Test Bank for Financial Accounting Tools for Business Decision Making CDN 8th Kimmel

CHAPTER 1

THE PURPOSE AND USE OF FINANCIAL STATEMENTS

1 MINUTE QUESTION

The purpose of these short 1 minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. One of these questions may be given at the beginning of the class and count for ½ to 1 mark.

Name two of the external users of accounting information.

Answer: External users: Investors, creditors such as lender and suppliers, regulators, customers, labour unions, potential employees, current employees not involved in managing a company, and the like.

VOCABULARY QUIZ

1. The amount by which expenses exceed revenues.

2. An association of two or more persons to carry on as co-owners of a business for profit.

3. A financial statement that reports the assets, liabilities, and shareholders' equity at a specific date.

4. A business owned by one person.

5. Users of financial information that use the information to determine whether or not to lend money.

6. Assets = Liabilities + Shareholders' equity.

7. Debts and obligations of a business.

8. A report prepared by management that presents financial and non-financial information about the company.

9. The amount of accumulated net income that has been retained in the corporation.

10. The cost of assets consumed or services used in ongoing operations to generate revenues.

CHAPTER 2

A FURTHER LOOK AT FINANCIAL STATEMENTS

1 MINUTE QUESTION

The purpose of these short 1 minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

The primary objective of financial reporting is to provide
a. useful information for making predictions about the future.
b. financial statements.
c. an annual report.
d. useful information to those users making investment and credit decisions.

Answer: d

VOCABULARY QUIZ

1. Tangible assets that are being used in the business and are not intended for resale.

2. The quality of information that indicates the information makes a difference in a decision.

3. A measure used to evaluate a company's liquidity and short-term debt-paying ability, calculated by dividing current assets by current liabilities.

4. The basis of accounting that states assets should be recorded at cost at the time of acquisition.

5. If information is important enough to influence the decision of an investor or creditor then the information is said to be this.

6. Assets not expected to be converted into cash, sold, or consumed in operations within the next year or operating cycle.

7. Obligations reasonably expected to be paid from existing current assets within the next year or operating cycle.

8. The excess of current assets over current liabilities.

9. Measures the ratio of the market price of each common share to its basic earnings per share.

10. Assets that are expected to be realized in cash, sold or consumed in the business within one year or operating cycle.

ANSWERS TO VOCABULARY QUIZ

1. Property, plant, and equipment
2. Relevance
3. Current ratio
4. Historical cost (basis of accounting)
5. Material
6. Non-current assets
7. Current liabilities
8. Working capital
9. Price-earnings ratio
10. Current assets

CHAPTER 3

THE ACCOUNTING INFORMATION SYSTEM

1 MINUTE QUESTION

The purpose of these short 1 minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

A list of accounts and their balances at a given time is called a(n):
a. Statement of financial position.
b. Trial balance.
c. Annual report.
d. Source document.

Answer: b

VOCABULARY QUIZ

1. The entire group of accounts maintained by a company.

2. A list of accounts and the account numbers that identify its location in the general ledger.

3. The procedure of entering transaction data in the journal.

4. Events that require recording in the financial statements because they involve an exchange affecting assets, liabilities, or shareholders' equity.

5. Shows the debit and credit effects on specific accounts.

6. An individual accounting record of increases and decreases in a specific asset, liability, and shareholders' equity items.

7. A system that records the dual effect of each transaction in appropriate accounts.

8. The procedure of transferring journal entries to the general ledger accounts.

9. The left side of an account.

10. A list of accounts and their balances at a given time.

CHAPTER 4

ACCRUAL ACCOUNTING CONCEPTS

1 MINUTE QUESTION

The purpose of these short 1-minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

Explain why adjusting entries are needed and identify the major types of adjusting entries.

Answer:

Adjusting entries are needed to ensure that revenue and expense recognition guidelines are followed.

The two major types of adjusting entries are: prepayments and accruals.

VOCABULARY QUIZ

1. Expenses paid in cash and recorded as assets before they are used.

2. Entries at the end of an accounting period that transfer the balances of temporary accounts to the permanent shareholders' equity account, Retained Earnings.

3. The process of allocating the cost of equipment to expense over its useful life.

4. Cash received before a company earns revenue and recorded as a liability until the services are performed.

5. Revenue, expense, and dividend declared accounts whose balances are transferred to Retained Earnings at the end of an accounting period.

