of current assets.

True False

85. Long-term investments appear in the property, plant, and equipment section of the balance sheet.

True False

86. The sale of land for cash would be classified as a cash inflow from an investing activity.

True False

87. The activity from the balance sheet to be presented in the financing activities section of the cash flow statement is based on an analysis of shareholders' equity only.

True False

88. For each of the following events, which ones result in an exchange transaction for the O'Brien Company?

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



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

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

90. For each item below, indicate whether the account will be debited or credited:

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

91. Match the terminology with the description by entering the proper letter in the space to the left.

- A. Credits
- B. Share Capital
- C. Cost principle
- D. Transaction
- E. Debits
- F. Liability
- G. Statement of financial position
- H. Primary objective of external financial reporting
- I. Separate-entity assumption
- J. Retained earnings
- K. As at December 31, 20A
- L. For the period ended December 31, 20A
- M. None of the above is correct

\_\_\_ 1. Increase assets and decreases shareholders' equity.

\_\_\_ 2. An exchange between an entity and another party.

\_\_\_ 3. Normal balances for liabilities.

\_\_\_ 4. To provide useful economic information about a business to help external parties make sound financial decisions.

\_\_\_ 5. Accounting assumption that requires assets to be recorded at their cash equivalent cost.

\_\_\_ 6. Cumulative earnings that have not been distributed to the owners.

\_\_\_ 7. A debt owed by the entity.

\_\_\_ 8. Statement of financial position.

\_\_\_ 9. Account for a business separate from its owners.

\_\_\_ 10. Dating of the statement of financial position (20A).

92. Why is the continuity assumption so important for statement of financial position reporting?

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

94. Why is the historical cost principle so important for statement of financial position reporting?

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

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

96. (A) Complete the following schedule for Gold Eye Company.

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

(B) How much did cash change during the period?

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

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

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

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



99. Scott, Kim and Koko organized the SKK Corporation on January 1, 20A. Each of these owners invested \$30,000 cash and received shares. Below are selected transactions that were completed during January.

(A) Give the entry on SKK's books for each transaction:

(1) Sold shares to the owners.

(2) Borrowed \$100,000 on one-year note payable.

(3) Purchased land by signing a \$20,000 note payable.

(4) Paid \$5,000 of trade payables.

(5) Purchased two service vehicles, \$21,000 each; paid cash.

(6) Accepted a promissory note of \$1,000 from a customer.

(B) Complete the following based only on the 6 transactions above:

Assets \$

Liabilities \$

Shareholders' equity \$

100. The accounts with identification letters for WildWorld, Inc. are listed below.

Letter Account Title

A Cash

B Trade Receivables

C Office supplies

D Equipment

E Land

F Trade Payables

G Notes Payable

H Share Capital

I Retained Earnings

During 20X, the company completed the transactions given below. You are to indicate the appropriate journal entry for each transaction by giving the account letter and amount. Some entries may need three letters. The first transaction is given as an example.

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

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

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

102. In what two places do amounts for transactions appear in the accounting system or "the books"?

Describe them.

103. On January 1, 20A, Hux Cliffable started a new professional corporation, Hux Cliffable, P. C., to practice medicine with an initial investment of \$50,000. On June 30, 20A the accounting records contained the following amounts:

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

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

## 2 Key

1. The continuity assumption is inappropriate when
  - A. the business is just starting up.
  - B.** liquidation appears likely.
  - C. fair values are higher than costs.
  - D. the business is organized as a proprietorship.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #1*

2. Shareholders' equity
  - A. is equal to liabilities and retained earnings.
  - B.** includes retained earnings and contributed capital.
  - C. is shown on the income statement.
  - D. is usually equal to cash on hand.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #2*

3. If Golden Company owed Eye Company \$500, where would Golden Company reflect this?
- A. Statement of financial position.
  - B. Income statement.
  - C. Statement of cash flows
  - D. Statement of changes in equity.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #3*

4. It is assumed that the activities of Petro Canada Corporation can be distinguished from those of Imperial Oil Limited because of the
- A. Continuity assumption.
  - B. Separate-entity assumption.
  - C. Unit-of-measure assumption.
  - D. Periodicity assumption.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #4*

