**Chapter 1—Financial accounting**

**Multiple choice**

1. Which of the following statements is true regarding economic events?

|  |  |
| --- | --- |
| a. | The signing of a service contract is an example of an external event that is recorded in the accounting records |
| b. | Every event which affects an entity can be identified from a source document |
| c. | All internal and external events must be measured with sufficient reliability |
| d. | External events involve exchanges between an entity and another entity outside the company |

ANS: D PTS: 1 DIF: 2 OBJ: 1-1 NAT: | AACSB Communication | APO-06-Recording Transactions

1. Which of the following underlying assumptions of the conceptual framework is the reason the dollar is used in the preparation of financial statements?

|  |  |
| --- | --- |
| a. | Economic entity |
| b. | Continuity |
| c. | Time-period |
| d. | Monetary unit |

ANS: D PTS: 1 DIF: 1 OBJ: 1-1 NAT: | AACSB Communication | APO-02-GAAP

1. Which of the following is an assumption made in the preparation of financial statements?

|  |  |
| --- | --- |
| a. | Financial statements are prepared for a specific entity that is distinct from the entity’s owners |
| b. | The current market value is assumed to be less relevant than the original cost paid |
| c. | The preparation of financial statements for a specific time period assumes that the balance sheet covers a designated period of time |
| d. | Financial statements are prepared assuming that inflation has a distinct effect on the monetary unit |

ANS: A PTS: 1 DIF: 2 OBJ: 1-1 NAT: | AACSB Communication | APO-02-GAAP

1. The time period assumption is necessary because:

|  |  |
| --- | --- |
| a. | inflation exists and causes confusing swings in financial statement amounts over time |
| b. | business owners and interested parties want periodic measurements of the business’ success or failure |
| c. | business owners and interested parties expect full disclosure of all economic events throughout the entire time period |
| d. | it is required by the federal government |

ANS: B PTS: 1 DIF: 1 OBJ: 1-1 NAT: | AACSB Communication | APO-02-GAAP

1. The going concern assumption is concerned with:

|  |  |
| --- | --- |
| a. | the company's ability to continue operations long enough to carry out its existing obligations |
| b. | any information that is capable of influencing the decisions of anyone using the financial statements |
| c. | measuring ongoing business activities at their exchange price at the time of the initial external transaction |
| d. | offsetting management's natural optimism by providing a prudent approach to uncertainty in financial statement items |

ANS: A PTS: 1 DIF: 2 OBJ: 1-1 NAT: | AACSB Communication | APO-02-GAAP

1. ‘Revenues’ are best described as:

|  |  |
| --- | --- |
| a. | a decrease in resources resulting from the sale of goods or the provision of services |
| b. | an increase in resources resulting from the sale of goods or the provision of services |
| c. | assets used or consumed in the sale of products or services |
| d. | an increase in the financing activities |

ANS: B PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Analytic | APO-02-GAAP

1. ‘Expenses’ are best described as:

|  |  |
| --- | --- |
| a. | an increase in resources resulting from the sale of goods or the provision of services |
| b. | the amount of interest or claim that the owners have in the business |
| c. | the future economic resources of a business entity |
| d. | a decrease in resources resulting from the sale of goods or provision of services |

ANS: D PTS: 1 DIF: 1 OBJ: 1-2 NAT: | AACSB Communication | APO-02-GAAP

1. Which statement demonstrates the financial success or failure of the company over that specific period of time?

|  |  |
| --- | --- |
| a. | The statement of cash flows |
| b. | The statement of changes in equity |
| c. | The balance sheet |
| d. | The income statement |

ANS: D PTS: 1 DIF: 1 OBJ: 1-2 N NAT: | AACSB Communication | APO-09-Financial statements

1. The resources used to generate revenues during a period are called:

|  |  |
| --- | --- |
| a. | Profit |
| b. | Expenses |
| c. | Revenues |
| d. | Dividends |

ANS: B PTS: 1 DIF: 1 OBJ: 1-2 NAT: | AACSB Communication | APO-09-Financial statements

1. Which of the following is the correct date format for the financial statement heading?

|  |  |
| --- | --- |
| a. | Balance sheet for the Year Ended 30 June 2020 |
| b. | Income statement at 30 June 2020 |
| c. | Income statement for the Year Ended 30 June 2020 |
| d. | Statement of changes in equity at 30 June 2020 |

ANS: C PTS: 1 DIF: 3 OBJ: 1-2 NAT: | AACSB Communication | APO-09-Financial statements

1. Which of the following terms best describes a distribution of the profit of a company to its owners?

|  |  |
| --- | --- |
| a. | Retained earnings |
| b. | Dividends |
| c. | Liquidation of assets |
| d. | Monetary unit |

ANS: B PTS: 1 DIF: 1 OBJ: 1-3 NAT: | AACSB Communication | APO-09-Financial statements

1. IPOD Company’s end of year balance sheet consisted of the following amounts.

|  |  |  |  |
| --- | --- | --- | --- |
| Cash | $ 150 000 | Accounts receivable | $500 000 |
| Property, plant and equipment | 700 000 | Non-current liabilities | 400 000 |
| Contributed equity | 1 000 000 | Accounts payable | 200 000 |
| Retained earnings | ? | Inventory | 350 000 |

What amount should IPOD report on its balance sheet for total assets?

|  |  |
| --- | --- |
| a. | $1 100 000 |
| b. | $1 550 000 |
| c. | $1 700 000 |
| d. | $1 900 000 |

ANS: C PTS: 1 DIF: 2 OBJ: 1-3 NAT: | AACSB Analytic | APO-09-Financial statements

1. IPOD Company’s end of year balance sheet consisted of the following amounts.

|  |  |  |  |
| --- | --- | --- | --- |
| Cash | $150 000 | Accounts receivable | $500 000 |
| Property, plant and equipment | 700 000 | Non-current liabilities | 400 000 |
| Contributed equity | 1 000 000 | Accounts payable | 200 000 |
| Retained earnings | ? | Inventory | 350 000 |

What is IPOD’s retained earnings balance at the end of the current year?

|  |  |
| --- | --- |
| a. | $100 000 |
| b. | $1 100 000 |
| c. | $1 600 000 |
| d. | $1 700 000 |

ANS: A PTS: 1 DIF: 3 OBJ: 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. The Peck Company reported the following items on its financial statements for the year ending 30 June 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| Sales | $1 560 000 | Cost of sales | $1 400 000 |
| Selling, general and |  | Other expense | 30 000 |
| administrative expense | 40 000 |  |  |
| Dividends | 10 000 | Income tax expense | 25 000 |

The income statement for Peck will report profit for the current year in the amount of:

|  |  |
| --- | --- |
| a. | $ 45 000 |
| b. | $ 65 000 |
| c. | $ 85 000 |
| d. | $465 000 |

ANS: B PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Analytic | APO-09-Financial statements