6. Accounting basis in which transactions that change a company's financial statements are recorded in the periods in which the events occur, rather than in the periods in which the company receives or pays cash.

7. A process whereby revenue is recognized when the contract terms, price, promises, and performance obligation are satisfied.

8. Journal entries made at the end of an accounting period to ensure that proper recognition of revenues and expenses has been adhered to.

9. An account that is offset against an asset account on the statement of financial position.

10. Accounting basis in which revenue is recorded only when cash is received, and expenses are recorded only when cash is paid.

ANSWERS TO VOCABULARY QUIZ

1. Prepaid expenses
2. Closing entries
3. Depreciation
4. Deferred revenues
5. Temporary accounts
6. Accrual basis of accounting
7. Revenue recognition
8. Adjusting entries
9. Contra asset account
10. Cash basis of accounting

CHAPTER 5

MERCHANDISING OPERATIONS

1 MINUTE QUESTION

The purpose of these short 1 minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

What are the two systems that are used to account for inventory?

Answer: Perpetual system and Periodic system

VOCABULARY QUIZ

1. A detailed inventory system in which the cost of each inventory item is maintained and the records continuously show the inventory that should be on hand.
2. A reduction given to the purchaser for early payment of a credit sale.
3. A measure of the percentage of each dollar of sales that results in net income.
4. The cost of merchandise sold during the period.
5. An inventory system in which detailed records are not maintained and the cost of goods sold is determined only at the end of an accounting period.
6. The account used for the estimated value of sales returns and allowances under IFRS..
7. The main source of revenue for a merchandising company.
8. The excess of sales over the cost of goods sold.
9. A cash discount claimed by a buyer for early payment of a balance due.
10. An account that is used to capture of the value of inventory expected be returned as a result of estimated sales returns and allowances.

CHAPTER 6

REPORTING AND ANALYZING INVENTORY

1 MINUTE QUESTION

The purpose of these short 1-minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

Which of the inventory cost formulas often parallels the physical flow of goods?

Answer: Specific identification parallels the actual physical flow of goods.

VOCABULARY QUIZ

1. An inventory cost formula that assumes that the costs of the first goods purchased are the first to be allocated to cost of goods sold.

2. Measure of the average number of days inventory is held. (calculated as 365 divided by inventory turnover ratio).

3. Goods held for sale by one party (the consignee), although ownership of the goods is retained by another party (the consignor).

4. The method and measures adopted within an organization to help it achieve reliable financial reporting, effective and efficient operations, and compliance with relevant laws and regulations.

5. A basis for writing down inventory to reflect a decline in value.

6. The ratio that is calculated as cost of goods sold divided by average inventory.

7. Freight terms indicating that the goods are placed free on board at the buyer's place of business, and the seller pays the freight cost. Goods belong to the seller while in transit.

8. The selling price of an inventory item, less any costs required to make the item saleable.

9. The cost of goods available for sale divided by the units available for sale.

10. An inventory cost formula used when goods are distinguishable and not ordinarily interchangeable.

CHAPTER 7

INTERNAL CONTROL AND CASH

1 MINUTE QUESTION

The purpose of these short 1 minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

On which two financial statements is cash reported?

Answer: Statement of financial position and statement of cash flows

VOCABULARY QUIZ

1. All the related methods and measures adopted within a business to achieve reliable financial reporting, effective and efficient operations, and compliance with relevant laws and regulations.

2. Resources that consist of coins, currency, cheques, and money orders.

3. The responsibility for related activities assigned to different individuals.

4 The document sent by a bank to its customers each month showing the company's bank transactions and balances.

5. Short-term, highly liquid trading investments that can be easily sold.

6. Deposits made and recorded by a company that have not yet been received or recorded by the bank.

7. Company employees who evaluate, on a continuous basis, the effectiveness of the company's system of internal control.

8. A cheque that is not paid by a bank because of insufficient funds in a customer's bank account.

9. Cheques issued and recorded by a company that have not yet been paid by the bank.

10. When a cash account has a negative balance at the end of the period.

CHAPTER 8

REPORTING AND ANALYZING RECEIVABLES

1 MINUTE QUESTION

The purpose of these short 1 minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

The adjusting journal entry to record estimated uncollectible accounts involves debiting which account?

