

Student: _____

1. A balance sheet covers a period of time such as a month or year.
True False
2. The legitimate claims of a business's creditors take precedence over the claims of the business owner or owners.
True False
3. The income statement is a financial statement that shows revenues earned and expenses incurred by a business over a specified period of time.
True False
4. Net income is the excess of expenses over revenues, whereas net loss is the excess of revenues over expenses.
True False
5. The natural business year for most businesses is always the same as the calendar year.
True False
6. The balance sheet shows whether or not the firm achieved its primary objective of earning a profit.
True False
7. Expenses are costs incurred or the using up of assets from generating revenue.
True False
8. Liabilities are defined as "the residual interest in the assets of an entity that remains after deducting its equity."
True False
9. A characteristic of assets is their ability to provide current benefits to the business.
True False
10. The statement of cash flows measures the net effect of revenues and expenses for a specified period.
True False
11. A liability expressed by a written promise to make a future payment is usually called an account payable.
True False
12. The balance sheet is also called the statement of financial position because it shows the financial position of the business on a particular date.
True False
13. Revenues are the value of assets exchanged for products or services provided to customers as part of the major operations of the business.
True False
14. The balance sheet can be used in order to assess the creditworthiness of potential customers.
True False
15. Withdrawals represent distributions from a corporation to its owners.
True False
16. Dividends represent distributions of profits to the partners of a business.
True False

17. Equity is increased by owner investments, net income and withdrawals.
True False
18. Although, in a sole proprietorship, owner investments are not recorded as revenue, any withdrawals are recorded as expenses.
True False
19. Equity is increased when cash is received from customers in payment of previously recorded accounts receivable.
True False
20. An owner's cash investment in a business creates an asset (cash), a liability (note payable), and equity (owner investments).
True False
21. The first section of the income statement reports cash from operating activities.
True False
22. Chuck Taylor invested \$8,000 in cash in FastForward. This amount would be reported in the statement of cash flows under financing.
True False
23. Chuck Taylor withdrew \$6,000 in cash for his personal use from his business. This amount should be included as an expense on the income statement.
True False
24. Individuals and organizations who own the right to receive payments from a business are called its debtors.
True False
25. A loss arises when revenues are more than expenses.
True False
26. A characteristic of liabilities is their capacity to reduce future assets.
True False
27. Net income is equal to the change in equity due to operating activities over a period of time.
True False
28. The equity in a partnership belongs to one owner.
True False
29. Information that has relevance can affect the types of decisions made by users.
True False
30. Comparability ensures that information is prepared to be useful to users with reasonable knowledge of accounting as well as business and economic activities.
True False
31. The business entity principle means that every business is accounted for separately from its owners.
True False
32. The business entity principle means that a business will continue operating for an indefinite period of time.
True False
33. The cost principle states that if no cash is involved in a transaction the cash-equivalent value must be used.
True False

34. The monetary unit principle means that transactions are expressed using units of money as the common denominator.
True False
35. The assumption that a business will continue to operate until it can sell its assets to pay its creditors underlies the going-concern principle.
True False
36. According to the cost principle, it is acceptable for managers to use their own estimate of an asset's value when recording the purchase.
True False
37. The monetary unit principle means that all international transactions must be expressed in dollars.
True False
38. As a rule, revenues should not be recognized in the accounting records until received in cash.
True False
39. On May 15, Exe Company received \$1,000 cash in advance from a customer for a job to be completed in June. Exe should not record the receipt of the cash until the work is done in June.
True False
40. The accounting equation means that $\text{assets} = \text{liabilities} + \text{equity}$.
True False
41. The accounting equation means that $\text{assets} + \text{liabilities} = \text{equity}$.
True False
42. The accounting equation can be restated as $\text{assets} - \text{equity} = \text{liabilities}$.
True False
43. Liabilities represent non-owner financing.
True False
44. Business transactions are exchanges of economic consideration between two parties.
True False
45. Business events do not affect the accounting equation.
True False
46. Items such as sales slips, invoices, cheques, purchase orders, and employee earnings records are also called source documents.
True False
47. Payment of accounts payable decreases both liabilities and assets.
True False
48. Properties or economic resources owned by a business, also described as probable future economic benefits, are called:
A. Assets.
B. Revenues.
C. Liabilities.
D. Equity.
E. Expenses.

49. The value of assets exchanged for goods or services provided to customers as part of the main operations of a business are called:
- A. Assets.
 - B. Revenues.
 - C. Liabilities.
 - D. Equity.
 - E. Expenses.
50. Net income is:
- A. Assets minus liabilities.
 - B. The excess of revenues over expenses.
 - C. The excess of expenses over revenues.
 - D. A revenue.
 - E. The same as equity.
51. The difference between a company's assets and its liabilities, or the residual interest in the assets of an entity that remains after deducting its liabilities, is called:
- A. Net income.
 - B. Shares.
 - C. Equity.
 - D. Revenue.
 - E. Net loss.
52. An obligation of a business that represents the claims of others against the assets of the business is called a(n):
- A. Asset.
 - B. Expense.
 - C. Revenue.
 - D. Equity.
 - E. Liability.
53. Costs incurred or the using up of assets as a result of the main operations of a business are called:
- A. Liabilities.
 - B. Equity.
 - C. Revenues.
 - D. Expenses.
 - E. Net losses
54. An individual or organization entitled to receive payments from a business is known to the business as a:
- A. Debtor.
 - B. Shareholder.
 - C. Controller.
 - D. Creditor.
 - E. Bookkeeper.
55. An individual or organization that owes an amount to a business is known to the business as a:
- A. Debtor.
 - B. Shareholder.
 - C. Controller.
 - D. Creditor.
 - E. Bookkeeper.
56. Assets created by selling products or services on credit are:
- A. Accounts payable.
 - B. Accounts receivable.
 - C. Liabilities.
 - D. Expenses.
 - E. Equity.

57. A statement of financial position is another name for:
- A. The income statement.
 - B. The balance sheet.
 - C. The statement of cash flows.
 - D. The statement of changes in equity.
 - E. The accounting equation.
58. Equity is also known as:
- A. Net income.
 - B. Expenses.
 - C. Net assets.
 - D. Revenue.
 - E. Net loss.
59. The excess of expenses over revenues for a period is:
- A. Net assets.
 - B. Equity.
 - C. Net loss.
 - D. Net income.
 - E. A liability.
60. Which financial statement shows whether the business earned a profit or loss, and also lists the types and amounts of the revenues and expenses?
- A. Balance sheet.
 - B. Statement of changes in equity.
 - C. Statement of cash flows.
 - D. Income statement.
 - E. Statement of financial position.
61. A balance sheet lists:
- A. The types and amounts of the revenues and expenses of a business.
 - B. Only the information about what happened to equity during a specific time period. .
 - C. The types and amounts of assets, liabilities, and equity of a business at a specific date.
 - D. The inflows and outflows of cash during a specific time period.
 - E. The assets and liabilities of a business but not the equity.
62. A financial statement providing information that helps users understand a company's financial status at a specific date, is called a(n):
- A. Balance sheet.
 - B. Income statement.
 - C. Statement of cash flows.
 - D. Statement of changes in equity.
 - E. Bank statement.
63. The financial statement that describes where a company's cash came from and where it went during the period is the:
- A. Statement of financial position.
 - B. Statement of cash flows.
 - C. Balance sheet.
 - D. Income statement.
 - E. Statement of changes in equity.

64. The financial statement that shows the beginning balance of equity; the changes in equity that resulted from new investments by the owner, net income (or net loss), and withdrawals; and the ending balance of equity is the:
- A. Statement of financial position.
 - B. Statement of cash flows.
 - C. Balance sheet.
 - D. Income statement.
 - E. Statement of changes in equity.
65. Cash investments by owners are listed on which of the following statements?
- A. Balance sheet.
 - B. Income statement.
 - C. Statement of changes in equity.
 - D. Statement of cash flows.
 - E. Both a statement of changes in equity and statement of cash flows.
66. Net income appears on which of the following statement(s)?
- A. Balance sheet.
 - B. Income statement.
 - C. Statement of changes in equity.
 - D. Statement of cash flows.
 - E. Both an income statement and statement of changes in equity.
67. Salaries paid with cash appear on which of the following statement(s)?
- A. Balance sheet.
 - B. Income statement.
 - C. Statement of changes in equity.
 - D. Statement of cash flows.
 - E. Both an income statement and statement of cash flows.
68. Fees earned by a business in exchange for services provided by the business appear on which one of the following statements?
- A. Balance sheet.
 - B. Income statement.
 - C. Statement of changes in equity.
 - D. Statement of cash flows.
 - E. Statement of financial position.
69. Which one of the following is not reported on the income statement?
- A. Revenues earned by a business.
 - B. Expenses incurred by a business.
 - C. Withdrawals.
 - D. Net income.
 - E. All of these answers are correct.
70. A primary operating objective of a business is to increase the equity of its owner or owners by:
- A. Acquiring assets.
 - B. Incurring liabilities.
 - C. Earning a profit.
 - D. Incurring expenses.
 - E. Increasing retained earnings.
71. Which of the following statements is true about assets?
- A. They are the properties or economic resources owned by the business.
 - B. They are available to provide future benefits to the business.
 - C. They can be intangible rights.
 - D. Ownership is shared between creditors and owners.
 - E. All of these answers are correct.

72. Payments of cash by a corporation to its shareholders are called:
- A. Dividends.
 - B. Cheques.
 - C. Shareholders equity.
 - D. Withdrawals.
 - E. Expenses.
73. A payment from a proprietorship or partnership to its owner or owners is called a(n):
- A. Dividend.
 - B. Withdrawal.
 - C. Expense.
 - D. Equity.
 - E. Cheque.
74. Profit is another name for:
- A. The income statement.
 - B. Net income.
 - C. Equity.
 - D. A business transaction.
 - E. Assets.
75. A statement of profit and loss is another name for:
- A. The income statement.
 - B. The balance sheet.
 - C. The statement of cash flows.
 - D. The statement of changes in equity.
 - E. The accounting equation.
76. Revenues are:
- A. Profits.
 - B. The amount a business earns after subtracting all expenses from sales.
 - C. Business events.
 - D. Net assets
 - E. The value of assets exchanged for goods or services provided to the customer.
77. If financial information is relevant, this means that:
- A. Decision makers can depend on it.
 - B. It can affect the types of decisions made by users.
 - C. The information is prepared using the same accounting procedures from one accounting period to the next.
 - D. Users are able to compare different companies, if all the companies use similar accounting practices.
 - E. The financial statements have not been prepared according to GAAP.
78. If financial information is understandable, this means that:
- A. Decision makers can depend on it.
 - B. It can affect the types of decisions made by users.
 - C. The information is useful to users with reasonable knowledge of accounting as well as business and economic activities.
 - D. Users are able to compare different companies, if all the companies use similar accounting practices.
 - E. The financial statements have not been prepared according to GAAP.
79. The business entity principle:
- A. Requires that sole proprietors have unlimited liability.
 - B. Requires that partnership income be taxed at the partnership level.
 - C. Means that business records should be kept separate from the owner's personal records.
 - D. Requires that partnerships have written agreements.
 - E. Requires that corporations have shareholders.