1. The Peck Company reported the following items on its financial statements for the year ending 30 June 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| Sales | $1 560 000 | Cost of sales | $1 400 000 |
| Selling, general and |  | Other expense | 30 000 |
| administrative expense | 40 000 |  |  |
| Dividends | 10 000 | Income tax expense | 25 000 |

How much will be reported as retained earnings on its balance sheet at 30 June 2020, if this is the first year of operations?

|  |  |
| --- | --- |
| a. | $45 000 |
| b. | $55 000 |
| c. | $85 000 |
| d. | Not enough information is provided. |

ANS: B PTS: 1 DIF: 3 OBJ: 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Ponzi Corporation reported the following information for the year ended 30 June 2020.

|  |  |
| --- | --- |
| Profit | $100 000 |
| Dividends | 6 000 |
| Retained earnings at 30 June 2020 | $120 000 |

What was the balance of retained earnings at 1 July 2019?

|  |  |
| --- | --- |
| a. | $ 21 000 |
| b. | $ 26 000 |
| c. | $106 000 |
| d. | $214 000 |

ANS: B PTS: 1 DIF: 2 OBJ: 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Ponzi Corporation reported the following information for the year ended 30 June 2020.

|  |  |
| --- | --- |
| Profit | $100 000 |
| Dividends | 6 000 |
| Retained earnings at 30 June 2020 | $120 000 |

What was the economic effect of the payment of Ponzi’s dividends?

|  |  |
| --- | --- |
| a. | The dividend reduced profit for 2020 |
| b. | The dividend should be added to profit if the company’s accounting equation is in balance |
| c. | The dividend reduced total retained earnings |
| d. | The dividends must be paid whenever Ponzi Corp. reports profit |

ANS: C PTS: 1 DIF: 1 OBJ: 1-4 NAT: | AACSB Communication | APO-09-Financial statements

1. You are a potential creditor and are concerned that a particular company you are ready to give a loan to might have too much debt. Which financial statement would provide you with the information needed to evaluate your concern?

|  |  |
| --- | --- |
| a. | The balance sheet |
| b. | The income statement |
| c. | The statement of changes in equity |
| d. | The statement of public accounting |

ANS: A PTS: 1 DIF: 2 OBJ: 1-3 NAT: |AACSB Analytic | APO-09-Financial statements

1. Which financial statement would you refer to in order to determine how many resources (assets) the company owned?

|  |  |
| --- | --- |
| a. | The balance sheet |
| b. | The statement of changes in equity |
| c. | The income statement |
| d. | The statement of public accounting |

ANS: A PTS: 1 DIF: 2 OBJ: 1-3 NAT: | AACSB Communication | APO-09-Financial statements

1. Businesses engage in which of the following three main activity categories?

|  |  |
| --- | --- |
| a. | Financing, investing, operating |
| b. | Cash, credit, non-cash |
| c. | Financing, credit, operating |
| d. | Financing, management, operating |

ANS: A PTS: 1 DIF: 1 OBJ: 1-5 NAT: | AACSB Communication | APO-01-Purpose

1. Which one of the following is not one of the three business activities?

|  |  |
| --- | --- |
| a. | Financing |
| b. | Operating |
| c. | Investing |
| d. | Measuring |

ANS: D PTS: 1 DIF: 1 OBJ: 1-5 NAT: | AACSB Communication | APO-01-Purpose

1. Which financial statement would you analyse to determine its operating performance for the past year?

|  |  |
| --- | --- |
| a. | The balance sheet |
| b. | The statement of changes in equity |
| c. | The income statement |
| d. | The statement of public accounting |

ANS: C PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Communication | APO-09-Financial statements

1. Which one of the following financial statements shows the end of the year cash balance for a business entity?

|  |  |
| --- | --- |
| a. | The income statement and the statement of changes in equity |
| b. | The balance sheet and the statement of cash flows |
| c. | The statement of changes in equity and the statement of cash flows |
| d. | The balance sheet and the statement of changes in equity |

ANS: B PTS: 1 DIF: 3 OBJ: 1-3 | 1-5 NAT: | AACSB Analytic | APO-09-Financial statements

1. Which of the following involves a liability for a business?

|  |  |
| --- | --- |
| a. | An obligation to pay for goods purchased on credit from a supplier |
| b. | Inventories purchased for cash |
| c. | Amounts invested by the owners |
| d. | Shares sold to the general public |

ANS: A PTS: 1 DIF: 2 OBJ: 1-3 NAT: | AACSB Analytic | APO-02-GAAP

1. Which of the following is a correct fundamental accounting equation?

|  |  |
| --- | --- |
| a. | Assets + Liabilities = Equity |
| b. | Assets + Retained Earnings = Equity |
| c. | Assets + Equity = Liabilities |
| d. | Assets = Liabilities + Equity |

ANS: D PTS: 1 DIF: 2 OBJ: 1-3 NAT: | AACSB Communication | APO-09-Financial statements

1. How is the balance sheet linked to the other financial statements?

|  |  |
| --- | --- |
| a. | The amount of retained earnings is reported on the balance sheet as a liability |
| b. | Retained earnings are added to total assets and reported on the balance sheet |
| c. | Retained earnings are reported on the balance sheet |
| d. | There is no link between the balance sheet and other statements, as each contains different accounts and provides different information |

ANS: C PTS: 1 DIF: 3 OBJ: 1-4 NAT: | AACSB Communication | APO-09-Financial statements

1. On 1 July 2019, Blackstone Company reported assets of $1 000 000 and liabilities of $600 000. During 2019/20 financial year assets decreased by $200 000 and equity decreased $250 000. What is the amount of equity at 30 June 2020?

|  |  |
| --- | --- |
| a. | $650 000 |
| b. | $150 000 |
| c. | $400 000 |
| d. | $800 000 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Assets** |  | **Liabilities** |  | **Equity** |
| 1 July 2019 | $1 000 000 | = | $600 000 | + | $400 000 |
| During 2019/20 | 200 000 | = | 50 000 | + | -250 000 |
| 30 June 2020 | 800 000 | = | 650 000 | + | 150 000 |

ANS: B PTS: 1 DIF: 3 OBJ: 1-3 NAT: | AACSB Analytic | APO-09-Financial statements

1. Which of the following best describes the term ‘retained earnings’?

|  |  |
| --- | --- |
| a. | The amount of total profits earned by a company since it began operations |
| b. | The amount of claim that the owners have on the assets of the company |
| c. | The future economic resources of a company |
| d. | The accumulated profit of a company that has not been distributed to owners in the form of dividends |

ANS: D PTS: 1 DIF: 2 OBJ: 1-4 NAT: | AACSB Communication | APO-09-Financial statements

1. Which one of the following items appears on a balance sheet?

|  |  |
| --- | --- |
| a. | Retained earnings |
| b. | Sales revenue |
| c. | Electricity expense |
| d. | Dividends |