Answer: Bad Debts Expense

VOCABULARY QUIZ

1. A note that is not paid in full at maturity.

2. Amounts owed by customers on account.

3. Notes and accounts receivable that result from the sale of transactions.

4. A group of accounts that provide details of a control account in the general ledger.

5. A measure of the liquidity of receivables, calculated by dividing credit sales by average gross accounts receivable.

6. The average amount of time that a receivable is outstanding, calculated by dividing 365 days by the receivables turnover.

7. A written promise to pay a specified amount of money on demand or at a definitive time.

8. A method of accounting for bad debts that involves estimating uncollectible accounts at the end of each period.

9. The difference between the balances in the Accounts Receivable and Allowance for Doubtful Accounts.

10. An analysis of customer balances by the length of time they have been unpaid.

CHAPTER 9

REPORTING AND ANALYZING LONG-LIVED ASSETS

1 MINUTE QUESTION

The purpose of these short 1 minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

Which of the following should *not* be classified as property, plant, and equipment?
a. a building used as a factory
b. land used in ordinary business operations
c. a truck held for resale by an automobile dealership
d. land improvements, such as parking lots and fences

Answer: c

VOCABULARY QUIZ

1. A depreciation method in which useful life is expressed in terms of the total units of production or use expected from the asset.
2. The systematic allocation of the cost of equipment over its useful life.
3. A loss incurred when the carrying amount of an asset exceeds its recoverable amount.
4. The value of all favourable attributes that relate to a company.
5. A method in which periodic depreciation is the same for each year of the asset's useful life.
6. A word, phrase, jingle, or symbol that distinguishes or identifies a particular company or product.
7. Rights, privileges, and competitive advantages that result from the ownership of long-lived assets that do not possess physical substance.
8. The cost of property, plant, and equipment less its residual value.
9. Resources that have physical substance, are long-lived assets that a company controls, and are not intended for sale to customers.
10. Expenditures that are immediately charged against revenue as an expense.

CHAPTER 10
Reporting and Analyzing Liabilities

20-MINUTE QUIZ #1

Circle the correct answer.

True/False

1.	Bond prices are quoted as a percentage of the face value of the bonds.	True	False
2.	The amount that must be invested today at current interest rates in order to receive a specified sum of money at a specified date is the present value.	True	False
3.	One example of a financial liability is deferred revenue.	True	False
4.	Bonds with a higher coupon interest rate than the market rate for similar bonds will probably sell at a discount.	True	False
5.	Current maturities of non-current debt are identified on the statement of financial position as current liabilities.	True	False
6.	Under IFRS, a contingent loss is recorded if it is likely and the amount can be reasonably estimated.	True	False
7.	Property tax is an example of a contingent liability.	True	False
8.	Notes payable are always current liabilities.	True	False
9.	Instalment loans that are	True	False

CHAPTER 11

REPORTING AND ANALYZING SHAREHOLDERS' EQUITY

1 MINUTE QUESTION

The purpose of these short 1 minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

Entries for cash dividends are required on the
a. declaration date and payment date.
b. declaration date and record date.
c. declaration date, record date, and payment date.
d. record date and payment date.

Answer: a

VOCABULARY QUIZ

1. Net income retained in the business.

2. The amount per share that must be retained in the business for the protection of corporate creditors.

3. A type of share capital that has contractual preferences over common shares in certain areas.

4. A corporation that may have thousands of shareholders and whose shares are regularly traded on a securities exchange market.

5. The amount of share capital that a corporation is authorized to sell.

6. Dividends that were not declared on cumulative preferred shares during a period.

7. Gains and losses that bypass net income but affect shareholders' equity.

8. The issue of additional shares to shareholders accompanied by a reduction in the legal capital per share.

9. The date when ownership of shares is determined for dividend purposes.

10. A statement that summarizes the changes in each shareholders' equity account during the period.

CHAPTER 12

REPORTING AND ANALYZING INVESTMENTS

1 MINUTE QUESTION

The purpose of these short 1 minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

A type of investment that is purchased mainly to generate investment income is known as a

Answer: non-strategic investment

VOCABULARY QUIZ

1. A company in which its common shares are controlled by another company.

2. Non-strategic investments that are held for the purpose of earning capital gains.

3. Investments that are bought to generate investment income.

4. A company that controls the common shares of another company.

5. The difference between fair value and carrying amount of an investment held by the investor.

6. An equity investment that is purchased to influence or control another company.

7. A financial statement that presents net income (loss) and other comprehensive income (loss) for a specific period of time.