80. The accounting principle that requires that transactions are expressed using units of money as the common denominator is the:
- A. Business entity principle.
 - B. Monetary unit principle.
 - C. Going concern principle.
 - D. Cost principle.
 - E. Revenue recognition principle.
81. The accounting principle that states that Revenue is recorded at the time that it is earned regardless of whether cash or another asset has been exchanged is the :
- A. Monetary unit principle.
 - B. Business entity principle.
 - C. Going concern principle.
 - D. Revenue recognition principle.
 - E. Cost principle.
82. The accounting principle that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue, is the:
- A. Cost principle.
 - B. Business entity principle.
 - C. Going concern principle.
 - D. Monetary unit principle.
 - E. Revenue recognition principle.
83. The rules adopted by the accounting profession as guides in measuring, recording, and reporting the financial affairs and activities of a business are:
- A. Both broad and specific principles.
 - B. Known as generally accepted accounting principles.
 - C. Abbreviated as GAAP.
 - D. Intended to make information in financial statements relevant, reliable, consistent and comparable.
 - E. All of these answers are correct.
84. If a parcel of land is offered for sale at \$45,000, is assessed for tax purposes at \$20,000, is considered by its purchasers to be worth \$36,000, and is purchased for \$34,000, the land should be recorded in the purchaser's books at:
- A. \$20,000.
 - B. \$34,000.
 - C. \$36,000.
 - D. \$45,000.
 - E. \$54,000.
85. To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:
- A. Monetary unit principle.
 - B. Cost principle.
 - C. Business entity principle.
 - D. Going concern principle.
 - E. Revenue recognition principle.
86. The accounting principle that requires financial statement information to be based on costs incurred in business transactions, and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:
- A. Accounting equation.
 - B. Cost principle.
 - C. Going concern principle.
 - D. Revenue recognition principle.
 - E. Business entity principle.

87. Generally accepted accounting principles are:
- A. Not used in the real world.
 - B. Are required to make financial statement information relevant and reliable.
 - C. Are only used for internal reporting.
 - D. Are only used by auditors.
 - E. Are only used for reporting to Canada Revenue Agency.
88. The organization established to try to achieve global agreement on the use of a common set of accounting principles is called:
- A. Accounting Standards Board.
 - B. Abbreviated as IFRS.
 - C. International Accounting Standards Board.
 - D. Generally accepted accounting principles.
 - E. All of these answers are correct.
89. According to generally accepted accounting principles, a company's balance sheet should show the company's assets at:
- A. The cash equivalent value of what was given up or the asset received, whichever is more clearly evident.
 - B. The market value of the asset received in all cases.
 - C. The cash outlay only, even if part of the consideration given was something other than cash.
 - D. The best estimate of a certified internal auditor.
 - E. Current replacement cost.
90. If a business is not being sold or closed, the amounts reported in the accounts for assets used in operations are based on costs. This practice is justified by the:
- A. Cost principle.
 - B. Going concern principle.
 - C. Revenue recognition principle.
 - D. Business entity principle.
 - E. Monetary unit principle.
91. Which of the following accounting principles would require that all goods and services purchased be recorded at cost?
- A. Going concern principle.
 - B. Monetary unit principle.
 - C. Cost principle.
 - D. Business entity principle.
 - E. Revenue recognition principle.
92. The rule that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash, and (3) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services is called the:
- A. Going concern principle.
 - B. Cost principle.
 - C. Revenue recognition principle.
 - D. Monetary unit principle.
 - E. Business entity principle.
93. The question of when revenue should be recognized on the income statement (according to GAAP) is answered by the:
- A. Revenue recognition principle.
 - B. Going concern principle.
 - C. Monetary unit principle.
 - D. Business entity principle.
 - E. Cost principle.

94. Revenue is recognized in most businesses:
- A. When the customer's order is received.
 - B. Only if the transaction creates an account receivable.
 - C. Only if paid in cash.
 - D. Upon completion of the sale or when services have been performed and the business obtains the right to collect the sales price.
 - E. When cash from a sale is received.
95. The description of the relationship between a company's assets, liabilities, and equity, which is expressed as $\text{Assets} = \text{Liabilities} + \text{Equity}$, is known as the:
- A. Balance sheet.
 - B. Accounting equation.
 - C. Business equation.
 - D. Liability equation.
 - E. Net income.
96. The balance sheet equation is:
- A. Revenues minus expenses equals net income.
 - B. Debits equal credits.
 - C. The bookkeeping phase of accounting.
 - D. Another name for the accounting equation.
 - E. Assets minus liabilities.
97. If equity is \$30,000 and liabilities are \$73,000, then assets equal:
- A. \$ 30,000.
 - B. \$ 40,000.
 - C. \$ 60,000.
 - D. \$ 73,000.
 - E. \$103,000.
98. If assets are \$175,000 and equity is \$47,000, then liabilities equal:
- A. \$ 47,000.
 - B. \$128,000.
 - C. \$175,000.
 - D. \$204,000.
 - E. \$222,000.
99. If assets are \$144,000 and liabilities are \$37,000, then equity equals:
- A. \$ 37,000.
 - B. \$ 74,000.
 - C. \$107,000.
 - D. \$144,000.
 - E. \$181,000.
100. The accounting equation can be stated as:
- A. $\text{Assets} = \text{non-owner equity} + \text{equity}$.
 - B. $\text{Liabilities} = \text{assets} - \text{equity}$.
 - C. $\text{Assets} = \text{liabilities} + \text{equity}$.
 - D. $\text{Equity} = \text{assets} - \text{liabilities}$.
 - E. All of these answers are correct.
101. The assets of a business total \$20,000; the liabilities, \$8,000. The claims of the owners are:
- A. \$ 0.
 - B. \$ 8,000.
 - C. \$12,000.
 - D. \$20,000.
 - E. \$28,000.

102. The FastForward Company balance sheet shows cash \$5,000, accounts receivable \$7,000, office equipment \$3,000, and accounts payable \$4,000. What is the amount of equity?
- A. \$ 1,000.
 - B. \$11,000.
 - C. \$12,000.
 - D. \$15,000.
 - E. \$19,000.
103. An exchange between two parties of economic consideration such as goods, services, money, or rights to collect money is called:
- A. The accounting equation.
 - B. Bookkeeping.
 - C. A business transaction.
 - D. An audit.
 - E. A gift.
104. A business activity that does not involve an exchange of economic consideration between two parties is called a(n):
- A. Withdrawal.
 - B. Account receivable.
 - C. Business transaction.
 - D. Business event.
 - E. Equity transaction.
105. Which of the following is an example of a source document?
- A. Invoice.
 - B. Cheque.
 - C. Bank statement.
 - D. Employee earnings records.
 - E. All of these answers are correct.
106. If the liabilities of a business increased \$12,000 during a period of time and equity in the business decreased \$2,000 during the same period, the assets of the business must have:
- A. Decreased \$10,000.
 - B. Decreased \$14,000.
 - C. Increased \$10,000.
 - D. Increased \$14,000.
 - E. Increased \$12,000.
107. If the assets of a business increased \$15,000 during a period of time and its liabilities increased \$6,000 during the same period, equity in the business must have:
- A. Increased \$ 9,000.
 - B. Decreased \$ 9,000.
 - C. Increased \$21,000.
 - D. Decreased \$21,000.
 - E. Decreased \$ 6,000.
108. Today, Kay Mark Company paid \$100 of its accounts payable in cash. What is the effect on the accounting equation?
- A. Assets, \$100 increase; liabilities, no effect; equity, \$100 increase.
 - B. Assets, \$100 decrease; liabilities, \$100 decrease; equity, no effect.
 - C. Assets, \$100 decrease; liabilities, \$100 increase; equity, \$200 decrease.
 - D. Assets, no effect; liabilities, \$100 decrease; equity, \$100 increase.
 - E. No effect.

109. How would the accounting equation of Jim Martock's computer business be affected by the billing of a client for \$1,000 for consulting work completed?

- A. Accounts receivable, \$1,000 increase, liabilities, \$1,000 decrease.
- B. Accounts receivable, \$1,000 increase, liabilities, \$1,000 increase.
- C. Accounts receivable, \$1,000 increase, cash, \$1,000 increase.
- D. Accounts receivable, \$1,000 increase, equity, \$1,000 increase.
- E. Accounts receivable, \$1,000 increase, cash, \$1,000 decrease.

110. Carrot Company has assets of \$100,000, liabilities of \$10,000, and equity of \$90,000. It buys office equipment on credit for \$5,000. What effect would this transaction have on the accounting equation?

- A. Assets, \$5,000 increase, equity, \$5,000 increase.
- B. Assets, \$5,000 increase, equity, \$5,000 decrease.
- C. Liabilities, \$5,000 increase, equity, \$5,000 decrease.
- D. Assets, \$5,000 decrease, equity, \$5,000 decrease.
- E. Assets, \$5,000 increase, liabilities, \$5,000 increase.

111. White Company collected \$1,500 of accounts receivable. The effects on the accounting equation are:

- A. Total assets decrease and equity increases.
- B. Both total assets and total liabilities decrease.
- C. Total assets, total liabilities, and equity are unchanged.
- D. Both total assets and equity are unchanged.
- E. Total assets increase and equity decreases.

112. Joe Bob has prepared the following analysis of September transactions for his business, Joe Bob's Spareribs. Unfortunately, he has lost some information. Calculate the

| | <u>Date</u> | <u>Cash</u> | <u>A/R</u> | <u>Inventory</u> | <u>A/P</u> | <u>Notes Pay</u> | <u>Equity</u> |
|----------------------|---------------|---------------|----------------|------------------|------------|------------------|---------------|
| | Sep 2 | 3,000 | 1,100 | 2,000 | ? | 500 | 4,000 |
| | Sep 6 | -1,000 | -0- | 4,000 | ? | -0- | -0- |
| missing information. | Sep 10 | 500 | 300 | -300 | -0- | -0- | ? |
| | <u>Sept 2</u> | <u>Sept 6</u> | <u>Sept 10</u> | | | | |

- A. 1,600 3,000 500
- B. 1,000 4,000 200
- C. 300 2,000 600
- D. 1,500 1,000 400
- E. 1,600 3,000 1,000

113. From the following information taken from the records of Apple Company at December 31 of this year,

| | |
|---------------------|---------|
| Liabilities | \$4,000 |
| Cash | 2,000 |
| Accounts Receivable | 1,000 |
| Buildings | 3,500 |
| Equity | ? |

calculate equity.