ANS: A PTS: 1 DIF: 1 OBJ: 1-3 NAT: | AACSB Communication | APO-09-Financial statements

1. Which of the following is an organisation that lends funds to a business entity and expects repayment of the funds?

|  |  |
| --- | --- |
| a. | A partner |
| b. | A shareholder |
| c. | An owner |
| d. | A creditor |

ANS: D PTS: 1 DIF: 1 OBJ: 1-3 NAT: | AACSB Communication | APO-01-Purpose

1. Which of the following invests funds into a business and is considered an owner?

|  |  |
| --- | --- |
| a. | Shareholders |
| b. | Creditors |
| c. | Bankers |
| d. | Lenders |

ANS: A PTS: 1 DIF: 1 OBJ: 1-3 NAT: | AACSB Communication | APO-01-Purpose

1. Which one of the following financial statements reports an entity’s financial position at a specific date?

|  |  |
| --- | --- |
| a. | The balance sheet |
| b. | The statement of changes in equity |
| c. | The income statement |
| d. | Both the income statement and the balance sheet |

ANS: A PTS: 1 DIF: 1 OBJ: 1-3 NAT: | AACSB Communication | APO-09-Financial statements

1. Bailout Corp. reported the following information for the year ended 30 June 2020.

|  |  |
| --- | --- |
| Revenues | $2 500 000 |
| Expenses | 2 000 000 |
| Retained earnings at 30 June 2019 | 100 000 |
| Retained earnings at 30 June 2020 | 450 000 |

How much was paid out in dividends in 2020?

|  |  |
| --- | --- |
| a. | $500 000 |
| b. | $150 000 |
| c. | $350 000 |
| d. | $250 000 |

ANS: B PTS: 1 DIF: 2 OBJ: 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Jetson Corp. reported the following information for the year ended 30 June 2020.

|  |  |
| --- | --- |
| Revenue | $14 000 000 |
| Expenses | 11 500 000 |
| Dividends | 1 000 000 |
| Retained earnings at 30 June 2020 | 1 750 000 |

What was the retained earnings balance at 30 June 2019?

|  |  |
| --- | --- |
| a. | $ 250 000 |
| b. | $2 500 000 |
| c. | $1 500 000 |
| d. | $ 350 000 |

ANS: A PTS: 1 DIF: 2 OBJ: 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. On 1 July 2019, Money Company’s balance in retained earnings was $10 000 000. At the end of the year, 30 June 2020, the balance in retained earnings was $9 400 000. During 2020, the company earned profit of $440 000. How much were dividends?

|  |  |
| --- | --- |
| a. | $1 040 000 |
| b. | $1 000 000 |
| c. | $ 600 000 |
| d. | $ 440 000 |

ANS: A PTS: 1 DIF: 2 OBJ: 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Refer to the following information for Tarp Corporation.

|  |  |
| --- | --- |
| Beginning retained earnings | $550 000 |
| Ending retained earnings | 700 000 |
| Dividends paid | 100 000 |
| Revenue | 525 000 |

What is the profit for Tarp Corp.?

|  |  |
| --- | --- |
| a. | $150 000 |
| b. | $250 000 |
| c. | $300 000 |
| d. | $350 000 |

ANS: B PTS: 1 DIF: 2 OBJ: 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Refer to the following information for Tarp Corporation.

|  |  |
| --- | --- |
| Beginning retained earnings | $550 000 |
| Ending retained earnings | 700 000 |
| Dividends paid | 100 000 |
| Revenue | 525 000 |

The company’s expenses are:

|  |  |
| --- | --- |
| a. | $100 000 |
| b. | $150 000 |
| c. | $450 000 |
| d. | $275 000 |

ANS: D PTS: 1 DIF: 2 OBJ: 1-2 | 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. If a company has $10 500 000 of revenues, declares and pays $550 000 in dividends, and has profit of $1 600 000, how much were expenses for the year?

|  |  |
| --- | --- |
| a. | $9 950 000 |
| b. | $1 050 000 |
| c. | $2 150 000 |
| d. | $8 900 000 |

ANS: D PTS: 1 DIF: 2 OBJ: 1-5 | 1-6 NAT: | AACSB Analytic | APO-09-Financial statements

1. Ranger Company has assets of $5 000 000, liabilities of $3 000 000, and retained earnings of $1 200 000. How much is total equity?

|  |  |
| --- | --- |
| a. | $ 800 000 |
| b. | $2 000 000 |
| c. | $3 800 000 |
| d. | $1 800 000 |

ANS: B PTS: 1 DIF: 2 OBJ: 1-3 NAT: | AACSB Analytic | APO-09-Financial statements

1. Doughty’s Pet Shop reported a net loss of $1 500 000 and total expenses of $2 900 000. How much are total sales?

|  |  |
| --- | --- |
| a. | $4 400 000 |
| b. | $1 400 000 |
| c. | $2 400 000 |
| d. | $1 600 000 |

ANS: B PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Analytic | APO-09-Financial statements

1. ‘Economic resources’ are known as:

|  |  |
| --- | --- |
| a. | Assets |
| b. | Liabilities and shareholders’ equity |
| c. | Owners’ equity and shareholders’ equity |
| d. | Retained earnings and revenues |

ANS: A PTS: 1 DIF: 2 OBJ: 1-3 NAT: | AACSB Communication | APO-09-Financial statements

1. The income statement shows:

|  |  |
| --- | --- |
| a. | how much profit the company has earned since it began operations |
| b. | profit equal to the amount of cash on the balance sheet |
| c. | a summary of the results of operations for a period of time |
| d. | the liquidity of the company on an annual basis |

ANS: C PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Communication | APO-09-Financial statements

1. Which one of the following equations represents the statement of changes in equity activity?

|  |  |
| --- | --- |
| a. | Beginning retained earnings + profit + dividends = ending retained earnings |
| b. | Beginning retained earnings + cash inflows – cash outflows = ending retained earnings |
| c. | Beginning retained earnings + dividends – profit = ending retained earnings |
| d. | Beginning retained earnings + profit – dividends = ending retained earnings |

ANS: D PTS: 1 DIF: 2 OBJ: 1-4 NAT: | AACSB Communication | APO-09-Financial statements

1. Davis Construction began operation on 1 July 2019, with an initial investment of $100 000 from each of its three shareholders. During the year ending 30 June 2020 Davis Construction had profit of $125 000 and paid dividends of $50 000.

Calculate its retained earnings balance at 30 June 2020.

|  |  |
| --- | --- |
| a. | $175 000 |
| b. | $ 75 000 |
| c. | $250 000 |
| d. | $375 000 |

ANS: B PTS: 1 DIF: 2 OBJ: 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Davis Construction began operation on 1 July 2019, with an initial investment of $100 000 from each of its three shareholders. During the year ending 30 June 2020 Davis Construction had profit of $125 000 and paid dividends of $50 000.