8. Financial statements that present the assets and liabilities controlled by the parent company and the total net income of the combined companies.

9. An accounting method in which the investment in common shares is initially recorded at cost, and the investment account is then adjusted annually to show the investor's equity in the investee.

10. The ability of an investor to influence decisions made by an investee, which is assumed to exist when more than 20% but less than 50% of an investee's shares are owned.

CHAPTER 13

STATEMENT OF CASH FLOWS

1 MINUTE QUESTION

The purpose of these short 1 minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

Which section of a statement of cash flows indicates the cash spent on land during the past accounting period?

Answer: Investing Activities

VOCABULARY QUIZ

1. A basic financial statement that provides information about the cash receipts and cash payments of a company during a period, classified as operating, investing, and financing activities, in a format that reconciles the beginning and ending cash balances.

2. A cash-based measure used to evaluate solvency measured by deducting net capital expenditures and cash dividends from net cash provided (used) by operating activities.

3. Cash flow activities that include the cash effects of transactions that create revenues and expenses and enter into the determination of net income.

4. The phase of the corporate life cycle where a company is able to generate positive cash from operating activities that are used to cover investing activities.

5. Cash flow activities from the acquisition and disposal of non-current assets.

6. A method of determining net cash provided (used) by operating activities by adjusting each item in the statement of income from the accrual basis to the cash basis.

7. A method of determining net cash provided (used) by operating activities; whereby, net income is adjusted for items that do not affect cash.

8. The cycle that consists of four phases: introductory, growth, maturity, and decline which assists in understanding what to expect from a company's cash flow activities.

9. A significant activity, such as the issue of debt to purchase equipment that does not involve cash.

10. Cash flow activities that result in changes in the size and composition of the equity and borrowings of a company.

CHAPTER 14

PERFORMANCE MEASUREMENT

1 MINUTE QUESTION

The purpose of these short 1 minute questions is to encourage students to come to class prepared for the lesson, having read the chapter. The question may be given at the beginning of the class and count for ½ to 1 mark.

Which technique is used to evaluate a series of data over a period of time to determine the increase or decrease that has taken place, expressed either as an amount or as a percentage?

Answer: horizontal analysis

VOCABULARY QUIZ

1. An overall measure of profitability, calculated as net income divided by average total assets.

2. The disposal of a component of an entity.

3. A technique for evaluating a series of financial statement data over a period of time to determine the increase (decrease) that has taken place expressed as either an amount or a percentage.

4. Measures of the ability of the company to survive over a long period of time.

5. A technique that expresses each item in a financial statement as a percentage of a total (base) amount within the same financial statement.

6. Measures the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash.

7. Measures the relationship of the market price of each common share to the basic earnings per share.

8. Measures the success of a company for a given period of time.

9. A measure that expresses the relationship of current assets to current liabilities calculated as current assets divided by current liabilities.

10. The amount of cash left over from operating cash flows after investing some of this to maintain current productive capacity and after paying current dividends.