- A. \$1,500.
- B. \$2,000.
- C. \$2,500.
- D. \$3,500.
- E. \$6,000.

114. With regard to the accounting process, economic events are represented by:

- A. Business transactions.
- B. Internal events.
- C. Only transactions between the entity and its owner(s).
- D. Debits and credits.
- E. Both A & B.

115. Exchanges between the entity and some other person or organization are:
- Internal transactions.
 - External transactions.
 - Business papers.
 - Debits.
 - Credits.
116. A term used to describe economic events that affect an entity's accounting equation, but that are not transactions between parties is:
- Internal transactions.
 - Liabilities.
 - Source documents.
 - External transactions.
 - Prepaid expenses.
117. Source documents include all of the following *except*:
- Sales invoices.
 - Financial statements.
 - Cheques.
 - Purchase orders.
 - Bank statements.
118. Which of the following statements is correct regarding sales invoices?
- A sales invoice is a type of source document.
 - Sellers use them for recording sales.
 - Buyers use them for recording purchases.
 - They are required for information to be objective.
 - All of these answers are correct.
119. Source documents:
- Do not provide objective evidence about transactions.
 - Are a source of accounting information.
 - Can only be in electronic form.
 - Are only used for audit purposes.
 - Are acceptable as a substitute for financial statements.
120. Which of the following items does not appear on the balance sheet?
- Cash.
 - Notes payable.
 - Accounts receivable.
 - Withdrawals.
 - Accounts payable.
121. The following information is available for Dahlia Company for last May. How much is the net income for the month?
- | | |
|----------------------------|----------|
| Employee salaries | \$15,000 |
| Interest paid on bank loan | 2,500 |
| Rent paid to landlord | 12,500 |
| Sales | 40,000 |
- \$ 0
 - \$10,000.
 - \$20,000.
 - \$30,000.
 - \$35,000.

122. Jellybean Company reported equity of \$32,000 on its December 31, 2014 balance sheet. The following

| | |
|-------------|----------|
| Revenues | \$73,000 |
| Expenses | 59,000 |
| Liabilities | 11,000 |

information is available for the year ended December 31, 2015:

What are the total assets of Jellybean Company at December 31, 2015?

- A. \$14,000.
- B. \$25,000.
- C. \$35,000.
- D. \$46,000.
- E. \$57,000.

123. At the end of its first year of operations, Matlocke Company has total assets of \$2,000,000 and total liabilities of \$1,200,000. The owner originally invested \$200,000 in the business, but has not made any further investments or taken any withdrawals. What is the first year's net income for Matlocke Company?

- A. \$ 600,000.
- B. \$ 800,000.
- C. \$1,000,000.
- D. \$3,000,000.
- E. \$3,200,000.

124. Annie's Attic has the following account balances for the dates

| | |
|---------------------------------|----------|
| Cash, Sept 1 | \$40,000 |
| Cash, Sept 30 | 60,000 |
| Accounts receivable, Sept 1 | 10,000 |
| Accounts receivable, Sept 30 | 14,000 |
| Capital, Sept 1 | ? |
| Capital, Sept 30 | ? |
| Supplies, Sept 1 | 30,000 |
| Supplies, Sept 30 | 24,000 |
| Accounts payable, Sept 1 | 6,000 |
| Accounts payable, Sept 30 | ? |
| given: Net income for September | 20,000 |

What would equity be on September 1 and September 30?

- A. \$86,000; \$ 4,000.
- B. \$86,000; \$106,000.
- C. \$74,000; \$ 94,000.
- D. \$74,000; \$ 4,000.
- E. None of these answers is correct.

125. Describe the relationship between sales (or revenues), expenses, and profit.

126. Select the appropriate financial statement for each of the following accounts.

- | | | |
|--|---------------------|-------|
| 1. Income statement | Cash | _____ |
| 2. Balance sheet | Withdrawals | _____ |
| 3. Income statement | Notes payable | _____ |
| 4. Statement of changes in equity, Balance sheet | Fees earned | _____ |
| 5. Balance sheet | John Jay, capital | _____ |
| 6. Balance sheet | Accounts receivable | _____ |
| 7. Balance sheet, Statement of cash flows | Prepaid Rent | _____ |
| 8. Statement of changes in equity | Supplies Expense | _____ |

127. Select the appropriate financial statement for each of the following items.

- | | | |
|--|-------------------------------|-----|
| 1. Balance sheet | Supplies | ___ |
| 2. Statement of cash flows | Net income | ___ |
| 3. Income statement | Ahmad Khan, Capital | ___ |
| 4. Statement of changes in equity, Balance sheet | Advertising Expense | ___ |
| 5. Income statement, Statement of changes in equity, Statement of cash flows | Purchased equipment for cash | ___ |
| 6. Statement of changes in equity, Statement of cash flows | Withdrawals | ___ |
| 7. Income statement | Fees earned | ___ |
| 8. Statement of cash flows | Proceeds received from a loan | ___ |

128. List the three main differences between the sole proprietorship and the corporate form of business.

129. What is the statement of financial position? What is its purpose?

130.What distinguishes liabilities from equity?

131.List the three types of activities reported on the statement of cash flows.

132. Properties or resources owned by a business.: Assets

1. Another name for equity.

Going-
concern_
principle _

2. The accounting principle that requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange.

State
ment of_
changes_
in equity _

3. A payment of cash or other assets from a proprietorship or partnership to its owner or owners.

Net
assets _

4. The rule that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue.

Liabili
ties _

5. Another name for the balance sheet.

Cost
principle _

6. Debts or obligations of a business.

Withdr
awal _

7. Value of assets exchanged for products or services provided to customers as part of the main operations of the business.

Reven
ues _

8. A financial statement that reports the changes in equity over the reporting period; beginning equity is adjusted for increases such as owner investment or net income and for decreases such as owner withdrawals or a net loss.

State
ment of_
financial_
position _

133. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- | | |
|---|-------------------------------------|
| 1. A description of the relationship between a company's assets, liabilities, and equity. | Statement_ of cash_ flows _ |
| 2. The principle that requires every business to be accounted for separately from its owner or owners. | Business_ transactio_ n _ |
| 3. A financial statement that reports the changes in equity over the reporting period; beginning equity is adjusted for increases such as owner investment or net income and for decreases such as owner withdrawals or a net loss. | Monetary unit_ principle _ |
| 4. An economic event that changes the financial position of an organization; often takes the form of an exchange of economic consideration between two parties. | Business entity_ principle _ |
| 5. The principle that provides guidance on when revenue should be reflected on the income statement. | Revenue_ recog_ nition_ principle _ |
| 6. The expression of transactions and events in money units. | Accounting_ equation _ |
| 7. The using up of assets as a result of the main operations of a business. | Statement of_ changes_ in equity _ |
| 8. Debts owed by a business or organization. | Expenses _ |
| 9. A financial statement that describes where a company's cash came from (receipts) and where it went during the period (payments); the cash flows are arranged by an organization's major activities. | Liabilities _ |

134. Match each of the following situations to the applicable accounting principle(s).

- | | |
|------------------------|--|
| 1. Revenue recognition | An insurance company receives insurance premiums for six months' worth of coverage. ___ |
| 2. Business entity | A building is for sale at \$480,000. An appraisal is given for \$450,000. ___ |
| 3. Monetary unit | Marva Stevens, a sole proprietor, pays for her daughter's preschool out of business funds. ___ |
| 4. Cost | Mayan Imports receives a shipment from Mexico. The invoice is stated in pesos. ___ |

135. Describe the three important guidelines for revenue recognition.

136. How does the cost principle support ethical behaviour?

137. Why should assets be recorded at historical cost?

138. How does the going concern principle affect reporting asset values of a business?

139. A parcel of land is offered for sale at \$135,000, is assessed for tax purposes at \$60,000, is recognized by its purchasers as easily being worth \$108,000, and is purchased for \$102,000. At what amount should the land be recorded in the purchaser's books? What accounting principle supports your answer?

140. Before purchasing a parcel of land, Ming's Boutique had the land appraised at \$90,000. The management of Ming's Boutique purchased the land for \$85,000. At what amount should the land be recorded on Ming's Boutique's books? What accounting principle supports your answer?

141. You are reviewing the accounting records of April's Attic, owned by April Lapierre. You have uncovered the following situations. Compose a memo to Ms. Lapierre. Cite the appropriate accounting principle and

- (1) April wrote a cheque for \$350 to Wee Care Day Care Centre. The amount paid for day care for Justin Lapierre, April's son.
- (2) April plans a Going Out of Business Sale for May, since she will be closing her business for a month-long vacation in June. She plans to reopen July 1 and will continue operating April's Attic indefinitely.
- (3) April received a shipment of pine furniture from Maine, U.S.A. The invoice was stated in U.S. dollars.
- (4) Martinique Gresham paid \$1,000 for a dining table. The amount was recorded as revenue. The table will be delivered to Ms. Gresham in six weeks.

suggest an action for each separate item.

142. Explain the accounting equation, also called the balance sheet equation.

143. Lorton's Laundry has assets of \$280,000 and liabilities of \$120,000. Calculate the amount of equity.

144. FastForward has liabilities of \$350,000 and \$300,000 in equity. What is the value of its assets?

145. Annie's Attic has \$750,000 in assets and equity of \$250,000. What is the amount of its liabilities?

146.If the liabilities of a business increased \$55,000 during a period of time and equity in the business decreased \$21,000 during the same period, would the assets of the business have increased or decreased? By what amount?

147.Select from the following list items that are likely to serve as source

- | | |
|-------------------------|-------------------------|
| (a) Credit card | (e) Balance sheet |
| (b) Credit card receipt | (f) Bank statement |
| (c) Purchase order | (g) Journal entry |
| (d) Invoice | (h) Electric power bill |

documents.

148.Explain the difference between a business transaction and a business event.

149.At the beginning of this year, Wong Company had \$120,000 in liabilities. During this year, assets increased by \$160,000 and at year-end they equalled \$360,000. Liabilities decreased \$20,000 during this year. Calculate the beginning and ending values of equity.

150.If the liabilities of a business increased \$48,000 during a period of time and equity in the business decreased \$18,000 during the same period, would the assets of the business have increased or decreased? By what amount?