The dividends for the year:

|  |  |
| --- | --- |
| a. | increase the amount of contributed equity reported by the company |
| b. | are part of Davis Construction’s operating expense |
| c. | are reported on the statement of changes in equity |
| d. | are reported on the income statement. |

ANS: C PTS: 1 DIF: 1 OBJ: 1-4 NAT: | AACSB Communication | APO-09-Financial statements

1. Davis Construction began operation on 1 July 2019, with an initial investment of $100 000 from each of its three shareholders. During the year ending 30 June 2020 Davis Construction had profit of $125 000 and paid dividends of $50 000.

If Davis Construction’s revenues were $500 000 for the year ended 30 June 2020, how much were total expenses?

|  |  |
| --- | --- |
| a. | $300 000 |
| b. | $375 000 |
| c. | $325 000 |
| d. | $625 000 |

ANS: B PTS: 1 DIF: 1 OBJ: 1-2 NAT: | AACSB Analytic | APO-09-Financial statements

1. Which one of the following is not one of the activities on the statement of cash flows?

|  |  |
| --- | --- |
| a. | Operating activities |
| b. | Investing activities |
| c. | Business activities |
| d. | Financing activities |

ANS: C PTS: 1 DIF: 1 OBJ: 1-5 NAT: | AACSB Communication | APO-09-Financial statements

1. Which of the following best describes a company’s operating activities?

|  |  |
| --- | --- |
| a. | Operating activities are cash flows directly related to earning income |
| b. | Operating activities are necessary to provide the money to start a business |
| c. | Operating activities are needed to provide the valuable assets required to run a business |
| d. | Operating activities represent the right to receive a benefit in the future |

ANS: A PTS: 1 DIF: 1 OBJ: 1-5 NAT: | AACSB Communication | APO-24-Statement of Cash Flows

1. In order for accounting information to be useful in making informed decisions, it must be

|  |  |
| --- | --- |
| a. | internal |
| b. | relevant |
| c. | reliable |
| d. | both relevant and reliable |

ANS: D PTS: 1 DIF: 1 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP

1. Which of the following is a constraint to the qualitative characteristics of useful accounting information?

|  |  |
| --- | --- |
| a. | prudence |
| b. | materiality |
| c. | relevance |
| d. | comparability |

ANS: B PTS: 1 DIF: 2 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP

1. The principle of prudence is concerned with the:

|  |  |
| --- | --- |
| a. | avoidance of overstating assets or income in the preparation of financial statements |
| b. | minimisation of costs associated with providing financial information |
| c. | company’s ability to carry out its existing commitments |
| d. | company’s procedures for recording activities at their initial exchange price |

ANS: A PTS: 1 DIF: 1 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP

1. Mullins manufactures furniture. Mullins has given you its most recent annual report in an effort to obtain a sizeable loan. The company is very profitable and appears to have a strong financial position. However, based on a news report you saw on television last night, you are aware that Mullins is a defendant in a class action lawsuit related to defective products. Serious injuries were allegedly caused by Mullins’ infant high chairs overturning. The television news report is an example of financial information that is:

|  |  |
| --- | --- |
| a. | predictable |
| b. | prudent |
| c. | relevant |
| d. | comparable |

ANS: C PTS: 1 DIF: 3 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP

1. If an investor can use accounting information for two different companies to evaluate the types and amounts of expenses, the information is said to have the quality of:

|  |  |
| --- | --- |
| a. | comparability |
| b. | consistency |
| c. | neutrality |
| d. | materiality |

ANS: A PTS: 1 DIF: 2 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP

1. PTG Enterprises purchases many small pieces of office furniture, such as rubbish bins, that cost less than $100 each. PTG accounts for these items as expenses when acquired rather than reporting them as property, plant and equipment on its balance sheet. The company's accountant states that no accounting principle has been violated. Justification for PTG’s policy of expensing these furniture items is based on cost vs benefit considerations as well as the accounting constraint of:

|  |  |
| --- | --- |
| a. | prudence |
| b. | materiality |
| c. | neutrality |
| d. | verifiability |

ANS: B PTS: 1 DIF: 2 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP

1. Scott Brothers follow the qualitative characteristic of consistency. This means that:

|  |  |
| --- | --- |
| a. | for expenses, Scott Brothers use the same account names as used by its competitors |
| b. | Scott Brothers have elected certain accounting principles that can never be changed |
| c. | Scott Brothers apply the same accounting principles each period |
| d. | Scott Brothers apply the same accounting principles as its competitors |

ANS: C PTS: 1 DIF: 1 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP

1. Information that is material means that an error in recording the dollar amount of a transaction would:

|  |  |
| --- | --- |
| a. | likely affect the judgement of someone relying on the financial statements |
| b. | not affect the decisions of financial statement users |
| c. | not impact a business decision of a creditor |
| d. | result in the overstatement of assets or income |

ANS: A PTS: 1 DIF: 2 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP

1. An accountant is uncertain about the best estimate of an amount for a business transaction. If there are two possible amounts that could be recorded, the amount least likely to overstate assets and earnings is selected. Which of the following qualities is characterised by this action?

|  |  |
| --- | --- |
| a. | comparability |
| b. | prudence |
| c. | materiality |
| d. | neutrality |

ANS: B PTS: 1 DIF: 2 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP

1. The qualitative characteristics of accounting information include:

|  |  |
| --- | --- |
| a. | reliability |
| b. | cash flow information |
| c. | all accounting information |
| d. | assets reported on the balance sheet |

ANS: A PTS: 1 DIF: 1 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP

1. If shareholders want to know how money flowed into and out of the company, what financial statement would they use?

|  |  |
| --- | --- |
| a. | The income statement |
| b. | The statement of cash flows |
| c. | The balance sheet |
| d. | None of the options given |

ANS: B PTS: 1 DIF: 1 OBJ: 1-5 NAT: AACSB Analytic | APO-09-Financial statements

1. The assets and liabilities of the company are $175 000 and $40 000, respectively. Equity should equal:

|  |  |
| --- | --- |
| a. | $215 000 |
| b. | $135 000 |
| c. | $175 000 |
| d. | $40 000 |

ANS: B PTS: 1 DIF: 1 OBJ: 1-3 NAT: AACSB Analytic | APO-15-Current Assets

1. Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. The retained earnings statement (RE), the balance sheet (B), and the income statement (I) are prepared in a certain order to obtain information needed for the next statement. In what order are these three statements prepared?

|  |  |
| --- | --- |
| a. | I, RE, B |
| b. | B, I, RE |
| c. | RE, I, B |
| d. | B, RE, I |

ANS: A PTS: 1 DIF: 1 OBJ: 1-4 NAT: AACSB Analytic | APO-09-Financial statements

1. Liabilities are reported on the:

|  |  |
| --- | --- |
| a. | income statement |
| b. | retained earnings statement |
| c. | statement of cash flows |
| d. | balance sheet |