CHAPTER 1

THE PURPOSE AND USE OF FINANCIAL STATEMENTS

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	K	F	AN	13.	2	E	K	F	AN	25.	4	M	K	F	AN
2.	1	E	C	F	AN	14.	2	E	K	F	AN	26.	4	M	K	F	AN
3.	1	E	C	F	AN	15.	2	M	K	F	AN	27.	4	E	K	F	AN
4.	1	E	K	F	AN	16.	2	E	K	F	AN	28.	4	M	K	F	AN
5.	1	E	K	F	AN	17.	3	E	K	F	AN	29.	4	E	K	F	AN
6.	1	E	K	F	AN	18.	3	E	K	F	AN	30.	4	M	C	F	AN
7.	1	M	C	F	AN	19.	3	M	K	F	AN	31.	4	E	C	F	AN
8.	1	M	C	F	AN	20.	3	E	K	F	AN	32.	4	E	K	F	AN
9.	1	M	C	F	AN	21.	3	M	K	F	AN	33.	4	M	C	F	AN
10.	1	M	C	F	AN	22.	3	E	C	F	AN	34.	4	E	K	F	AN
11.	1	M	C	F	AN	23.	4	M	K	F	AN						
12.	2	E	K	F	AN	24.	4	E	K	F	AN						
Multiple Choice Questions																	
35.	1	E	K	F	AN	60.	3	E	C	F	AN	85.	4	E	C	F	AN
36.	1	E	K	F	AN	61.	3	E	C	F	AN	86.	4	E	K	F	AN
37.	1	M	K	F	AN	62.	3	M	C	F	AN	87.	4	E	C	F	AN
38.	1	M	K	F	AN	63.	3	M	K	F	AN	88.	4	H	AP	F	AN
39.	1	E	K	F	AN	64.	3	M	K	F	AN	89.	4	M	AP	F	AN
40.	1	E	K	F	AN	65.	3	M	C	F	AN	90.	4	M	AP	F	AN
41.	1	E	K	F	AN	66.	3	E	K	F	AN	91.	4	M	AP	F	AN
42.	1	E	K	F	AN	67.	3	E	C	F	AN	92.	4	M	K	F	AN
43.	1	E	K	F	AN	68.	3	E	C	F	AN	93.	4	M	C	F	AN
44.	1	E	C	F	AN	69.	3	E	K	F	AN	94.	4	M	K	F	AN
45.	1	M	C	F	AN	70.	3	E	K	F	AN	95.	4	E	K	F	AN
46.	1	E	K	F	AN	71.	3	E	K	F	AN						
47.	2	E	K	F	AN	72.	3	E	K	F	AN						
48.	2	M	K	F	AN	73.	3	M	C	F	AN	96.	4	M	K	F	AN
49.	2	M	K	F	AN	74.	3	E	C	F	AN	97.	4	M	C	F	AN
50.	2	M	K	F	AN	75.	4	E	C	F	AN	98.	4	M	K	F	AN
51.	2	E	K	F	AN	76.	4	M	K	F	AN	99.	4	E	K	F	AN
52.	2	E	K	F	AN	77.	4	M	C	F	AN	100.	4	E	C	F	AN
53.	2	E	C	F	AN	78.	4	E	K	F	AN	101.	4	E	K	F	AN
54.	2	E	K	F	AN	79.	4	E	C	F	AN	102.	4	E	C	F	AN
55.	2	M	K	F	AN	80.	4	M	K	F	AN	103.	4	E	C	F	AN
56.	2	E	C	F	AN	81.	4	H	C	F	AN	104.	4	H	C	F	AN
57.	2	M	K	F	AN	82.	4	E	K	F	AN	105.	4	M	C	F	AN
58.	3	E	K	F	AN	83.	4	M	C	F	AN	106.	4	M	C	F	AN
59.	3	M	C	F	AN	84.	4	E	C	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting CM = Communication
AACSB: AN = Analytic E = Ethics

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
107.	2	M	C	F	AN	117.	4	E	AP	F	AN	127.	4	E	C	F	AN
108.	2	M	C	F	AN	118.	4	M	AP	F	AN	128.	4	E	C	F	AN
109.	3	M	C	F	AN	119.	4	E	AP	F	AN	129.	4	E	AP	F	AN
110.	3	M	C	F	AN	120.	4	E	C	F	AN	130.	4	E	C	F	AN
111.	3	H	AP	F	AN	121.	4	M	AP	F	AN	131.	4	M	AP	F	AN
112.	3	M	AP	F	AN	122.	4	H	AP	F	AN	132.	4	E	AP	F	AN
113.	3	E	C	F	AN	123.	4	E	C	F	AN	133.	4	M	AP	F	AN
114.	4	E	K	F	AN	124.	4	H	AP	F	AN	134.	4	H	AP	F	AN
115.	4	H	AP	F	AN	125.	4	E	AP	F	AN						
116.	4	M	AP	F	AN	126.	4	E	C	F	AN						
Matching																	
135.	1-4	E,M	K	F	AN												
Short-Answer Essay																	
136.	1	E	C	F	AN	140.	2	E	K	F	AN	144.	4	E	C	F	AN
137.	1	E	C	F	AN	141.	4	H	C	F	AN	145.	4	M	C	F,CM	AN
138.	1	H	C	F	AN	142.	4	E	C	F	AN	146.	4	E	C	F	AN
139.	1,2	M	AP	F	AN, E	143.	4	M	C	F	AN						
CPA Questions																	
147.	1	M	C	F	AN	149.	2	M	K	F	AN	151.	4	M	AN	F	AN
148.	2	M	K	F	AN	150.	4	E	K	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting CM = Communication
AACSB: AN = Analytic E = Ethics