5. Which of the following defines assets?

- A. Probable future economic benefits owned by an entity as a result of past transactions.
- B. Possible future economic benefits owed by an entity as a result of past transactions.
- C. Probable future economic benefits owned by an entity as a result of future transactions.
- D. Possible future economic benefits owed by an entity as a result of future transactions.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #5*

6. Which of the following defines liabilities?

- A. Possible debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
- B. Possible debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
- C. Probable debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
- D. Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #6*

7. Which of the following defines shareholders' equity?
- A. Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
  - B. Assets plus liabilities.
  - C. Probable future economic benefits owned by an entity as a result of past transactions.
  - D. The financing provided by the owners and the operations of a business.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #7*

8. Abe Cox is the sole owner and manager of Cox Auto Repair Shop. In 20A, Cox purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Cox from recording the cost of the new automobile as an asset to the business?
- A. Separate-entity assumption.
  - B. Revenue principle.
  - C. Full disclosure.
  - D. Historical cost principle.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #8*



9. The main objective of financial reporting is to:
- A. Compare a company's performance with its competitors.
  - B. Meet the needs of all potential users.
  - C. Provide information that is useful to individuals making investment and credit decisions.
  - D. Provide information that will be used by a company's managers for product pricing decisions.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #9*

10. Which one of the following is *not* a qualitative characteristic of useful accounting information?
- A. Relevance
  - B. Faithful representation
  - C. Materiality
  - D. Comparability

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #10*

11. Where would we report changes in shareholders' equity caused by operating activities?

- A. In the retained earnings account.
- B. In a contributed capital account.
- C. In a liability account.
- D. In an asset account.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-03 Identify what constitutes a business transaction; and recognize common account titles used in business.*

*Libby - Chapter 02 #11*

12. The best interpretation of the word credit is the

- A. offset side of an account.
- B. increase side of an account.
- C. right side of an account.
- D. decrease side of an account.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #12*

13. Which of the following is least likely to have a liability called Deferred Revenue?
- A. an insurance company
  - B. a retailer**
  - C. a magazine subscription company
  - D. a university or college

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-03 Identify what constitutes a business transaction; and recognize common account titles used in business.*

*Libby - Chapter 02 #13*

14. On a classified balance sheet, prepaid expenses are classified as
- A. a current liability.
  - B. property, plant, and equipment.
  - C. a current asset.**
  - D. a long-term investment.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #14*

15. Which of the following is *not* considered an asset?

- A. Equipment
- B. Dividends**
- C. Accounts receivable
- D. Inventory

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #15*

16. Which of the following liability accounts is usually not satisfied by payment of cash?

- A. Trade payables.
- B. Unearned revenues.**
- C. Taxes payable.
- D. Short-term borrowings.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #16*

17. Accounting systems should record

- A. all economic events.
- B. events that result in a change in assets, liabilities, or shareholders' equity items.
- C. only events that involve cash.
- D. items of interest to the shareholders.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-03 Identify what constitutes a business transaction; and recognize common account titles used in business.*

*Libby - Chapter 02 #17*

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

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

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #18*

19. Collection of a \$600 accounts receivable

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

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #19*

20. The purchase of an asset on credit

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

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #20*

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

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

- A. Choice A  
 B. Choice B  
 C. Choice C  
D. Choice D

Calculation:  $\$40,000 - \$4,000 + \$4,000 - \$4,000 - \$2,000 - \$1,000 + \$9,000 = \$42,000$ ;  
 $\$15,000 - \$4,000 - \$2,000 + \$8,000 = \$17,000$ ;  $\$42,000 - \$17,000 = \$25,000$

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #21*

22. In the first month of operations, the total of the debit entries to the cash account amounted to \$1,900 and the total of the credit entries to the cash account amounted to \$1,500. The cash account has a
- A. \$500 credit balance.
  - B. \$900 debit balance.
  - C. \$400 debit balance.
  - D. \$400 credit balance.