151. On May 1, Chuck Taylor formed FastForward, a computer consulting business. In order to start the business he invested \$40,000 in cash. Enter the appropriate amounts into the accounting equation format.
152. FastForward spent \$3,000 in cash for a computer. Enter the appropriate amounts into the accounting equation format.
153. FastForward bought supplies and testing equipment for \$5,000 on credit. Enter the appropriate amounts into the accounting equation format.
154. FastForward performed testing services for the Blue Lake Panthers. The Panthers paid FastForward \$8,000 in cash. Enter the appropriate amounts into the accounting equation format.
155. FastForward paid its employees \$1,000 in cash for two weeks' wages. Enter the appropriate amounts into the accounting equation format.

156. FastForward received \$8,000 for a previously recorded account receivable from the Blue Lake Panthers. Enter the appropriate amounts into the accounting equation format.
157. If, on January 1, New Haven Company paid \$4,000 of its accounts payable in cash, what would be the effect of this transaction on assets, on liabilities, and on equity?

158. Allan Parsons, CA, began an accounting practice and completed these transactions during September

- Sept 1 Invested \$25,000 of his personal savings into a bank account opened in the name of the accounting practice.
- Sept 2 Rented office space and paid cash for two months in advance, \$1,200.
- Sept 3 Purchased office equipment for \$2,500, paying \$800 cash and agreeing to pay the balance in one year.
- Sept 4 Purchased office supplies for cash, \$50.
- Sept 8 Completed accounting work for a client and immediately collected \$500 in cash for the work done.
- Sept 15 Completed accounting services for a client on credit, \$1,500.
- Sept 20 Received \$1,500 from the above client for the work completed on September 15.
- Sept 30 Recognized that one month's rent had expired and become an expense.
- Sept 30 Paid the office secretary's salary, \$400.
- Sept 30 Took an inventory of office supplies and determined that \$20 had been used and become an expense.

2015:

Show the effects of the above transactions on the balance sheet items of Allan Parsons, CA. Use the following format for your answers.

Increase = I Decrease = D No effect =

| Date | Assets | Liabilities | Equity |
|-------------------------------|--------|-------------|--------|
| Example: September 1, 2015 | I | N | I |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

N

159. For each of the following transactions, identify the effect on the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A," "L," and "E" to indicate assets, liabilities, and equity,

| | | |
|---|-----------|-----------|
| (a) J. R. Lord invested \$100,000 in a sole proprietorship. | <u>+A</u> | <u>+E</u> |
| (b) Land was purchased for \$50,000. A down payment of \$15,000 was made in cash and a note was signed for the balance. | _____ | _____ |
| (c) Services were rendered to customers for cash. | _____ | _____ |
| (d) A building was purchased for cash. | _____ | _____ |
| (e) The insurance premium for a 12-month policy was paid in cash in advance. | _____ | _____ |
| (f) Paid the office secretary's salary. | _____ | _____ |
| (g) The amount owed on the land was paid. | _____ | _____ |

respectively.

160. Jandu Company's accounts with the increases or decreases that occurred during this year are as

| | <u>Increase</u> | <u>Decrease</u> |
|---------------------|-----------------|-----------------|
| Cash | \$ 8,000 | |
| Accounts receivable | | \$(4,000) |
| Supplies | 15,000 | |
| Accounts payable | | (10,000) |
| Notes payable | 15,000 | |

follows:

Except for net income, an investment of \$2,000, and a withdrawal of \$10,000, no other items affected the capital account during the year. Using the balance sheet equation, calculate net income for this year.

161. The following schedule shows the first month's transactions of the Bill Blue Real Estate

| | Cash | + Accounts Receivable | + Supplies | + Equipment | = | Accounts Payable | +B. Blue Capital |
|-----|---------|--------------------------|------------|-------------|---|---------------------|---------------------|
| (1) | +20,000 | | | | | | +20,000 |
| (2) | -5,000 | | | +5,000 | | | |
| (3) | | | +\$1,500 | | | +1,500 | |
| (4) | +3,000 | | | | | | +3,000 |
| (5) | +1,000 | +1,500 | | | | | + 2,500 |
| (6) | -750 | | | | | -750 | |
| (7) | +500 | -500 | | | | | |
| (8) | | | -400 | | | | -400 |
| (9) | -2,000 | | | | | | -2,000 |

Company:

Describe the most likely reason(s) for each transaction.

162. FastForward paid its landlord \$3,000 in cash for three months' rent in advance. Enter the appropriate amounts into the accounting equation format.

163. Describe source documents and their purpose.

164. The bookkeeper of the Tide Company prepared a balance sheet immediately after each transaction was recorded. During September 2015, the first month of operation, the following balance

| Tide Company Balance Sheet September 1, 2015 | | | |
|--|-------------------------|--|-------------------------------------|
| | Assets | | Equity |
| Cash | \$ 50,000 | | P. Bryant, Capital |
| | | | \$ 50,000 |
| Total Assets | <u>\$ 50,000</u> | | Total Liabilities and Equity |
| | | | <u>\$ 50,000</u> |

| Tide Company Balance Sheet September 5, 2015 | | | |
|--|-------------------------|--|-------------------------------------|
| | Assets | | Liabilities |
| Cash | \$ 40,000 | | Notes Payable |
| Land | 5,000 | | \$ 15,000 |
| Building | <u>20,000</u> | | |
| | | | Equity |
| | | | P. Bryant, Capital |
| | | | <u>50,000</u> |
| Total Assets | <u>\$ 65,000</u> | | Total Liabilities and Equity |
| | | | <u>\$ 65,000</u> |

sheets were prepared:

| Tide Company Balance Sheet September 9, 2015 | | | |
|--|-------------------------|--|-------------------------------------|
| | Assets | | Liabilities |
| Cash | \$ 40,000 | | Accounts Payable |
| Office Supplies | 3,000 | | \$ 3,000 |
| Land | 5,000 | | Notes Payable |
| Building | <u>20,000</u> | | <u>15,000</u> |
| | | | Total Liabilities |
| | | | \$ 18,000 |
| | | | Equity |
| | | | P. Bryant, Capital |
| | | | <u>50,000</u> |
| Total Assets | <u>\$ 68,000</u> | | Total Liabilities and Equity |
| | | | <u>\$ 68,000</u> |

| Tide Company Balance Sheet September 11, 2015 | | | |
|---|-------------------------|--|-------------------------------------|
| | Assets | | Liabilities |
| Cash | \$ 36,000 | | Accounts Payable |
| Office Supplies | 3,000 | | \$ 3,000 |
| Land | 5,000 | | Notes Payable |
| Building | 20,000 | | <u>15,000</u> |
| Office Furniture | <u>4,000</u> | | Total Liabilities |
| | | | \$ 18,000 |
| | | | Equity |
| | | | P. Bryant, Capital |
| | | | <u>50,000</u> |
| Total Assets | <u>\$ 68,000</u> | | Total Liabilities and Equity |
| | | | <u>\$ 68,000</u> |

Tide Company
Balance Sheet
September 15, 2015

| Assets | | Liabilities | |
|------------------|------------------|------------------------------|------------------|
| Cash | \$ 26,000 | Accounts Payable | \$ 3,000 |
| Office Supplies | 3,000 | Notes Payable | <u>5,000</u> |
| Land | 5,000 | Total Liabilities | \$ 8,000 |
| Building | 20,000 | | |
| Office Furniture | <u>4,000</u> | | |
| | | Equity | |
| | | P. Bryant, Capital | <u>50,000</u> |
| Total Assets | <u>\$ 58,000</u> | Total Liabilities and Equity | <u>\$ 58,000</u> |

Required: Describe the nature of each of the five transactions that took place during the month of

Sept 1
5
9
11
September. 15

165. Prepare a balance sheet in good form for the Alberta Trucking Company from the following alphabetical

| | |
|---------------------|----------|
| Accounts receivable | \$ 8,000 |
| Accounts payable | 16,000 |
| Building | 25,000 |
| Cash | 5,000 |
| Notes payable | 40,000 |
| Office equipment | 10,000 |
| R. Perkins, capital | ? |
| Trucks | 50,000 |

list of the accounts at September 30, 2015:

166. Prepare a balance sheet in good form at December 31, 2015 for Ace Insurance from the following

| | | |
|--------|---------------------|----------|
| | Prepaid insurance | \$ 1,600 |
| | Commissions earned | 38,000 |
| | Accounts payable | 3,000 |
| | Accounts receivable | 1,000 |
| | John Ace, capital | 57,600 |
| | Office equipment | 4,000 |
| | Advertising expense | 1,200 |
| | Cash | 6,100 |
| | Land | 30,000 |
| | Note payable | 72,000 |
| | Office supplies | 400 |
| | Salaries expense | 8,000 |
| | Salaries payable | 500 |
| items: | Building | 90,000 |

167. At January 1, 2015, the records of Ann Martell's consulting practice showed equity at \$57,200. Net income for 2015 was \$15,800, and Ann withdrew \$5,000 in cash during the year. Prepare the statement of changes in equity for 2015.

On November 1, 2015, Lois Bell began Lois Bell, Interior Design with an initial investment of \$6,925, and on November 30 her records showed the following (alphabetically arranged) account balances:

| | | | |
|---------------------|--------|------------------------|---------|
| Accounts payable | \$ 400 | Office furniture | \$4,875 |
| Accounts receivable | 2,050 | Lois Bell, withdrawals | 350 |
| Cash | 3,000 | Rent expense | 1,500 |
| Fees earned | 5,400 | Salaries expense | 1,200 |
| Notes payable | 500 | Telephone expense | 250 |

168. From the information given, prepare an income statement for November.

169. From the information given, prepare a statement of changes in equity for November.

170. From the information given, prepare a November 30 balance sheet.

The records of Teresa's Toys at December 31, 2015 showed the following account balances:

| | | | |
|------------------------------|----------|---------------------|----------|
| Accounts payable | \$10,000 | Wages expense | \$60,000 |
| Insurance expense | 500 | Advertising expense | 12,000 |
| Accounts receivable | 19,000 | Cash | 15,000 |
| Teresa, capital, Jan 1, 2015 | 62,500 | Equipment | 25,000 |
| Land | 14,000 | Maintenance expense | 6,000 |
| Notes payable | 33,000 | Revenues | 130,000 |
| Building | 48,000 | | |

In addition, Teresa withdrew \$36,000 during the year for personal expenses.

171. Using the above information, prepare an income statement for 2015.

172. Using the above information, prepare a statement of changes in equity for 2015.

173. Using the above information, prepare the year-end balance sheet.

174.

| | |
|--------------------------------------|----------|
| Total assets, December 31, 2015 | \$95,000 |
| Total liabilities, December 31, 2015 | 22,000 |
| Total revenue for 2016 | 68,000 |
| Total expenses for 2016 | 41,000 |

Data for Nunavut Realty are as follows:

The owner, Mary Monarch, withdrew a total of \$35,000 for personal use during 2016. From the above data, prepare Nunavut Realty's statement of changes in equity for the year ended December 31, 2016.