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	6.	TF	11.	TF	39.	MC	44.	MC	137.	SAE		
2.	TF	7.	TF	35.	MC	40.	MC	45.	MC	138.	SAE		
3.	TF	8.	TF	36.	MC	41.	MC	46.	MC	139.	SAE		
4.	TF	9.	TF	37.	MC	42.	MC	135.	Ma	147.	CP		
5.	TF	10.	TF	38.	MC	43.	MC	136.	SAE				
Learning Objective 2													
12.	TF	16.	TF	50.	MC	54.	MC	107.	Ex	140.	SAE		
13.	TF	47.	MC	51.	MC	55.	MC	108.	Ex	148.	CP		
14.	TF	48.	MC	52.	MC	56.	MC	135.	Ma	149.	CP		
15.	TF	49.	MC	53.	MC	57.	MC	139.	SAE				
Learning Objective 3													
17.	TF	22.	TF	62.	MC	67.	MC	72.	MC	111.	Ex		
18.	TF	58.	MC	63.	MC	68.	MC	73.	MC	112.	Ex		
19.	TF	59.	MC	64.	MC	69.	MC	74.	MC	113.	Ex		
20.	TF	60.	MC	65.	MC	70.	MC	109.	Ex	135.	Ma		
21.	TF	61.	MC	66.	MC	71.	MC	110.	Ex				
Learning Objective 4													
23.	TF	34.	TF	85.	MC	96.	MC	114.	Ex	125.	Ex	141.	SAE
24.	TF	75.	MC	86.	MC	97.	MC	115.	Ex	126.	Ex	142.	SAE
25.	TF	76.	MC	87.	MC	98.	MC	116.	Ex	127.	Ex	143.	SAE
26.	TF	77.	MC	88.	MC	99.	MC	117.	Ex	128.	Ex	144.	SAE
27.	TF	78.	MC	89.	MC	100.	MC	118.	Ex	129.	Ex	145.	SAE
28.	TF	79.	MC	90.	MC	101.	MC	119.	Ex	130.	Ex	146.	SAE
29.	TF	80.	MC	91.	MC	102.	MC	120.	Ex	131.	Ex	150.	CP
30.	TF	81.	MC	92.	MC	103.	MC	121.	Ex	132.	Ex	151.	CP
31.	TF	82.	MC	93.	MC	104.	MC	122.	Ex	133.	Ex		
32.	TF	83.	MC	94.	MC	105.	MC	123.	Ex	134.	Ex		
33.	TF	84.	MC	95.	MC	106.	MC	124.	Ex	135.	Ma		

Note: TF = True-False; MC = Multiple Choice; Ma = Matching; Ex = Exercise; CP = CPA Questions; SAE = Short-Answer Essay

CHAPTER LEARNING OBJECTIVES

1. ***Identify the uses and users of accounting information*.** The purpose of accounting is to provide useful information for decision-making. There are two types of decision makers who use accounting information: internal users and external users. The primary internal users are managers, who work for the business and need internal accounting information to manage and run its operations. The primary external users are investors and lenders and other creditors. Investors (existing and potential shareholders) use accounting information to help decide whether to buy, hold, or sell shares. Lenders (such as bankers) and other creditors (such as suppliers) use accounting information to evaluate the risk of lending money or granting credit to a business. Other external users include non-management employees, customers, regulators, and taxing authorities.

2. ***Describe the primary forms of business organization*.** There are three types of business organizations: proprietorships, partnerships, and corporations. A proprietorship is a business owned by one person. A partnership is a business owned by two or more people. A corporation is a separate legal entity whose shares provide evidence of ownership. Corporations can be public, which means their shares trade on a stock exchange, or private, which means their shares are closely held and do not trade on a stock exchange.

   Generally accepted accounting principles are a common set of guidelines that are used to record and report economic events. These can differ depending on the form of business organization. Public corporations follow International Financial Reporting Standards (IFRS) and private corporations have the choice of using Accounting Standards for Private Enterprises (ASPE) or IFRS. Proprietorships and partnerships generally use ASPE.