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #22*

23. Winsome Inc. reports total assets and total liabilities of \$225,000 and \$100,000, respectively, at the conclusion of its first year of business. The company earned \$75,000 during the first year and distributed \$30,000 in dividends. What was the corporation's contributed capital?
- A. \$125,000
  - B. \$95,000
  - C. \$80,000
  - D. \$50,000

Calculation:  $\$225,000 - \$100,000 = \$125,000$

$\$125,000 - (\$75,000 - \$30,000) = \$80,000$

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*



24. Which one of the following represents the expanded basic accounting equation?

- A.  $\text{Assets} = \text{Liabilities} + \text{Contributed capital} + \text{Retained Earnings} + \text{Revenues} - \text{Expenses} - \text{Dividends}$
- B.  $\text{Assets} + \text{Liabilities} = \text{Dividends} + \text{Expenses} + \text{Contributed capital} + \text{Revenues}$
- C.  $\text{Assets} - \text{Liabilities} - \text{Dividends} = \text{Contributed capital} + \text{Revenues} - \text{Expenses}$
- D.  $\text{Assets} = \text{Revenues} + \text{Expenses} - \text{Liabilities}$

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #24*

25. The collection of a trade receivable from a customer would do which of the following?

- A. Increase liabilities.
- B. Decrease liabilities.
- C. Not affect liabilities.
- D. Decrease shareholders' equity.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #25*

26. The following amounts are reported in the ledger of Bowers Company:

Assets	\$25,000 (debit)
Liabilities	15,000 (credit)
Retained earnings	3,000 (credit)

What is the balance in the contributed capital account?

- A. \$7,000 credit.
- B. \$8,000 debit.
- C. \$12,000 credit.
- D. \$12,000 debit.

Calculation:  $\$25,000 - \$15,000 - \$3,000 = \$7,000$

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #26*

27. The purchase of an asset on credit

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

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

28. Which of the following will not result in recording a transaction?

- A. Signing a contract to have an outside cleaning service clean offices nightly.
- B. Paying our employees their wages.
- C. Selling shares to investors.
- D. Buying equipment and agreeing to pay a note payable and interest at the end of a year.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders Equity.*

*Libby - Chapter 02 #28*

29. Which of the following transactions will cause both the left and right side of the equation to increase?

- A. We collect cash from a customer who owed us money
- B. We pay a supplier for inventory we previously bought on account
- C. We borrow money from the bank
- D. We purchase equipment for cash

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders Equity.*

*Libby - Chapter 02 #29*

30. When a company buys equipment for \$60,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?

- A. Cash decreases by \$60,000.
- B. Equipment increases by \$20,000.
- C. Liabilities increase by \$40,000.
- D. Total assets increase by \$60,000.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #30*

31. The payment of a liability

- A. decreases assets and shareholders' equity.
- B. increases assets and decreases liabilities.
- C. decreases assets and increases liabilities.
- D. decreases assets and liabilities.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #31*

32. If total liabilities increased by \$25,000 and shareholders' equity increased by \$5,000 during a period of time, then total assets must change by what amount and direction during that same period?

- A. \$20,000 decrease
- B. \$25,000 increase
- C. \$30,000 increase
- D. \$20,000 increase

Calculation; + \$30,000 = + \$25,000 + \$5,000

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders Equity.*

*Libby - Chapter 02 #32*

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

- A. Increase cash by a credit.
- B. Increase notes payable by a debit.
- C. Increase notes payable by a credit.
- D. Decrease cash by a debit.

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #33*

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

- A. Cash (dr), \$3,000; Revenue (cr), \$3,000.
- B. Cash (cr), \$3,000; Shareholders' equity (dr), \$3,000.
- C. Cash (dr), \$3,000; Contributed capital (cr), \$3,000.
- D. Cash (cr), \$3,000; Contributed capital (dr), \$3,000.