ANS: D PTS: 1 DIF: 1 OBJ: 1-3 NAT: AACSB Analytic | APO-16-Current Liabilities

1. Expenses can be matched against revenue:

|  |  |
| --- | --- |
| a. | if the earnings process is not complete |
| b. | when cash is collected from the sale of products |
| c. | in the same period as the revenue that it helped to generate |
| d. | when payment is made for costs related to revenue |

ANS: C PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Communication | APO-09-Financial statements

1. What does the phrase, ‘revenue is recognised when earned’ mean?

|  |  |
| --- | --- |
| a. | Revenue is recorded in the accounting records when the goods are received from a supplier, and reported on the income statement when sold to the customer |
| b. | Revenue is recorded in the accounting records and reported on the income statement when the cash is received from the customer |
| c. | Revenue is recorded in the accounting records when the goods are sold to a customer, and reported on the income statement when the cash payment is received from the customer |
| d. | Revenue is recorded in the accounting records and reported on the income statement when goods are sold and delivered to a customer |

ANS: D PTS: 1 DIF: 3 OBJ: 1-2 NAT: | AACSB Communication | APO-09-Financial statements

1. Which of the following concepts relates to separating the reporting of business and personal economic transactions?

|  |  |
| --- | --- |
| a. | Cost principle |
| b. | Monetary unit assumption |
| c. | Economic entity assumption |
| d. | Objectivity assumption |

ANS: C PTS: 1 DIF: 1 OBJ: 1-1 NAT: AACSB Analytic | APO-02-GAAP

1. Which of the following is not an asset?

|  |  |
| --- | --- |
| a. | Investments |
| b. | Cash |
| c. | Inventory |
| d. | Equity |

ANS: D PTS: 1 DIF: 1 OBJ: 1-3 NAT: AACSB Analytic | APO-15-Current Assets

1. Cash investments made by shareholders in exchange for shares in a company are reported on the statement of cash flows in the:

|  |  |
| --- | --- |
| a. | financing activities section |
| b. | investing activities section |
| c. | operating activities section |
| d. | supplemental statement |

ANS: A PTS: 1 DIF: 1 OBJ: 1-5 NAT: AACSB Analytic | APO-24-Statement of Cash Flows

1. A ‘Matching principle’ is best described as:

|  |  |
| --- | --- |
| a. | The principle that revenue should be recorded when a resource has been earned. |
| b. | An increase in resources resulting from the sale of goods or the provision of services |
| c. | The principle that expenses should be recorded in the period resources are used to generate revenues. |
| d. | An increase in financing activities |

ANS: C PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Analytic | APO-02-GAAP

1. Which one of the following is a correct basic structure of the cash flow statement?

|  |  |
| --- | --- |
| a. | Cash Flows Provided (Used) by Operating Activities + / - Cash Flows Provided (Used) by Business Activities + / - Cash Flows Provided (Used) by Financing Activities = Net Increase (Decrease) in Cash |
| b. | Cash Flows Provided (Used) by Operating Activities + / - Cash Flows Provided (Used) by Investing Activities + / - Cash Flows Provided (Used) by Business Activities = Net Increase (Decrease) in Cash |
| c. | Cash Flows Provided (Used) by Operating Activities + / - Cash Flows Provided (Used) by Financing Activities + / - Net Change in Working Capital = Net Increase (Decrease) in Cash |
| d. | Cash Flows Provided (Used) by Operating Activities + / - Cash Flows Provided (Used) by Investing Activities + / - Cash Flows Provided (Used) by Financing Activities = Net Increase (Decrease) in Cash |

ANS: D PTS: 1 DIF: 1 OBJ: 1-5 NAT: | AACSB Communication | APO-09-Financial statements

1. Monaco Lawn Service Co. used $250 of fuel to mow customer lawns in June. The fuel was purchased on account and due in July. Fuel expense should be recorded in:

|  |  |
| --- | --- |
| a. | July |
| b. | June |
| c. | May |
| d. | None of the options given |

ANS: B PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Analytic | APO-02-GAAP

1. Monaco Lawn Service Co. creates a revenue each time a lawn is:

|  |  |
| --- | --- |
| a. | scheduled for service |
| b. | paid in full |
| c. | mowed |
| d. | prepaid in advance |

ANS: C PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Analytic | APO-02-GAAP

1. Monaco Lawn Service Co. reports cash received from customers for mowing their lawns on the statement of cash flows in the:

|  |  |
| --- | --- |
| a. | financing activities section |
| b. | investing activities section |
| c. | operating activities section |
| d. | supplemental statement |

ANS: C PTS: 1 DIF: 1 OBJ: 1-5 NAT: AACSB Analytic | APO-24-Statement of Cash Flows

1. Cash used to purchase a truck to transport lawn mowers and other tools to customer locations is reported on the statement of cash flows in the:

|  |  |
| --- | --- |
| a. | financing activities section |
| b. | investing activities section |
| c. | operating activities section |
| d. | supplemental statement |

ANS: B PTS: 1 DIF: 1 OBJ: 1-5 NAT: AACSB Analytic | APO-24-Statement of Cash Flows

**Completion**

1. The type of business activity that relates to obtaining funds from either issuing shares or borrowing money is called \_\_\_\_\_\_\_\_\_\_.

ANS: financing

PTS: 1 DIF: 1 OBJ: 1-5 NAT: | AACSB Communication | APO-01-Purpose

1. The names of the four basic financial statements are the income statement, statement of \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_, statement of changes in equity and statement of cash \_\_\_\_\_\_\_\_\_\_.

ANS: financial, position, flows

PTS: 1 DIF: 1 OBJ: 1-2 | 1-3 | 1-4 | 1-5 NAT: | AACSB Communication | APO-09-Financial statements

1. The fundamental accounting equation is \_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_ + \_\_\_\_\_\_\_\_\_\_.

ANS: assets, liabilities, equity

PTS: 1 DIF: 1 OBJ: 1-3 NAT: | AACSB Communication | APO-09-Financial statements

1. The financial statement in which you list revenues, starting with sales revenue (service revenue), is called the \_\_\_\_\_\_\_\_.\_\_\_\_\_\_\_\_

ANS: income statement

PTS: 1 DIF: 1 OBJ: 1-2 NAT: | AACSB Communication | APO-02-GAAP

1. Both profit and dividends can be found on the statement of \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_.

ANS: changes in equity

PTS: 1 DIF: 1 OBJ: 1-4 NAT: | AACSB Communication | APO-02-GAAP

1. Profit from the income statement increases \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_.

ANS: retained earnings

PTS: 1 DIF: 1 OBJ: 1-4 NAT: | AACSB Communication | APO-02-GAAP

1. The statement of cash flows classifies cash flow into these three categories: \_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_.