3. ***Explain the three main types of business activity*.** Financing activities involve obtaining the necessary funds (through the issue of equity or the assumption of debt) to support the business. Repayments of debt, the declaration and payment of dividends, and share repurchases are also financing activities. Investing activities primarily involve purchasing the long-term assets (such as property, plant, and equipment) that are needed to run the business, but also include the disposition of these items. Operating activities involve putting the resources of the business into action to generate net income. These involve the day-to-day activities of the business as it earns revenues and incurs expenses doing so.

4. ***Describe the purpose and content of each of the financial statements*.** The statement of income presents the revenues and expenses of a company for a specific period of time. The statement of changes in equity summarizes the changes in shareholders' equity that have occurred for a specific period of time including those related to the issue of shares, generation of net income, and distribution of dividends. The statement of financial position reports the assets, liabilities, and shareholders' equity of a business at a specific date. The statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time. Notes to the financial statements add explanatory detail where required. The financial statements are included in an annual report, along with the management discussion and analysis (MD&A), the auditor's report, and the notes to the financial statements.

TRUE-FALSE STATEMENTS

1. Accounting identifies and records economic events of a business.

2. High standards of ethics are *not* required for preparers of financial information.

3. Accounting information is *not* important to marketing managers.

4. Authorities, such as the Canada Revenue Agency, want to know whether a business complies with the tax laws.

5. Accounting communicates financial information about a business to both internal and external users.

6. Two internal users of accounting information are investors and managers.

7. Accounting provides financial comparisons of operating alternatives, projections of income from new sales campaigns, analyses of sales costs, and forecasts of cash needs for external users.
Feedback: Accounting provides financial comparisons of operating alternatives, projections of income from new sales campaigns, analyses of sales costs, and forecasts of cash needs for internal users.

8. Companies present summarized financial information in the form of financial statements for both internal and external use.

9. Anyone who works for a company but does not necessarily have access to accounting information to assist them in managing and operating the company is still considered to be an internal user.
Feedback: Anyone who works for a company but does not necessarily have access to accounting information to assist them in managing and operating the company is considered to be an external user.

10. Potential employees who use annual reports to learn about the company and evaluate job prospects are regarded as external users.

11. As labour unions represent employees they are also regarded as internal users.
Feedback: Labour unions who represent employees are regarded as external users.

12. A partnership is a business organized as a separate legal entity.

13. A proprietor has unlimited liability.

14. The liability of corporate shareholders is limited to the amount of their investment.

15. The users of private company financial statements do not have access to financial information beyond that available to the users of public company financial statements.

16. A proprietorship is usually operated by the owner.

17. Expenses are the cost of assets consumed or services used in the process of generating revenue.

18. Assets are resources owned by a business that provide current services or benefits to the business.

19. Economic resources that are owned by a business are called shareholders' equity.

20. Payments to shareholders are called dividends.

21. Expenses are identified by the type of liability associated with them.

22. Depreciation is the cost of certain long-lived assets allocated to expense for each period.

23. Net income for the period is determined by subtracting total expenses and dividends declared from revenues.

24. Net income is another term for revenue.

25. The issue of shares and distribution of dividends are used in determining net income.

26. Financial statement users are interested in net income because it may be a predictor of future net income.

27. The statement of cash flows shows how cash was used during the period.

28. Claims of creditors and shareholders on the assets of a business are called liabilities.

29. Shareholder's equity consists of at least two parts: share capital and retained earnings.

30. Any deficiency in cash from operating activities must be made up by issuing shares.

31. The statement of changes in equity is *not* dependent on the results from the statement of income.

32. The statement of financial position is always the first statement prepared and presented.

33. The reasons for a decrease in cash can be determined by examining the statement of income.

34. A negative balance in retained earnings is called a deficit.

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	7.	F	13.	T	19.	F	25.	F	31.	F
2.	F	8.	T	14.	T	20.	T	26.	T	32.	F
3.	F	9.	F	15.	F	21.	F	27.	T	33.	F
4.	T	10.	T	16.	T	22.	T	28.	F	34.	T
5.	T	11.	F	17.	T	23.	F	29.	T		
6.	F	12.	F	18.	F	24.	F	30.	F		