175. _____ is increased by owner's investments and revenues. It is decreased by withdrawals and expenses.

176. Profit is also called _____.

177. A(n) _____ occurs when expenses are greater than revenues.

178. A 12-month period that ends when a company's sales activities are at their lowest point is called the _____.

179. Assets removed from the business by the business owner are called _____.

180. A(n) _____ reports revenues earned and expenses incurred by a business over a period of time.

181. _____ are the value of assets exchanged for products and services provided to customers as part of the main operations of a business.

182. The _____ reports changes in equity over the reporting period.

183. A common characteristic of _____ is their ability to provide future benefits to a business.

184. A primary purpose of _____ is to make information in financial statements relevant, reliable and comparable.

185. In accounting, the principle that requires that assets, services, and liabilities be recorded initially at the cash or cash-equivalent value of what was given up or of the item received is called _____.

186. The _____ principle means that every organization is accounted for separately from its owner's personal activities.

187. The accounting equation is _____.

188. The accounting equation is $\text{Assets} = \text{_____} + \text{Equity}$.

189. The owner of a business buys a building for \$20,000 and immediately contributes the building to the business as his investment. If the business assumes responsibility for paying a \$12,000 bank loan that was obtained for the purpose of buying the building, equity should be increased by \$ _____ in recognition of the investment.

190. During the accounting period, the assets of a business increased \$2,315 and the liabilities decreased \$8,590; consequently, equity in the business must have _____ (increased, decreased) by \$ _____.

191. Source documents identify and describe _____ and provide objective evidence and amounts for recording.

02 Key

1. A balance sheet covers a period of time such as a month or year.

FALSE

*Difficulty: Easy
Larson - Chapter 02 #1
Learning Objective: 1
Type: Knowledge*

2. The legitimate claims of a business's creditors take precedence over the claims of the business owner or owners.

TRUE

*Difficulty: Easy
Larson - Chapter 02 #2
Learning Objective: 1
Type: Knowledge*

3. The income statement is a financial statement that shows revenues earned and expenses incurred by a business over a specified period of time.

TRUE

*Difficulty: Easy
Larson - Chapter 02 #3
Learning Objective: 1
Type: Knowledge*

4. Net income is the excess of expenses over revenues, whereas net loss is the excess of revenues over expenses.

FALSE

*Difficulty: Easy
Larson - Chapter 02 #4
Learning Objective: 1
Type: Knowledge*

5. The natural business year for most businesses is always the same as the calendar year.

FALSE

*Difficulty: Moderate
Larson - Chapter 02 #5
Learning Objective: 1
Type: Knowledge*

6. The balance sheet shows whether or not the firm achieved its primary objective of earning a profit.

FALSE

*Difficulty: Easy
Larson - Chapter 02 #6
Learning Objective: 1
Type: Knowledge*

7. Expenses are costs incurred or the using up of assets from generating revenue.

TRUE

*Difficulty: Easy
Larson - Chapter 02 #7
Learning Objective: 1
Type: Knowledge*

8. Liabilities are defined as "the residual interest in the assets of an entity that remains after deducting its equity."

FALSE

*Difficulty: Easy
Larson - Chapter 02 #8
Learning Objective: 1
Type: Knowledge*

9. A characteristic of assets is their ability to provide current benefits to the business.

FALSE

*Difficulty: Hard
Larson - Chapter 02 #9
Learning Objective: 1
Type: Knowledge*

10. The statement of cash flows measures the net effect of revenues and expenses for a specified period.
FALSE

*Difficulty: Easy
Larson - Chapter 02 #10
Learning Objective: 1
Type: Knowledge*

11. A liability expressed by a written promise to make a future payment is usually called an account payable.
FALSE

*Difficulty: Easy
Larson - Chapter 02 #11
Learning Objective: 1
Type: Knowledge*

12. The balance sheet is also called the statement of financial position because it shows the financial position of the business on a particular date.
TRUE

*Difficulty: Moderate
Larson - Chapter 02 #12
Learning Objective: 1
Type: Knowledge*

13. Revenues are the value of assets exchanged for products or services provided to customers as part of the major operations of the business.
TRUE

*Difficulty: Moderate
Larson - Chapter 02 #13
Learning Objective: 1
Type: Knowledge*

14. The balance sheet can be used in order to assess the creditworthiness of potential customers.
TRUE

*Difficulty: Moderate
Larson - Chapter 02 #14
Learning Objective: 1
Type: Knowledge*

15. Withdrawals represent distributions from a corporation to its owners.
FALSE

*Difficulty: Easy
Larson - Chapter 02 #15
Learning Objective: 1
Type: Knowledge*

16. Dividends represent distributions of profits to the partners of a business.
FALSE

*Difficulty: Easy
Larson - Chapter 02 #16
Learning Objective: 1
Type: Knowledge*

17. Equity is increased by owner investments, net income and withdrawals.
FALSE

*Difficulty: Moderate
Larson - Chapter 02 #17
Learning Objective: 1
Type: Knowledge*

18. Although, in a sole proprietorship, owner investments are not recorded as revenue, any withdrawals are recorded as expenses.
FALSE

*Difficulty: Easy
Larson - Chapter 02 #18
Learning Objective: 1
Type: Knowledge*

19. Equity is increased when cash is received from customers in payment of previously recorded accounts receivable.
FALSE
- Difficulty: Moderate
Larson - Chapter 02 #19
Learning Objective: 1
Type: Knowledge*
20. An owner's cash investment in a business creates an asset (cash), a liability (note payable), and equity (owner investments).
FALSE
- Difficulty: Moderate
Larson - Chapter 02 #20
Learning Objective: 1
Type: Knowledge*
21. The first section of the income statement reports cash from operating activities.
FALSE
- Difficulty: Easy
Larson - Chapter 02 #21
Learning Objective: 1
Type: Knowledge*
22. Chuck Taylor invested \$8,000 in cash in FastForward. This amount would be reported in the statement of cash flows under financing.
TRUE
- Difficulty: Hard
Larson - Chapter 02 #22
Learning Objective: 1
Type: Knowledge*
23. Chuck Taylor withdrew \$6,000 in cash for his personal use from his business. This amount should be included as an expense on the income statement.
FALSE
- Difficulty: Easy
Larson - Chapter 02 #23
Learning Objective: 1
Type: Knowledge*
24. Individuals and organizations who own the right to receive payments from a business are called its debtors.
FALSE
- Difficulty: Moderate
Larson - Chapter 02 #24
Learning Objective: 1
Type: Knowledge*
25. A loss arises when revenues are more than expenses.
FALSE
- Difficulty: Easy
Larson - Chapter 02 #25
Learning Objective: 1
Type: Knowledge*
26. A characteristic of liabilities is their capacity to reduce future assets.
TRUE
- Difficulty: Hard
Larson - Chapter 02 #26
Learning Objective: 1
Type: Knowledge*
27. Net income is equal to the change in equity due to operating activities over a period of time.
TRUE
- Difficulty: Hard
Larson - Chapter 02 #27
Learning Objective: 1
Type: Knowledge*

28. The equity in a partnership belongs to one owner.

FALSE

*Difficulty: Easy
Larson - Chapter 02 #28
Learning Objective: 1
Type: Knowledge*

29. Information that has relevance can affect the types of decisions made by users.

TRUE

*Difficulty: Moderate
Larson - Chapter 02 #29
Learning Objective: 2
Type: Knowledge*

30. Comparability ensures that information is prepared to be useful to users with reasonable knowledge of accounting as well as business and economic activities.

FALSE

*Difficulty: Hard
Larson - Chapter 02 #30
Learning Objective: 2
Type: Knowledge*

31. The business entity principle means that every business is accounted for separately from its owners.

TRUE

*Difficulty: Easy
Larson - Chapter 02 #31
Learning Objective: 2
Type: Knowledge*

32. The business entity principle means that a business will continue operating for an indefinite period of time.

FALSE

*Difficulty: Easy
Larson - Chapter 02 #32
Learning Objective: 2
Type: Knowledge*

33. The cost principle states that if no cash is involved in a transaction the cash-equivalent value must be used.

TRUE

*Difficulty: Moderate
Larson - Chapter 02 #33
Learning Objective: 2
Type: Knowledge*

34. The monetary unit principle means that transactions are expressed using units of money as the common denominator.

TRUE

*Difficulty: Easy
Larson - Chapter 02 #34
Learning Objective: 2
Type: Knowledge*

35. The assumption that a business will continue to operate until it can sell its assets to pay its creditors underlies the going-concern principle.

FALSE

*Difficulty: Moderate
Larson - Chapter 02 #35
Learning Objective: 2
Type: Knowledge*

36. According to the cost principle, it is acceptable for managers to use their own estimate of an asset's value when recording the purchase.

FALSE

*Difficulty: Moderate
Larson - Chapter 02 #36
Learning Objective: 2
Type: Knowledge*

37. The monetary unit principle means that all international transactions must be expressed in dollars.
FALSE
- Difficulty: Moderate
Larson - Chapter 02 #37
Learning Objective: 2
Type: Knowledge*
38. As a rule, revenues should not be recognized in the accounting records until received in cash.
FALSE
- Difficulty: Easy
Larson - Chapter 02 #38
Learning Objective: 2
Type: Knowledge*
39. On May 15, Exe Company received \$1,000 cash in advance from a customer for a job to be completed in June. Exe should not record the receipt of the cash until the work is done in June.
FALSE
- Difficulty: Moderate
Larson - Chapter 02 #39
Learning Objective: 2
Type: Knowledge*
40. The accounting equation means that assets = liabilities + equity.
TRUE
- Difficulty: Easy
Larson - Chapter 02 #40
Learning Objective: 3
Type: Knowledge*
41. The accounting equation means that assets + liabilities = equity.
FALSE
- Difficulty: Easy
Larson - Chapter 02 #41
Learning Objective: 3
Type: Knowledge*
42. The accounting equation can be restated as assets - equity = liabilities.
TRUE
- Difficulty: Easy
Larson - Chapter 02 #41
Learning Objective: 3
Type: Knowledge*
43. Liabilities represent non-owner financing.
TRUE
- Difficulty: Moderate
Larson - Chapter 02 #42
Learning Objective: 3
Type: Knowledge*
44. Business transactions are exchanges of economic consideration between two parties.
TRUE
- Difficulty: Moderate
Larson - Chapter 02 #43
Learning Objective: 3
Type: Knowledge*
45. Business events do not affect the accounting equation.
TRUE
- Difficulty: Easy
Larson - Chapter 02 #44
Learning Objective: 4
Type: Knowledge*
46. Items such as sales slips, invoices, cheques, purchase orders, and employee earnings records are also called source documents.
TRUE
- Difficulty: Moderate
Larson - Chapter 02 #45
Learning Objective: 4
Type: Knowledge*
- Difficulty: Easy
Larson - Chapter 02 #46
Learning Objective: 4
Type: Knowledge*

47. Payment of accounts payable decreases both liabilities and assets.

TRUE

*Difficulty: Moderate
Larson - Chapter 02 #47
Learning Objective: 4
Type: Application*

48. Properties or economic resources owned by a business, also described as probable future economic benefits, are called:

- A.** Assets.
- B. Revenues.
- C. Liabilities.
- D. Equity.
- E. Expenses.