ANS: operating, investing, financing

PTS: 1 DIF: 1 OBJ: 1-5 NAT: | AACSB Communication | APO-09-Financial statements

1. The three financial statements in which profit can be found are the \_\_\_\_\_\_\_\_\_\_statement, statement of \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_ and the statement of \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_ using the indirect method.

ANS: income; changes in equity; cash flows

PTS: 1 DIF: 1 OBJ: 1-2 | 1-4 | 1-5 NAT: | AACSB Communication | APO-09-Financial statements

**Problem**

1. The accountant for the Times Corporation prepared the following list from the company’s accounting records for the year ended 30 June 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| Retained earnings | ? | Prepaid expenses | $ 50 000 |
| Cash | $ 77 000 | Contributed Equity | 400 000 |
| Accounts payable | 50 000 | Accounts receivable | 170 000 |
| Sales revenue | 955 000 | Interest income | 50 000 |
| Cost of sales | 700 000 | Salary expense | 140 000 |
| Land | 750 000 | Income tax expense | 20 000 |
| Notes payable | 450 000 | Selling expense | 45 000 |
| Inventory | 200 000 | Salaries payable | 40 000 |

Determine the total assets at the end of the 2020 financial year.

ANS: $1 247 000 PTS: 1 DIF: 2 OBJ: 1-3 NAT: | AACSB Analytic | APO-09-Financial statements

1. The accountant for the Times Corporation prepared the following list from the company’s accounting records for the year ended 30 June 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| Retained earnings | ? | Prepaid expenses | $ 50 000 |
| Cash | $ 77 000 | Contributed equity | 400 000 |
| Accounts payable | 50 000 | Accounts receivable | 170 000 |
| Sales revenue | 955 000 | Interest income | 50 000 |
| Cost of sales | 700 000 | Salary expense | 140 000 |
| Land | 750 000 | Income tax expense | 20 000 |
| Notes payable | 450 000 | Selling expense | 45 000 |
| Inventory | 200 000 | Salaries payable | 40 000 |

Determine the total liabilities at the end of 2020 financial year.

ANS: $540 000 PTS: 1 DIF: 2 OBJ: 1-3 NAT: | AACSB Analytic | APO-09-Financial statements

1. The accountant for the Times Corporation prepared the following list from the company’s accounting records for the year ended 30 June 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| Retained earnings | ? | Prepaid expenses | $ 50 000 |
| Cash | $ 77 000 | Contributed equity | 400 000 |
| Accounts payable | 50 000 | Accounts receivable | 170 000 |
| Sales revenue | 955 000 | Interest income | 50 000 |
| Cost of sales | 700 000 | Salary expense | 140 000 |
| Land | 750 000 | Income tax expense | 20 000 |
| Notes payable | 450 000 | Selling expense | 45 000 |
| Inventory | 200 000 | Salaries payable | 40 000 |

Determine the total equity at the end of 2020 financial year

ANS: $707 000 PTS: 1 DIF: 2 OBJ: 1-3 NAT: | AACSB Analytic | APO-09-Financial statements

1. The accountant for the Times Corporation prepared the following list from the company’s accounting records for the year ended 30 June 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| Retained earnings | ? | Prepaid expenses | $ 50 000 |
| Cash | $ 77 000 | Contributed equity | 400 000 |
| Accounts payable | 50 000 | Accounts receivable | 170 000 |
| Sales revenue | 955 000 | Interest income | 50 000 |
| Cost of sales | 700 000 | Salary expense | 140 000 |
| Land | 750 000 | Income tax expense | 20 000 |
| Notes payable | 450 000 | Selling expense | 45 000 |
| Inventory | 200 000 | Salaries payable | 40 000 |

Determine the total revenues for 2020 financial year.

ANS: $1 005 000 PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Analytic | APO-09-Financial statements

1. The accountant for the Times Corporation prepared the following list from the company’s accounting records for the year ended 30 June 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| Retained earnings | ? | Prepaid expenses | $ 50 000 |
| Cash | $ 77 000 | Contributed equity | 400 000 |
| Accounts payable | 50 000 | Accounts receivable | 170 000 |
| Sales revenue | 955 000 | Interest income | 50 000 |
| Cost of sales | 700 000 | Salary expense | 140 000 |
| Land | 750 000 | Income tax expense | 20 000 |
| Notes payable | 450 000 | Selling expense | 45 000 |
| Inventory | 200 000 | Salaries payable | 40 000 |

Determine the total expenses for 2020 financial year.

ANS: $905 000 PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Analytic | APO-09-Financial statements

1. The accountant for the Times Corporation prepared the following list from the company’s accounting records for the year ended 30 June 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| Retained earnings | ? | Prepaid expenses | $ 50 000 |
| Cash | $ 77 000 | Contributed equity | 400 000 |
| Accounts payable | 50 000 | Accounts receivable | 170 000 |
| Sales revenue | 955 000 | Interest income | 50 000 |
| Cost of sales | 700 000 | Salary expense | 140 000 |
| Land | 750 000 | Income tax expense | 20 000 |
| Notes payable | 450 000 | Selling expense | 45 000 |
| Inventory | 200 000 | Salaries payable | 40 000 |

Determine the profit for the financial year ended 30 June 2020.

ANS: $100 000 PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Analytic | APO-09-Financial statements

1. The accountant for the Times Corporation prepared the following list from the company’s accounting records for the year ended 30 June 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| Retained earnings | ? | Prepaid expenses | $ 50 000 |
| Cash | $ 77 000 | Contributed equity | 400 000 |
| Accounts payable | 50 000 | Accounts receivable | 170 000 |
| Sales revenue | 955 000 | Interest income | 50 000 |
| Cost of sales | 700 000 | Salary expense | 140 000 |
| Land | 750 000 | Income tax expense | 20 000 |
| Notes payable | 450 000 | Selling expense | 45 000 |
| Inventory | 200 000 | Salaries payable | 40 000 |

Using good form, prepare an income statement for Times Corporation.

ANS:

|  |  |  |  |
| --- | --- | --- | --- |
| Times Corporation | | | |
| Income Statement | | | |
| For the year ended 30 June 2020 | | | |
| Revenues: | |  |  |
|  | Sales revenue | $955 000 |  |
|  | Interest income | 50 000 | $1 005 000 |
| Expenses: | |  |  |
|  | Cost of sales | $700 000 |  |
|  | Salary expense | 140 000 |  |
|  | Selling expense | 45 000 |  |
|  | Income tax expense | 20 000 | 905 000 |
| Profit | |  | $100 000 |

PTS: 1 DIF: 2 OBJ: 1-2 NAT: | AACSB Analytic | APO-09-Financial statements

1. The accountant for the Times Corporation prepared the following list from the company’s accounting records for the year ended 30 June 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| Retained earnings | ? | Prepaid expenses | $ 50 000 |
| Cash | $ 77 000 | Contributed equity | 400 000 |
| Accounts payable | 50 000 | Accounts receivable | 170 000 |
| Sales revenue | 955 000 | Interest income | 50 000 |
| Cost of sales | 700 000 | Salary expense | 140 000 |
| Land | 750 000 | Income tax expense | 20 000 |
| Notes payable | 450 000 | Selling expense | 45 000 |
| Inventory | 200 000 | Salaries payable | 40 000 |

Using good form, prepare a balance sheet for the Times Corporation.