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #34*

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

A) Accounts payable	\$10,000	
Cash		\$10,000
B) Cash	10,000	
Note Payable		10,000
C) Note Payable	10,000	
Cash		10,000
D) Note payable expense	10,000	
Cash		10,000

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

*Blooms: Apply*

*Difficulty: Medium*

36. A T account is

- A. a way of depicting the basic form of an account.
- B. a special account used instead of a journal.
- C. a special account used instead of a trial balance.
- D. is the actual account form used in real accounting systems.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #36*

37. An accountant has debited an asset account for \$500 and credited a revenue account for \$1,000. What can be done to complete the recording of the transaction?

- A. Nothing further must be done.
- B. Debit a shareholders' equity account for \$500.
- C. Debit another asset account for \$500.
- D. Credit a different asset account for \$500.

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #37*

38. The trade payables account has a beginning balance of \$1,000 and we purchased \$3,000 of inventory on credit during the month. The ending balance was \$800. How much did we pay our creditors during the month?

A. \$2,800

B. \$3,000

C. \$3,200

D. \$4,800

Calculation:  $\$1,000 + \$3,000 - \$800 = \$3,200$

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #38*

39. When recording transactions in T-account format, we must add an additional step to the transaction analysis process. Which of the following is the additional step?

A. Determine what accounts and elements in the equation are affected by the transaction.

B. Determine if the affected accounts are increased or decreased by the transaction.

C. We must have equal debits and credits once the entry is recorded in the accounts.

D. The accounting equation must remain in balance after each transaction.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #39*



40. Assets normally show

- A. credit balances.
- B.** debit balances.
- C. debit and credit balances.
- D. debit or credit balances.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #40*

41. Financing activities involve

- A. lending money.
- B. acquiring investments.
- C.** issuing shares.
- D. acquiring long-lived assets.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Hard*

*Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they are reported on the statement of cash flows.*

*Libby - Chapter 02 #41*

42. A weakness of the current ratio is

- A. the difficulty of the calculation.
- B.** that it doesn't take into account the composition of the current assets.
- C. that it is rarely used by sophisticated analysts.
- D. that it can be expressed as a percentage, as a rate, or as a proportion.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-06 Prepare a classified statement of financial position and analyze it by using the current ratio.*

*Libby - Chapter 02 #42*

43. Liabilities are generally classified on a statement of financial position as

- A. small liabilities and large liabilities.
- B. present liabilities and future liabilities.
- C. tangible liabilities and intangible liabilities.
- D.** current liabilities and non-current liabilities.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #43*

44. The classification and normal balance of the dividend account is

- A. revenue with a credit balance.
- B. an expense with a debit balance.
- C. a liability with a credit balance.
- D. shareholders' equity with a debit balance.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #44*

45. Which of the following would be an example of a financing transaction?

- A. Purchasing equipment for cash.
- B. Buying inventory from a supplier on credit.
- C. Selling shares to investors for cash.
- D. Buying inventory from a supplier for cash.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they are reported on the statement of cash flows.*

*Libby - Chapter 02 #45*

46. Investing activities include

- A. collecting the principal on loans made.
- B. obtaining cash from creditors.
- C. obtaining capital from owners.
- D. repaying money previously borrowed.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they are reported on the statement of cash flows.*

*Libby - Chapter 02 #46*

47. Which of the following would cause an inflow of cash?

- A. Payment of a long-term mortgage.
- B. Sale of an asset for cash at less than its book value.
- C. Payment of accounts payable.
- D. Purchase of inventory for debt.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they are reported on the statement of cash flows.*

*Libby - Chapter 02 #47*

48. Dow Construction Company reports a net use of cash for investing activities of \$1.2 million and a net source of cash provided by financing of \$.8 million. What was the effect on the cash balance?

- A. To cause the balance to increase by \$.8 million.
- B.** To cause the balance to decrease by \$.4 million.
- C. To cause the balance to increase by \$.4 million.
- D. Undeterminable because the beginning cash balance was not given.