*Difficulty: Easy
Larson - Chapter 02 #48
Learning Objective: 1
Type: Knowledge*

49. The value of assets exchanged for goods or services provided to customers as part of the main operations of a business are called:

- A. Assets.
- B.** Revenues.
- C. Liabilities.
- D. Equity.
- E. Expenses.

*Difficulty: Easy
Larson - Chapter 02 #49
Learning Objective: 1
Type: Knowledge*

50. Net income is:

- A. Assets minus liabilities.
- B.** The excess of revenues over expenses.
- C. The excess of expenses over revenues.
- D. A revenue.
- E. The same as equity.

*Difficulty: Easy
Larson - Chapter 02 #50
Learning Objective: 1
Type: Knowledge*

51. The difference between a company's assets and its liabilities, or the residual interest in the assets of an entity that remains after deducting its liabilities, is called:

- A. Net income.
- B. Shares.
- C.** Equity.
- D. Revenue.
- E. Net loss.

*Difficulty: Easy
Larson - Chapter 02 #51
Learning Objective: 1
Type: Knowledge*

52. An obligation of a business that represents the claims of others against the assets of the business is called a(n):

- A. Asset.
- B. Expense.
- C. Revenue.
- D. Equity.
- E.** Liability.

*Difficulty: Easy
Larson - Chapter 02 #52
Learning Objective: 1
Type: Knowledge*

53. Costs incurred or the using up of assets as a result of the main operations of a business are called:
- A. Liabilities.
 - B. Equity.
 - C. Revenues.
 - D. Expenses.**
 - E. Net losses

*Difficulty: Easy
Larson - Chapter 02 #53
Learning Objective: 1
Type: Knowledge*

54. An individual or organization entitled to receive payments from a business is known to the business as a:
- A. Debtor.
 - B. Shareholder.
 - C. Controller.
 - D. Creditor.**
 - E. Bookkeeper.

*Difficulty: Moderate
Larson - Chapter 02 #54
Learning Objective: 1
Type: Knowledge*

55. An individual or organization that owes an amount to a business is known to the business as a:
- A. Debtor.**
 - B. Shareholder.
 - C. Controller.
 - D. Creditor.
 - E. Bookkeeper.

*Difficulty: Moderate
Larson - Chapter 02 #55
Learning Objective: 1
Type: Knowledge*

56. Assets created by selling products or services on credit are:
- A. Accounts payable.
 - B. Accounts receivable.**
 - C. Liabilities.
 - D. Expenses.
 - E. Equity.

*Difficulty: Moderate
Larson - Chapter 02 #56
Learning Objective: 1
Type: Knowledge*

57. A statement of financial position is another name for:
- A. The income statement.
 - B. The balance sheet.**
 - C. The statement of cash flows.
 - D. The statement of changes in equity.
 - E. The accounting equation.

*Difficulty: Easy
Larson - Chapter 02 #57
Learning Objective: 1
Type: Knowledge*

58. Equity is also known as:
- A. Net income.
 - B. Expenses.
 - C. Net assets.**
 - D. Revenue.
 - E. Net loss.

*Difficulty: Moderate
Larson - Chapter 02 #58
Learning Objective: 1
Type: Knowledge*

59. The excess of expenses over revenues for a period is:
- A. Net assets.
 - B. Equity.
 - C.** Net loss.
 - D. Net income.
 - E. A liability.

Difficulty: Moderate
Larson - Chapter 02 #59
Learning Objective: 1
Type: Knowledge

60. Which financial statement shows whether the business earned a profit or loss, and also lists the types and amounts of the revenues and expenses?
- A. Balance sheet.
 - B. Statement of changes in equity.
 - C. Statement of cash flows.
 - D.** Income statement.
 - E. Statement of financial position.

Difficulty: Easy
Larson - Chapter 02 #60
Learning Objective: 1
Type: Knowledge

61. A balance sheet lists:
- A. The types and amounts of the revenues and expenses of a business.
 - B. Only the information about what happened to equity during a specific time period. .
 - C.** The types and amounts of assets, liabilities, and equity of a business at a specific date.
 - D. The inflows and outflows of cash during a specific time period.
 - E. The assets and liabilities of a business but not the equity.

Difficulty: Moderate
Larson - Chapter 02 #61
Learning Objective: 1
Type: Knowledge

62. A financial statement providing information that helps users understand a company's financial status at a specific date, is called a(n):
- A.** Balance sheet.
 - B. Income statement.
 - C. Statement of cash flows.
 - D. Statement of changes in equity.
 - E. Bank statement.

Difficulty: Moderate
Larson - Chapter 02 #62
Learning Objective: 1
Type: Knowledge

63. The financial statement that describes where a company's cash came from and where it went during the period is the:
- A. Statement of financial position.
 - B.** Statement of cash flows.
 - C. Balance sheet.
 - D. Income statement.
 - E. Statement of changes in equity.

Difficulty: Hard
Larson - Chapter 02 #63
Learning Objective: 1
Type: Knowledge

64. The financial statement that shows the beginning balance of equity; the changes in equity that resulted from new investments by the owner, net income (or net loss), and withdrawals; and the ending balance of equity is the:
- A. Statement of financial position.
 - B. Statement of cash flows.
 - C. Balance sheet.
 - D. Income statement.
 - E.** Statement of changes in equity.

*Difficulty: Moderate
Larson - Chapter 02 #64
Learning Objective: 1
Type: Knowledge*

65. Cash investments by owners are listed on which of the following statements?
- A. Balance sheet.
 - B. Income statement.
 - C. Statement of changes in equity.
 - D. Statement of cash flows.
 - E.** Both a statement of changes in equity and statement of cash flows.

*Difficulty: Moderate
Larson - Chapter 02 #65
Learning Objective: 1
Type: Knowledge*

66. Net income appears on which of the following statement(s)?
- A. Balance sheet.
 - B. Income statement.
 - C. Statement of changes in equity.
 - D. Statement of cash flows.
 - E.** Both an income statement and statement of changes in equity.

*Difficulty: Moderate
Larson - Chapter 02 #66
Learning Objective: 1
Type: Knowledge*

67. Salaries paid with cash appear on which of the following statement(s)?
- A. Balance sheet.
 - B. Income statement.
 - C. Statement of changes in equity.
 - D. Statement of cash flows.
 - E.** Both an income statement and statement of cash flows.

*Difficulty: Moderate
Larson - Chapter 02 #67
Learning Objective: 1
Type: Knowledge*

68. Fees earned by a business in exchange for services provided by the business appear on which one of the following statements?
- A. Balance sheet.
 - B.** Income statement.
 - C. Statement of changes in equity.
 - D. Statement of cash flows.
 - E. Statement of financial position.

*Difficulty: Easy
Larson - Chapter 02 #68
Learning Objective: 1
Type: Knowledge*

69. Which one of the following is not reported on the income statement?
- A. Revenues earned by a business.
 - B. Expenses incurred by a business.
 - C. Withdrawals.**
 - D. Net income.
 - E. All of these answers are correct.

*Difficulty: Moderate
Larson - Chapter 02 #69
Learning Objective: 1
Type: Knowledge*

70. A primary operating objective of a business is to increase the equity of its owner or owners by:
- A. Acquiring assets.
 - B. Incurring liabilities.
 - C. Earning a profit.**
 - D. Incurring expenses.
 - E. Increasing retained earnings.

*Difficulty: Moderate
Larson - Chapter 02 #70
Learning Objective: 1
Type: Knowledge*

71. Which of the following statements is true about assets?
- A. They are the properties or economic resources owned by the business.
 - B. They are available to provide future benefits to the business.
 - C. They can be intangible rights.
 - D. Ownership is shared between creditors and owners.
 - E. All of these answers are correct.**

*Difficulty: Hard
Larson - Chapter 02 #71
Learning Objective: 1
Type: Knowledge*

72. Payments of cash by a corporation to its shareholders are called:
- A. Dividends.**
 - B. Cheques.
 - C. Shareholders equity.
 - D. Withdrawals.
 - E. Expenses.

*Difficulty: Moderate
Larson - Chapter 02 #72
Learning Objective: 1
Type: Knowledge*

73. A payment from a proprietorship or partnership to its owner or owners is called a(n):
- A. Dividend.
 - B. Withdrawal.**
 - C. Expense.
 - D. Equity.
 - E. Cheque.

*Difficulty: Easy
Larson - Chapter 02 #73
Learning Objective: 1
Type: Knowledge*

74. Profit is another name for:
- A. The income statement.
 - B. Net income.**
 - C. Equity.
 - D. A business transaction.
 - E. Assets.

*Difficulty: Easy
Larson - Chapter 02 #74
Learning Objective: 1
Type: Knowledge*

75. A statement of profit and loss is another name for:
A. The income statement.
B. The balance sheet.
C. The statement of cash flows.
D. The statement of changes in equity.
E. The accounting equation.

*Difficulty: Moderate
Larson - Chapter 02 #75
Learning Objective: 1
Type: Knowledge*

76. Revenues are:
A. Profits.
B. The amount a business earns after subtracting all expenses from sales.
C. Business events.
D. Net assets
E. The value of assets exchanged for goods or services provided to the customer.

*Difficulty: Moderate
Larson - Chapter 02 #76
Learning Objective: 1
Type: Knowledge*

77. If financial information is relevant, this means that:
A. Decision makers can depend on it.
B. It can affect the types of decisions made by users.
C. The information is prepared using the same accounting procedures from one accounting period to the next.
D. Users are able to compare different companies, if all the companies use similar accounting practices.
E. The financial statements have not been prepared according to GAAP.

*Difficulty: Hard
Larson - Chapter 02 #77
Learning Objective: 2
Type: Knowledge*

78. If financial information is understandable, this means that:
A. Decision makers can depend on it.
B. It can affect the types of decisions made by users.
C. The information is useful to users with reasonable knowledge of accounting as well as business and economic activities.
D. Users are able to compare different companies, if all the companies use similar accounting practices.
E. The financial statements have not been prepared according to GAAP.