ANS:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Times Corporation | | | | | | |
| Balance Sheet | | | | | | |
| As of 30 June 2020 | | | | | | |
| **Assets** | | | **Liabilities and equity** | | | | |
| Cash | $ 77 000 | | Accounts payable | | $ 50 000 | |
| Accounts receivable | 170 000 | | Salaries payable | | 40 000 | |
| Inventory | 200 000 | | Notes payable | | 450 000 | |
| Prepaid expenses | 50 000 | | Contributed equity | | 400 000 | |
| Land | 750 000 | | Retained earnings | | 307 000 | |
| Total assets | $1 247 000 | | Total liabilities and equity | | $1 247 000 | |
|  | |  |  |  | |

PTS: 1 DIF: 2 OBJ: 1-3 NAT: | AACSB Analytic | APO-09-Financial statements

1. President Company started business at the beginning of the year, with assets of $1 000 000 and equity of $565 000. By the end of the year, assets increased by $100 000 and liabilities decreased by $150 000. Other than profit or loss, the only change in equity was dividends of $50 000.

What was the amount of President Company equity at the end of the year?

ANS:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  | **Shareholders’** |
| **Assets** |  |  | **Liabilities** | **equity** |
| Beginning of year | $1 000 000 |  | $435 000 | $565 000 |
| Change during year | +100 000 |  | -150 000 | +250 000 |
| End of year | $1 100 000 | = | 285 000 | $815 000 |

PTS: 1 DIF: 3 OBJ: 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. President Company started business at the beginning of the year, with assets of $1 000 000 and equity of $565 000. By the end of the year, assets increased by $100 000 and liabilities decreased by $150 000. Other than profit or loss, the only change in equity was dividends of $50 000.

What was the amount of President Company profit or net loss for the year?

ANS:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Change in equity | $ 250 000 |  |  |  |
| Add: dividends | 50 000 |  |  |  |
| Profit | $ 300 000 |  |  |  |

PTS: 1 DIF: 3 OBJ: 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. The following information comes from the records of America Corporation:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | **Assets** | **Liabilities** | **Equity** |
| 1 July 2020 | $1 500 000 | $540 000 | $\_\_\_\_\_\_\_\_ |
| 30 June 2021 | 1 810 000 | \_\_\_\_\_\_\_ | 1 400 000 |

What is the amount of Equity at 1 July 2020?

ANS: $960 000

PTS: 1 DIF: 2 OBJ: 1-2 | 1-3|1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. The following information comes from the records of America Corporation:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | Assets | Liabilities | Equity |
| 1 July 2020 | $1 500 000 | $540 000 | $\_\_\_\_\_\_\_\_ |
| 30 June 2021 | 1 810 000 | \_\_\_\_\_\_\_ | 1 400 000 |

What is the amount of Liabilities at 30 June 2021?

ANS: $410 000

PTS: 1 DIF: 2 OBJ: 1-2 | 1-3|1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. The following information comes from the records of America Corporation:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | Assets | Liabilities | Equity |
| 1 July 2020 | $1 500 000 | $540 000 | $\_\_\_\_\_\_\_\_ |
| 30 June 2021 | 1 810 000 | \_\_\_\_\_\_\_ | 1 400 000 |

Assume that the company paid dividends of $620 000 during the year. How much profit did it earn during the year?

ANS: $1 060 000

PTS: 1 DIF: 2 OBJ: 1-2 | 1-3|1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. The following information comes from the records of America Corporation:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | Assets | Liabilities | Equity |
| 1 July 2020 | $1 500 000 | $540 000 | $\_\_\_\_\_\_\_\_ |
| 30 June 2021 | 1 810 000 | \_\_\_\_\_\_\_ | 1 400 000 |

Assume that the company paid no dividends during the year. Without looking at the income statement, how can you tell if the company is profitable or not?

ANS: Assuming that the increase in Equity would come from profit, the company would have to be considered profitable. Profit will increase Retained Earnings which is a part of Equity.

PTS: 1 DIF: 2 OBJ: 1-2 | 1-3|1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. The beginning balance of retained earnings was $800 000, and the ending balance was $500 000. The company paid dividends of $50 000.

Determine the amount of profit (loss) for the year.

ANS:

|  |
| --- |
| (250 000) loss |
| [$500 000 Ending Retained Earnings  $800 000 Beginning Retained Earnings = ($300 000)] |
| [($300 000) decrease + $500 000 Dividends Paid = ($250 000) loss] |

PTS: 1 DIF: 1 OBJ: 1-2 NAT: | AACSB Analytic | APO-09-Financial statements

1. The beginning balance of retained earnings was $800 000, and the ending balance was $500 000. The company paid dividends of $50 000.

What information would one find on the income statement in addition to profit?

ANS: The income statement will show the sources of amounts earned (revenues) as well as the amount and type of costs incurred by the company (expenses) during the period.

PTS: 1 DIF: 1 OBJ: 1-2 NAT: | AACSB Analytic | APO-09-Financial statements

1. Several accounts from Chan Company at 31 Dec. 2020 are listed below.

|  |  |  |  |
| --- | --- | --- | --- |
| Service revenue | $545 000 | Salaries expense | $229 000 |
| Dividends paid | 50 000 | Rent expense | 86 000 |
| Buildings | 110 000 | Land | 100 000 |
| Accounts payable | 40 000 | Accounts receivable | 28 000 |
| Contributed equity | 60 000 | Ret. earnings, 1 Jan. 2020 | 400 000 |
| Electricity expense | 19 000 | Notes payable | 30 000 |
| Income tax payable | 4 000 | Income tax expense | 110 000 |

Calculate profit for 2020.

ANS: $101 000

PTS: 1 DIF: 2 OBJ: 1-2 | 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Several accounts from Chan Company at 31 Dec. 2020 are listed below.

|  |  |  |  |
| --- | --- | --- | --- |
| Service revenue | $545 000 | Salaries expense | $229 000 |
| Dividends paid | 50 000 | Rent expense | 86 000 |
| Buildings | 110 000 | Land | 100 000 |
| Accounts payable | 40 000 | Accounts receivable | 28 000 |
| Contributed equity | 60 000 | Retained earns, 1 Jan. 2020 | 400 000 |
| Electricity expense | 19 000 | Notes payable | 30 000 |
| Income tax payable | 4 000 | Income tax expense | 110 000 |

How much is Chan Company’s retained earnings at the end of 2020?