Calculation: \$.8 million - \$1.2 million = (\$0.4 million)

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they are reported on the statement of cash flows.*

*Libby - Chapter 02 #48*

49. When a new business is just starting up, which of the following must be done first?

- A. Generate positive cash flow through successful operations.
- B. Acquire the assets both long-lived and short-lived so they can operate.
- C.** Acquire financing from issuance of shares and borrowing from creditors.
- D. These activities all occur simultaneously not sequentially.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-03 Identify what constitutes a business transaction; and recognize common account titles used in business.*

*Libby - Chapter 02 #49*

50. If a company has assets of \$60,000 and shareholders' equity of \$30,000, then its liabilities must be \$90,000.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model:  $Assets = Liabilities +$*

*Shareholders Equity.*

*Libby - Chapter 02 #50*

51. A debit increases an account and a credit decreases an account.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #51*

52. Assets are economic resources controlled by an entity as a result of past transactions or events and for which future economic benefits may be obtained.

**TRUE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #52*

53. Liability accounts are reported on the statement of financial position.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #53*

54. Qualitative characteristics of accounting information are not part of the conceptual framework of accounting.

FALSE

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #54*

55. On the income statement, assets should always equal liabilities plus shareholders' equity.

FALSE

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders Equity.*

*Libby - Chapter 02 #55*

56. Calculating financial ratios can give clues to underlying conditions that may not be noticed by examining each financial statement item separately.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-06 Prepare a classified statement of financial position and analyze it by using the current ratio.*

*Libby - Chapter 02 #56*

57. Faithful representation means information must be free from material error, neutral and complete.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #57*

58. The unit-of-measure assumption states that financial information is reported in the national monetary unit.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #58*



59. The separate-entity assumption assumes a stable monetary unit (not affected by inflation or deflation).

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #59*

60. Three of the four basic assumptions that underlie accounting measurement and reporting relate to the statement of financial position.

**TRUE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #60*

61. The amount shown on the statement of financial position as shareholders' equity represents the current market value of the owners' residual claim against the company.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #61*

62. Cash and supplies are both classified as current assets.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #62*

63. Transactions have a dual economic effect on the fundamental accounting model.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #63*

64. The payment of a liability in cash will decrease shareholders' equity.

FALSE

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #64*

65. The basic system of recording transactions has withstood the test of time, and has been in use for more than 500 years.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Identify what constitutes a business transaction; and recognize common account titles used in business.*

*Libby - Chapter 02 #65*

66. If you trade your computer plus cash for a new car, the cost of the new car is equal to the cash paid plus the market value of the computer.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #66*

67. The purchase of a delivery truck for cash increases assets and shareholders' equity.

FALSE

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders Equity.*

*Libby - Chapter 02 #67*

68. Recording the borrowing of cash with a note payable increases shareholders' equity.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #68*

69. When a business owner invests cash in the business, the investment causes a liability to increase.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #69*

70. When a business pays a previously recorded bill, the liabilities of the business decrease.

**TRUE**

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #70*

71. The objective of transaction analysis is to determine the economic effects of each transaction in terms of the accounting model.

**TRUE**

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #71*

72. An individual accounting record for a specific asset, liability or shareholders' equity item is called an account.

**TRUE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Identify what constitutes a business transaction; and recognize common account titles used in business.*

*Libby - Chapter 02 #72*

73. A T-account shows total debits of \$25,000 and total credits of \$22,000; therefore, it has a \$3,000 credit balance.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #73*

74. In its simplest form, a T account consists of three parts: (1) its title, (2) a left or debit side and (3) a right or credit side.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #74*

75. Debit and credit can be interpreted to mean "bad" and "good," respectively.

FALSE

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #75*

76. If the correct accounts have been identified and the appropriate direction of the effect on each account has been determined, then the equation should remain in balance.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders Equity.*

*Libby - Chapter 02 #76*

77. A T-account is an accounting method of expressing the effects of a single transaction in a debits-equal-credits format.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #77*

78. Normally, asset accounts will have credit balances and liability accounts will have debit balances.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #78*

79. "Debit" is the designation for the left side of an account, and "credit" is the designation for the right side of an account.

**TRUE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #79*

80. Some legal contracts, such as the signing of a contract to hire a new employee, are not reflected in the financial statements.

**TRUE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #80*

81. Contributed capital results when a company buys a new delivery truck.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #81*

82. Usually when a short-term, interest-bearing note payable is paid on its maturity date, an asset is credited and a liability is debited.