*Difficulty: Hard
Larson - Chapter 02 #78
Learning Objective: 2
Type: Knowledge*

79. The business entity principle:
A. Requires that sole proprietors have unlimited liability.
B. Requires that partnership income be taxed at the partnership level.
C. Means that business records should be kept separate from the owner's personal records.
D. Requires that partnerships have written agreements.
E. Requires that corporations have shareholders.

*Difficulty: Moderate
Larson - Chapter 02 #79
Learning Objective: 2
Type: Knowledge*

80. The accounting principle that requires that transactions are expressed using units of money as the common denominator is the:
- A. Business entity principle.
 - B.** Monetary unit principle.
 - C. Going concern principle.
 - D. Cost principle.
 - E. Revenue recognition principle.

*Difficulty: Easy
Larson - Chapter 02 #80
Learning Objective: 2
Type: Knowledge*

81. The accounting principle that states that Revenue is recorded at the time that it is earned regardless of whether cash or another asset has been exchanged is the :
- A. Monetary unit principle.
 - B. Business entity principle.
 - C. Going concern principle.
 - D.** Revenue recognition principle.
 - E. Cost principle.

*Difficulty: Easy
Larson - Chapter 02 #81
Learning Objective: 2
Type: Knowledge*

82. The accounting principle that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue, is the:
- A. Cost principle.
 - B. Business entity principle.
 - C.** Going concern principle.
 - D. Monetary unit principle.
 - E. Revenue recognition principle.

*Difficulty: Moderate
Larson - Chapter 02 #82
Learning Objective: 2
Type: Knowledge*

83. The rules adopted by the accounting profession as guides in measuring, recording, and reporting the financial affairs and activities of a business are:
- A. Both broad and specific principles.
 - B. Known as generally accepted accounting principles.
 - C. Abbreviated as GAAP.
 - D. Intended to make information in financial statements relevant, reliable, consistent and comparable.
 - E.** All of these answers are correct.

*Difficulty: Moderate
Larson - Chapter 02 #83
Learning Objective: 2
Type: Knowledge*

84. If a parcel of land is offered for sale at \$45,000, is assessed for tax purposes at \$20,000, is considered by its purchasers to be worth \$36,000, and is purchased for \$34,000, the land should be recorded in the purchaser's books at:
- A. \$20,000.
 - B.** \$34,000.
 - C. \$36,000.
 - D. \$45,000.
 - E. \$54,000.

*Difficulty: Moderate
Larson - Chapter 02 #84
Learning Objective: 2
Type: Application*

85. To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:
- A. Monetary unit principle.
 - B. Cost principle.
 - C. Business entity principle.**
 - D. Going concern principle.
 - E. Revenue recognition principle.

*Difficulty: Easy
Larson - Chapter 02 #85
Learning Objective: 2
Type: Knowledge*

86. The accounting principle that requires financial statement information to be based on costs incurred in business transactions, and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:
- A. Accounting equation.
 - B. Cost principle.**
 - C. Going concern principle.
 - D. Revenue recognition principle.
 - E. Business entity principle.

*Difficulty: Easy
Larson - Chapter 02 #86
Learning Objective: 2
Type: Knowledge*

87. Generally accepted accounting principles are:
- A. Not used in the real world.
 - B. Are required to make financial statement information relevant and reliable.**
 - C. Are only used for internal reporting.
 - D. Are only used by auditors.
 - E. Are only used for reporting to Canada Revenue Agency.

*Difficulty: Moderate
Larson - Chapter 02 #87
Learning Objective: 2
Type: Knowledge*

88. The organization established to try to achieve global agreement on the use of a common set of accounting principles is called:
- A. Accounting Standards Board.
 - B. Abbreviated as IFRS.
 - C. International Accounting Standards Board.**
 - D. Generally accepted accounting principles.
 - E. All of these answers are correct.

*Difficulty: Moderate
Larson - Chapter 02 #88
Learning Objective: 2
Type: Knowledge*

89. According to generally accepted accounting principles, a company's balance sheet should show the company's assets at:
- A. The cash equivalent value of what was given up or the asset received, whichever is more clearly evident.**
 - B. The market value of the asset received in all cases.
 - C. The cash outlay only, even if part of the consideration given was something other than cash.
 - D. The best estimate of a certified internal auditor.
 - E. Current replacement cost.

*Difficulty: Hard
Larson - Chapter 02 #89
Learning Objective: 2
Type: Knowledge*

90. If a business is not being sold or closed, the amounts reported in the accounts for assets used in operations are based on costs. This practice is justified by the:
- A. Cost principle.
 - B.** Going concern principle.
 - C. Revenue recognition principle.
 - D. Business entity principle.
 - E. Monetary unit principle.

Difficulty: Moderate
Larson - Chapter 02 #90
Learning Objective: 2
Type: Knowledge

91. Which of the following accounting principles would require that all goods and services purchased be recorded at cost?
- A. Going concern principle.
 - B. Monetary unit principle.
 - C.** Cost principle.
 - D. Business entity principle.
 - E. Revenue recognition principle.

Difficulty: Easy
Larson - Chapter 02 #91
Learning Objective: 2
Type: Knowledge

92. The rule that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash, and (3) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services is called the:
- A. Going concern principle.
 - B. Cost principle.
 - C.** Revenue recognition principle.
 - D. Monetary unit principle.
 - E. Business entity principle.

Difficulty: Moderate
Larson - Chapter 02 #92
Learning Objective: 2
Type: Knowledge

93. The question of when revenue should be recognized on the income statement (according to GAAP) is answered by the:
- A.** Revenue recognition principle.
 - B. Going concern principle.
 - C. Monetary unit principle.
 - D. Business entity principle.
 - E. Cost principle.

Difficulty: Easy
Larson - Chapter 02 #93
Learning Objective: 2
Type: Knowledge

94. Revenue is recognized in most businesses:
- A. When the customer's order is received.
 - B. Only if the transaction creates an account receivable.
 - C. Only if paid in cash.
 - D.** Upon completion of the sale or when services have been performed and the business obtains the right to collect the sales price.
 - E. When cash from a sale is received.

Difficulty: Moderate
Larson - Chapter 02 #94
Learning Objective: 2
Type: Knowledge

95. The description of the relationship between a company's assets, liabilities, and equity, which is expressed as $\text{Assets} = \text{Liabilities} + \text{Equity}$, is known as the:
- A. Balance sheet.
 - B.** Accounting equation.
 - C. Business equation.
 - D. Liability equation.
 - E. Net income.

Difficulty: Easy
Larson - Chapter 02 #95
Learning Objective: 3
Type: Knowledge

96. The balance sheet equation is:
- A. Revenues minus expenses equals net income.
 - B. Debits equal credits.
 - C. The bookkeeping phase of accounting.
 - D.** Another name for the accounting equation.
 - E. Assets minus liabilities.

Difficulty: Moderate
Larson - Chapter 02 #96
Learning Objective: 3
Type: Knowledge

97. If equity is \$30,000 and liabilities are \$73,000, then assets equal:
- A. \$ 30,000.
 - B. \$ 40,000.
 - C. \$ 60,000.
 - D. \$ 73,000.
 - E.** \$103,000.

Difficulty: Easy
Larson - Chapter 02 #97
Learning Objective: 3
Type: Application

98. If assets are \$175,000 and equity is \$47,000, then liabilities equal:
- A. \$ 47,000.
 - B.** \$128,000.
 - C. \$175,000.
 - D. \$204,000.
 - E. \$222,000.

Difficulty: Easy
Larson - Chapter 02 #98
Learning Objective: 3
Type: Application

99. If assets are \$144,000 and liabilities are \$37,000, then equity equals:
- A. \$ 37,000.
 - B. \$ 74,000.
 - C.** \$107,000.
 - D. \$144,000.
 - E. \$181,000.

Difficulty: Easy
Larson - Chapter 02 #99
Learning Objective: 3
Type: Application

100. The accounting equation can be stated as:
- A. $\text{Assets} = \text{non-owner equity} + \text{equity}$.
 - B. $\text{Liabilities} = \text{assets} - \text{equity}$.
 - C. $\text{Assets} = \text{liabilities} + \text{equity}$.
 - D. $\text{Equity} = \text{assets} - \text{liabilities}$.
 - E.** All of these answers are correct.

Difficulty: Hard
Larson - Chapter 02 #100
Learning Objective: 3
Type: Application

101. The assets of a business total \$20,000; the liabilities, \$8,000. The claims of the owners are:
- A. \$ 0.
 - B. \$ 8,000.
 - C.** \$12,000.
 - D. \$20,000.
 - E. \$28,000.

*Difficulty: Moderate
Larson - Chapter 02 #101
Learning Objective: 3
Type: Application*

102. The FastForward Company balance sheet shows cash \$5,000, accounts receivable \$7,000, office equipment \$3,000, and accounts payable \$4,000. What is the amount of equity?
- A. \$ 1,000.
 - B.** \$11,000.
 - C. \$12,000.
 - D. \$15,000.
 - E. \$19,000.

*Difficulty: Moderate
Larson - Chapter 02 #102
Learning Objective: 4
Type: Application*

103. An exchange between two parties of economic consideration such as goods, services, money, or rights to collect money is called:
- A. The accounting equation.
 - B. Bookkeeping.
 - C.** A business transaction.
 - D. An audit.
 - E. A gift.

*Difficulty: Moderate
Larson - Chapter 02 #103
Learning Objective: 4
Type: Knowledge*

104. A business activity that does not involve an exchange of economic consideration between two parties is called a(n):
- A. Withdrawal.
 - B. Account receivable.
 - C. Business transaction.
 - D.** Business event.
 - E. Equity transaction.

*Difficulty: Moderate
Larson - Chapter 02 #104
Learning Objective: 4
Type: Knowledge*

105. Which of the following is an example of a source document?
- A. Invoice.
 - B. Cheque.
 - C. Bank statement.
 - D. Employee earnings records.
 - E.** All of these answers are correct.

*Difficulty: Easy
Larson - Chapter 02 #105
Learning Objective: 4
Type: Knowledge*

106. If the liabilities of a business increased \$12,000 during a period of time and equity in the business decreased \$2,000 during the same period, the assets of the business must have:
- A. Decreased \$10,000.
 - B. Decreased \$14,000.
 - C.** Increased \$10,000.
 - D. Increased \$14,000.
 - E. Increased \$12,000.

*Difficulty: Moderate
Larson - Chapter 02 #106
Learning Objective: 4
Type: Application*

107. If the assets of a business increased \$15,000 during a period of time and its liabilities increased \$6,000 during the same period, equity in the business must have:
- A.** Increased \$ 9,000.
 - B. Decreased \$ 9,000.
 - C. Increased \$21,000.
 - D. Decreased \$21,000.
 - E. Decreased \$ 6,000.