ANS: $451 000

PTS: 1 DIF: 2 OBJ: 1-2 | 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Cardinal Company reported the following information at 30 June 2021:

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $400 000 | Dividends paid | $100 000 |
| Cash | $100 000 | Expenses | $600 000 |
| Inventories | $700 000 | Revenue | $750 000 |

Calculate Cardinal Company’s total assets.

ANS: $800 000

PTS: 1 DIF: 1 OBJ: 1-2 | 1-3 | 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Cardinal Company reported the following information at 30 June 2021:

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $400 000 | Dividends paid | $100 000 |
| Cash | $100 000 | Expenses | $600 000 |
| Inventories | $700 000 | Revenue | $750 000 |

Calculate Cardinal Company’s Profit for the financial year ended June 30, 2021.

ANS: $150 000

PTS: 1 DIF: 1 OBJ: 1-2 | 1-3 | 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Cardinal Company reported the following information at 30 June 2021:

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $400 000 | Dividends paid | $100 000 |
| Cash | $100 000 | Expenses | $600 000 |
| Inventories | $700 000 | Revenue | $750 000 |

Calculate Cardinal Company’s Total Equity at June 30, 2021.

ANS: $400 000

PTS: 1 DIF: 1 OBJ: 1-2 | 1-3 | 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Chan Corporation began operations on 2 July 2019, with a total investment of $150 000 by its shareholders. Net loss for its first year of business was $20 000. During 2021 and 2022, profit increased to $120 000 and to $150 000, respectively. Chan paid $50 000 per year in dividends to its shareholders in 2021 and 2022.

In good form, prepare a statement of changes in equity for the year ended 30 June 2022.

ANS:

|  |  |
| --- | --- |
| Chan Corporation | |
| Statement of changes in (retained earnings) equity | |
| For the Year Ended 30 June 2022 | |
| Beginning balance, 1 July 2021 | $(20 000)\* |
| Add: Profit for 2021/22 | 120 000 |
| Less: Dividends paid during the year | (50 000) |
| Ending balance, 30 June 2022 | $ 50 000 |
|  |  |
| $–20 000 Net Loss for 2020 – $0 Dividends paid = $(20 000) Balance, 1 July 2022 | |

PTS: 1 DIF: 2 OBJ: 1-2 | 1-3 | 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Chan Corporation began operations on 2 July 2019, with a total investment of $150 000 by its shareholders. Net loss for its first year of business was $20 000. During 2021 and 2022, profit increased to $120 000 and to $150 000, respectively. Chan paid $50 000 per year in dividends to its shareholders in 2021 and 2022.

How much is total retained earnings on 30 June 2022?

ANS: Retained earnings at 30 June 2022 = $150 000

PTS: 1 DIF: 2 OBJ: 1-2 | 1-3 | 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Chan Corporation began operations on 2 July 2019, with a total investment of $150 000 by its shareholders. Net loss for its first year of business was $20 000. During 2021 and 2022, profit increased to $120 000 and to $150 000, respectively. Chan paid $50 000 per year in dividends to its shareholders in 2021 and 2022.

Explain the link between the statement of changes in equity and the balance sheet.

ANS: The ending balance of the retained earnings statement represents the cumulative earnings less all the dividends declared and paid for the life of the business. This amount appears on the balance sheet as a component of shareholders’ equity.

PTS: 1 DIF: 2 OBJ: 1-2 | 1-3 | 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

**Essay**

1. Identify which assumption or principles apply to the following and explain why.

Globall is an Australian company that has divisions in several countries around the world. Each country has a currency different from the Australian dollar. Globall must include the financial data of its worldwide divisions in its financial statements.

ANS: The monetary unit assumption: Financial statements must be reported in monetary terms, and the standard monetary unit should be denominated in one currency.

PTS: 1 DIF: 2 OBJ: 1-1 NAT: | AACSB Communication | APO-02-GAAP

1. Identify which assumption or principles apply to the following and explain why.

Chow and Howell operate a security business as a partnership. The partners are considering a change to the corporate form of business organisation.

ANS: Economic entity assumption: A business can take three forms. Regardless of the form, however, the unit itself is distinct from its owners.

PTS: 1 DIF: 2 OBJ: 1-1 NAT: | AACSB Communication | APO-02-GAAP

1. Identify which assumption or principles apply to the following and explain why.

Yum Shop is a locally owned and operated confectionery store. The owners have decided to expand into nearby cities. Expansion will require more capital, but management does not expect it will stay in business for more than one year regardless of its expansion plans.

ANS: Continuity (going concern) assumption: A business is assumed to continue to operate long enough to carry out its obligations, to more accurately reflect the valuation of assets and appropriately allocate costs to accounting periods.

PTS: 1 DIF: 2 OBJ: 1-1 NAT: | AACSB Communication | APO-02-GAAP

1. What is the purpose of an income statement?

ANS: An income statement (also profit or loss statement) reports the company’s revenues and expenses for a period of time and shows the company’s profitability (or lack of). The income statement is sometimes called the ‘profit or loss statement.’

PTS: 1 DIF: 1 OBJ: 1-2 NAT: | AACSB Communication | APO-09-Financial statements

1. List the four financial statements. Explain the connection between these four statements.

ANS:

* The balance sheet (Balance Sheet)
* The income statement (Income Statement)
* The statement of changes in equity
* The statement of cash flows

Profit on the income statement increases retained earnings on the statement of changes in equity. The balance in the statement of changes in equity goes to the balance sheet. The ending balance for cash on the statement of cash flows is also shown on the balance sheet.

PTS: 1 DIF: 3 OBJ: 1-2 | 1-3 | 1-4 NAT: | AACSB Analytic | APO-09-Financial statements

1. Paige Company claims that its financial information is useful. What four qualities must be present in order to have ‘useful’ accounting information? Explain these four qualities.

ANS:

The four qualitative characteristics of useful accounting information are relevance, reliability, comparability and consistency.

* Relevant information has the capacity to make a difference in a decision. It helps users predict future events or provides feedback.
* Reliable information is dependable, verifiable and free from bias.
* Comparability allows comparisons to be made between or among companies.
* Consistency refers to the application of the same accounting principles over time.

PTS: 1 DIF: 1 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP

1. What is the difference between comparability and consistency?

ANS:

* Comparability allows comparisons to be made between or among companies. Even though a certain amount of freedom exists in selecting accounting principles, when this information is disclosed in the financial statements, users can still compare the information when they know what principle is used.
* Consistency refers to the application of the same accounting principles over time. It involves the relationships between a set of numbers over several periods, but within one company only, unlike comparability that can be between or among companies.

PTS: 1 DIF: 1 OBJ: 1-6 | 1-7 NAT: | AACSB Communication | APO-02-GAAP