**TRUE**

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #82*



83. By themselves, journal entries do not provide the balances in accounts.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #83*

84. The current ratio takes into account the composition of current assets.

FALSE

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Prepare a classified statement of financial position and analyze it by using the current ratio.*

*Libby - Chapter 02 #84*

85. Long-term investments appear in the property, plant, and equipment section of the balance sheet.

FALSE

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 02-03 Identify what constitutes a business transaction; and recognize common account titles used in business.*

*Libby - Chapter 02 #85*

86. The sale of land for cash would be classified as a cash inflow from an investing activity.

TRUE

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they are reported on the statement of cash flows.*

*Libby - Chapter 02 #86*

87. The activity from the balance sheet to be presented in the financing activities section of the cash flow statement is based on an analysis of shareholders' equity only.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they are reported on the statement of cash flows.*

*Libby - Chapter 02 #87*

88. For each of the following events, which ones result in an exchange transaction for the O'Brien Company?

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

(a) Y, (b) N, (c) Y, (d) N, (e) Y, (f) N

*Blooms: Analysis*

*Difficulty: Medium*

*Learning Objective: 02-03 Identify what constitutes a business transaction; and recognize common account titles used in business.*

*Libby - Chapter 02 #88*

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

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

(a) NCA, (b) SE, (c) CL, (d) NCA, (e) CA, (f) NCL, (g) CA, (h) SE, (i) NCL, (j) CL

*Blooms: Analysis*

*Difficulty: Medium*

*Learning Objective: 02-02 Define the elements of a classified statement of financial position.*

*Libby - Chapter 02 #89*

90. For each item below, indicate whether the account will be debited or credited:

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

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

*Blooms: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities +*

*Shareholders Equity.*

*Libby - Chapter 02 #90*

91. Match the terminology with the description by entering the proper letter in the space to the left.

- A. Credits
- B. Share Capital
- C. Cost principle
- D. Transaction
- E. Debits
- F. Liability
- G. Statement of financial position
- H. Primary objective of external financial reporting
- I. Separate-entity assumption
- J. Retained earnings
- K. As at December 31, 20A
- L. For the period ended December 31, 20A
- M. None of the above is correct

\_\_\_ 1. Increase assets and decreases shareholders' equity.

\_\_\_ 2. An exchange between an entity and another party.

\_\_\_ 3. Normal balances for liabilities.

\_\_\_ 4. To provide useful economic information about a business to help external parties make sound financial decisions.

\_\_\_ 5. Accounting assumption that requires assets to be recorded at their cash equivalent cost.

\_\_\_ 6. Cumulative earnings that have not been distributed to the owners.

\_\_\_ 7. A debt owed by the entity.

\_\_\_ 8. Statement of financial position.

\_\_\_ 9. Account for a business separate from its owners.

\_\_\_ 10. Dating of the statement of financial position (20A).

1. E; 2. D; 3. A; 4. H; 5. C; 6. J; 7. F; 8. G; 9. I; 10. K

*Blooms: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #91*

92. Why is the continuity assumption so important for statement of financial position reporting?

The continuity assumption is also known as the going-concern assumption. It is important for statement of financial position reporting because of valuation issues. If a business is expected to operate into the foreseeable future, amounts presented on the statement of financial position for assets and liabilities are based on the cost principle. If the continuity assumption is not followed, assets and liabilities might be reported at liquidation values as if they are going out of business.

*Blooms: Evaluate*

*Difficulty: Medium*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #92*

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

The separate-entity assumption is important for statement of financial position reporting because a business should present only its own assets and liabilities on the statement. A business is a separate accounting entity from its owners. Therefore, the owners' assets and liabilities would appear on their own (personal) financial statement.

*Blooms: Evaluate*

*Difficulty: Medium*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #93*

94. Why is the historical cost principle so important for statement of financial position reporting?

The cost principle is important for statement of financial position reporting because of valuation issues. The cash-equivalent cost is verifiable. If it were not for the cost principle, assets and liabilities could be reported at more subjective values. This could lead to manipulation of statement of financial position amounts.