*Difficulty: Moderate
Larson - Chapter 02 #107
Learning Objective: 4
Type: Application*

108. Today, Kay Mark Company paid \$100 of its accounts payable in cash. What is the effect on the accounting equation?
- A. Assets, \$100 increase; liabilities, no effect; equity, \$100 increase.
 - B.** Assets, \$100 decrease; liabilities, \$100 decrease; equity, no effect.
 - C. Assets, \$100 decrease; liabilities, \$100 increase; equity, \$200 decrease.
 - D. Assets, no effect; liabilities, \$100 decrease; equity, \$100 increase.
 - E. No effect.

*Difficulty: Moderate
Larson - Chapter 02 #108
Learning Objective: 4
Type: Application*

109. How would the accounting equation of Jim Martock's computer business be affected by the billing of a client for \$1,000 for consulting work completed?
- A. Accounts receivable, \$1,000 increase, liabilities, \$1,000 decrease.
 - B. Accounts receivable, \$1,000 increase, liabilities, \$1,000 increase.
 - C. Accounts receivable, \$1,000 increase, cash, \$1,000 increase.
 - D.** Accounts receivable, \$1,000 increase, equity, \$1,000 increase.
 - E. Accounts receivable, \$1,000 increase, cash, \$1000 decrease.

*Difficulty: Moderate
Larson - Chapter 02 #109
Learning Objective: 4
Type: Application*

110. Carrot Company has assets of \$100,000, liabilities of \$10,000, and equity of \$90,000. It buys office equipment on credit for \$5,000. What effect would this transaction have on the accounting equation?
- A. Assets, \$5,000 increase, equity, \$5,000 increase.
 - B. Assets, \$5,000 increase, equity, \$5,000 decrease.
 - C. Liabilities, \$5,000 increase, equity, \$5,000 decrease.
 - D. Assets, \$5,000 decrease, equity, \$5,000 decrease.
 - E.** Assets, \$5,000 increase, liabilities, \$5,000 increase.

*Difficulty: Moderate
Larson - Chapter 02 #110
Learning Objective: 4
Type: Application*

111. White Company collected \$1,500 of accounts receivable. The effects on the accounting equation are:
- Total assets decrease and equity increases.
 - Both total assets and total liabilities decrease.
 - C.** Total assets, total liabilities, and equity are unchanged.
 - Both total assets and equity are unchanged.
 - Total assets increase and equity decreases.

*Difficulty: Moderate
Larson - Chapter 02 #111
Learning Objective: 4
Type: Application*

112. Joe Bob has prepared the following analysis of September transactions for his business, Joe Bob's Spareribs. Unfortunately, he has lost some information. Calculate the

| | <u>Date</u> | <u>Cash</u> | <u>A/R</u> | <u>Inventory</u> | <u>A/P</u> | <u>Notes Pay</u> | <u>Equity</u> |
|----------------------|---------------|---------------|----------------|------------------|------------|------------------|---------------|
| | Sep 2 | 3,000 | 1,100 | 2,000 | ? | 500 | 4,000 |
| | Sep 6 | -1,000 | -0- | 4,000 | ? | -0- | -0- |
| missing information. | Sep 10 | 500 | 300 | -300 | -0- | -0- | ? |
| | <u>Sept 2</u> | <u>Sept 6</u> | <u>Sept 10</u> | | | | |

- 1,600 3,000 500
- 1,000 4,000 200
- 300 2,000 600
- 1,500 1,000 400
- 1,600 3,000 1,000

*Difficulty: Hard
Larson - Chapter 02 #112
Learning Objective: 4
Type: Application*

113. From the following information taken from the records of Apple Company at December 31 of this

| | | |
|-------------------------|---------------------|---------|
| | Liabilities | \$4,000 |
| | Cash | 2,000 |
| | Accounts Receivable | 1,000 |
| | Buildings | 3,500 |
| year, calculate equity. | Equity | ? |

- \$1,500.
- \$2,000.
- C.** \$2,500.
- \$3,500.
- \$6,000.

*Difficulty: Moderate
Larson - Chapter 02 #113
Learning Objective: 4
Type: Application*

114. With regard to the accounting process, economic events are represented by:

- Business transactions.
- Internal events.
- Only transactions between the entity and its owner(s).
- D.** Debits and credits.
- Both A & B.

*Difficulty: Easy
Larson - Chapter 02 #114
Learning Objective: 4
Type: Knowledge*

115. Exchanges between the entity and some other person or organization are:
- A. Internal transactions.
 - B.** External transactions.
 - C. Business papers.
 - D. Debits.
 - E. Credits.

*Difficulty: Moderate
Larson - Chapter 02 #115
Learning Objective: 4
Type: Knowledge*

116. A term used to describe economic events that affect an entity's accounting equation, but that are not transactions between parties is:
- A.** Internal transactions.
 - B. Liabilities.
 - C. Source documents.
 - D. External transactions.
 - E. Prepaid expenses.

*Difficulty: Moderate
Larson - Chapter 02 #116
Learning Objective: 4
Type: Knowledge*

117. Source documents include all of the following *except*:
- A. Sales invoices.
 - B.** Financial statements.
 - C. Cheques.
 - D. Purchase orders.
 - E. Bank statements.

*Difficulty: Easy
Larson - Chapter 02 #117
Learning Objective: 4
Type: Knowledge*

118. Which of the following statements is correct regarding sales invoices?
- A. A sales invoice is a type of source document.
 - B. Sellers use them for recording sales.
 - C. Buyers use them for recording purchases.
 - D. They are required for information to be objective.
 - E.** All of these answers are correct.

*Difficulty: Moderate
Larson - Chapter 02 #118
Learning Objective: 4
Type: Knowledge*

119. Source documents:
- A. Do not provide objective evidence about transactions.
 - B.** Are a source of accounting information.
 - C. Can only be in electronic form.
 - D. Are only used for audit purposes.
 - E. Are acceptable as a substitute for financial statements.

*Difficulty: Moderate
Larson - Chapter 02 #119
Learning Objective: 4
Type: Knowledge*

120. Which of the following items does not appear on the balance sheet?
- A. Cash.
 - B. Notes payable.
 - C. Accounts receivable.
 - D.** Withdrawals.
 - E. Accounts payable.

*Difficulty: Easy
Larson - Chapter 02 #120
Learning Objective: 4
Type: Knowledge*

121. The following information is available for Dahlia Company for last May. How much is the net income

| | | |
|----------------|----------------------------|----------|
| | Employee salaries | \$15,000 |
| | Interest paid on bank loan | 2,500 |
| | Rent paid to landlord | 12,500 |
| for the month? | Sales | 40,000 |

- A. \$ 0
- B. \$10,000.**
- C. \$20,000.
- D. \$30,000.
- E. \$35,000.

Difficulty: Easy
Larson - Chapter 02 #121
Learning Objective: 5
Type: Application

122. Jellybean Company reported equity of \$32,000 on its December 31, 2014 balance sheet. The following information is available for the year ended December 31,

| | | |
|-------|-------------|----------|
| | Revenues | \$73,000 |
| | Expenses | 59,000 |
| 2015: | Liabilities | 11,000 |

What are the total assets of Jellybean Company at December 31, 2015?

- A. \$14,000.
- B. \$25,000.
- C. \$35,000.
- D. \$46,000.
- E. \$57,000.**

Difficulty: Hard
Larson - Chapter 02 #122
Learning Objective: 5
Type: Application

123. At the end of its first year of operations, Matlocke Company has total assets of \$2,000,000 and total liabilities of \$1,200,000. The owner originally invested \$200,000 in the business, but has not made any further investments or taken any withdrawals. What is the first year's net income for Matlocke Company?

- A. \$ 600,000.**
- B. \$ 800,000.
- C. \$1,000,000.
- D. \$3,000,000.
- E. \$3,200,000.

Difficulty: Moderate
Larson - Chapter 02 #123
Learning Objective: 5
Type: Application

124. Annie's Attic has the following account balances for the dates

| | |
|---------------------------------|----------|
| Cash, Sept 1 | \$40,000 |
| Cash, Sept 30 | 60,000 |
| Accounts receivable, Sept 1 | 10,000 |
| Accounts receivable, Sept 30 | 14,000 |
| Capital, Sept 1 | ? |
| Capital, Sept 30 | ? |
| Supplies, Sept 1 | 30,000 |
| Supplies, Sept 30 | 24,000 |
| Accounts payable, Sept 1 | 6,000 |
| Accounts payable, Sept 30 | ? |
| given: Net income for September | 20,000 |

What would equity be on September 1 and September 30?

- A. \$86,000; \$ 4,000.
- B. \$86,000; \$106,000.
- C. \$74,000; \$ 94,000.**
- D. \$74,000; \$ 4,000.
- E. None of these answers is correct.

*Difficulty: Hard
Larson - Chapter 02 #124
Learning Objective: 5
Type: Application*

125. Describe the relationship between sales (or revenues), expenses, and profit.

Sales, or revenues, are the amounts earned from selling products and services. Expenses are the costs incurred to generate sales or revenues. Sales (revenues) less expenses equals profits (net income).

*Difficulty: Easy
Larson - Chapter 02 #125
Learning Objective: 1
Type: Knowledge*

126. Select the appropriate financial statement for each of the following accounts.

| | | |
|--|---------------------|----------|
| 1. Income statement | Cash | <u>7</u> |
| 2. Balance sheet | Withdrawals | <u>8</u> |
| 3. Income statement | Notes payable | <u>2</u> |
| 4. Statement of changes in equity, Balance sheet | Fees earned | <u>1</u> |
| 5. Balance sheet | John Jay, capital | <u>4</u> |
| 6. Balance sheet | Accounts receivable | <u>2</u> |
| 7. Balance sheet, Statement of cash flows | Prepaid Rent | <u>2</u> |
| 8. Statement of changes in equity | Supplies Expense | <u>1</u> |

*Difficulty: Moderate
Larson - Chapter 02 #126
Learning Objective: 1
Type: Knowledge*

127. Select the appropriate financial statement for each of the following items.
- | | | |
|---|----------------------------------|----------|
| 1. Balance sheet | Supplies | <u>1</u> |
| 2. Statement of cash flows | Net income | <u>5</u> |
| 3. Income statement | Ahmad Khan, Capital | <u>4</u> |
| 4. Statement of changes in equity, Balance sheet | Advertising Expense | <u>3</u> |
| 5. Income statement, Statement of changes in equity, Statement of cash flows | Purchased equipment for cash | <u>2</u> |
| 6. Statement of changes in equity, Statement of cash flows | Withdrawals | <u>6</u> |
| 7. Income statement | Fees earned | <u>3</u> |
| 8. Statement of cash flows | Proceeds received from a loan | <u>2</u> |

*Difficulty: Moderate
Larson - Chapter 02 #127
Learning Objective: 1
Type: Knowledge*