*Blooms: Evaluate*

*Difficulty: Medium*

*Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.*

*Libby - Chapter 02 #94*

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

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

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

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders Equity.*

*Libby - Chapter 02 #95*



96. (A) Complete the following schedule for Gold Eye Company.

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

(B) How much did cash change during the period?

(A)

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

(B) Cash increase, \$19,000

$$(+ 20,000 + 5,000 - 1,000 + 5,000 - 10,000)$$

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #96*

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

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

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

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify investing and financing transactions and demonstrate how they are reported on the statement of cash flows.*

*Libby - Chapter 02 #97*

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

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

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

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders Equity.*

*Libby - Chapter 02 #98*

99. Scott, Kim and Koko organized the SKK Corporation on January 1, 20A. Each of these owners invested \$30,000 cash and received shares. Below are selected transactions that were completed during January.

(A) Give the entry on SKK's books for each transaction:

(1) Sold shares to the owners.

(2) Borrowed \$100,000 on one-year note payable.

(3) Purchased land by signing a \$20,000 note payable.

(4) Paid \$5,000 of trade payables.

(5) Purchased two service vehicles, \$21,000 each; paid cash.

(6) Accepted a promissory note of \$1,000 from a customer.

(B) Complete the following based only on the 6 transactions above:

Assets \$

Liabilities \$

Shareholders' equity \$

(A)

1.	Cash (30,000 x 3) (A)	90,000	
	Share capital (SE)		90,000
	Investment by owners		
2.	Cash (A)	100,000	
	Note payable (L)		100,00
	Borrowed \$100,000 on a one-year note.		
3.	Land (A)	20,000	
	Note payable (L)		20,000
	Purchased land by signing a \$20,000 note payable.		
4.	Trade payables(L)	5,000	
	Cash (A)		5,000
	Paid \$5,000 of trade payables.		
5.	Equipment (A)	42,000	
	Cash (A)		42,000
	Purchased two service vehicles, \$21,000 each (paid cash)		
6.	Notes receivable (A)	1,000	
	Cash (A)		1,000
	Accepted a \$1,000 promissory note from a customer.		

(B)	Assets	\$205,000
	Liabilities	115,000
	Shareholders' equity	90,000

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #99*

100. The accounts with identification letters for WildWorld, Inc. are listed below.

Letter Account Title

A Cash

B Trade Receivables

C Office supplies

D Equipment

E Land

F Trade Payables

G Notes Payable

H Share Capital

I Retained Earnings

During 20X, the company completed the transactions given below. You are to indicate the appropriate journal entry for each transaction by giving the account letter and amount. Some entries may need three letters. The first transaction is given as an example.

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

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

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.*

*Libby - Chapter 02 #100*

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

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

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

*Blooms: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders Equity.*

*Libby - Chapter 02 #101*



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

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

*Blooms: Remember*

*Difficulty: Easy*

*Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders Equity.*

*Libby - Chapter 02 #102*

103. On January 1, 20A, Hux Cliffable started a new professional corporation, Hux Cliffable, P. C., to practice medicine with an initial investment of \$50,000. On June 30, 20A the accounting records contained the following amounts:

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

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

Hux Cliffable, P.C.  
Statement of Financial Position  
As of June 30, 20A

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

*Blooms: Create*

*Difficulty: Medium*

*Learning Objective: 02-06 Prepare a classified statement of financial position and analyze it by using the current ratio.*

*Libby - Chapter 02 #103*

## 2 Summary

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Learning Objective: 02-01 Understand the objective of financial reporting; the qualitative characteristics of accounting information; and the related key accounting assumptions and principles.	15
Learning Objective: 02-02 Define the elements of a classified statement of financial position.	14
Learning Objective: 02-03 Identify what constitutes a business transaction; and recognize common account titles used in business.	8
Learning Objective: 02-04 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Shareholders Equity.	29
Learning Objective: 02-05 Determine the impact of business transactions on the statement of financial position by using two basic tools: journal entries and T-accounts.	25
Learning Objective: 02-06 Prepare a classified statement of financial position and analyze it by using the current ratio.	4
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