CHAPTER 2

A FURTHER LOOK AT FINANCIAL STATEMENTS

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	K	F	AN	15.	2	E	C	F	AN	29.	3	M	K	F	AN
2.	1	E	K	F	AN	16.	2	E	C	F	AN	30.	3	E	C	F	AN
3.	1	E	C	F	AN	17.	2	M	K	F	AN	31.	3	M	K	F	AN
4.	1	M	K	F	AN	18.	2	E	K	F	AN	32.	3	E	K	F	AN
5.	1	M	K	F	AN	19.	2	M	C	F	AN	33.	3	M	C	F	AN
6.	1	M	K	F	AN	20.	2	E	K	F	AN	34.	3	M	C	F	AN
7.	1	M	K	F	AN	21.	2	M	C	F	AN	35.	3	E	K	F	AN
8.	1	M	K	F	AN	22.	2	M	K	F	AN	36.	3	E	K	F	AN
9.	2	E	K	F	AN	23.	3	M	K	F	AN	37.	3	M	K	F	AN
10.	2	E	K	F	AN	24.	3	M	C	F	AN	38.	3	M	K	F	AN
11.	2	M	K	F	AN	25.	3	M	K	F	AN	39.	3	E	K	F	AN
12.	2	E	C	F	AN	26.	3	E	K	F	AN	40.	3	E	K	F	AN
13.	2	M	K	F	AN	27.	3	E	C	F	AN						
14.	2	M	C	F	AN	28.	3	M	C	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting C = Communication
AACSB: AN = Analytic

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Multiple Choice Questions																	
41.	1	M	C	F	AN	71.	2	M	C	F	AN	101.	2	M	C	F	AN
42.	1	M	C	F	AN	72.	2	M	C	F	AN	102.	2	M	C	F	AN
43.	1	H	C	F	AN	73.	2	H	C	F	AN	103.	3	M	C	F	AN
44.	1	E	K	F	AN	74.	2	M	C	F	AN	104.	3	M	C	F	AN
45.	1	M	K	F	AN	75.	2	E	K	F	AN	105.	3	H	C	F	AN
46.	1	E	K	F	AN	76.	2	M	K	F	AN	106.	3	M	C	F	AN
47.	1	E	C	F	AN	77.	2	M	K	F	AN	107.	3	M	C	F	AN
48.	1	M	K	F	AN	78.	2	E	K	F	AN	108.	3	M	C	F	AN
49.	1	E	K	F	AN	79.	2	E	K	F	AN	109.	3	E	K	F	AN
50.	1	M	C	F	AN	80.	2	E	K	F	AN	110.	3	E	K	F	AN
51.	1	E	K	F	AN	81.	2	E	K	F	AN	111.	3	M	K	F	AN
52.	1	E	K	F	AN	82.	2	M	K	F	AN	112.	3	M	K	F	AN
53.	1	E	K	F	AN	83.	2	E	K	F	AN	113.	3	M	K	F	AN
54.	1	E	K	F	AN	84.	2	M	C	F	AN	114.	3	E	K	F	AN
55.	1	E	K	F	AN	85.	2	E	K	F	AN	115.	3	E	K	F	AN
56.	1	M	K	F	AN	86.	2	M	K	F	AN	116.	3	E	K	F	AN
57.	1	M	K	F	AN	87.	2	M	K	F	AN	117.	3	M	K	F	AN
58.	1	M	AP	F	AN	88.	2	E	AP	F	AN	118.	3	H	K	F	AN
59.	1	M	AP	F	AN	89.	2	E	AP	F	AN	119.	3	E	K	F	AN
60.	1	M	AP	F	AN	90.	2	M	AP	F	AN	120.	3	E	K	F	AN
61.	1	M	AP	F	AN	91.	2	M	AP	F	AN	121.	3	E	K	F	AN
62.	1	H	AP	F	AN	92.	2	M	AP	F	AN	122.	3	E	K	F	AN
63.	1	M	AP	F	AN	93.	2	E	K	F	AN	123.	3	E	K	F	AN
64.	1	M	AP	F	AN	94.	2	M	K	F	AN	124.	3	M	C	F	AN
65.	1	E	AP	F	AN	95.	2	E	K	F	AN	125.	3	E	K	F	AN
66.	1	H	AP	F	AN	96.	2	H	C	F	AN	126.	3	H	K	F	AN
67.	1	M	AP	F	AN	97.	2	M	AP	F	AN	127.	3	E	K	F	AN
68.	1	M	AP	F	AN	98.	2	M	C	F	AN	128.	3	E	K	F	AN
69.	1	E	K	F	AN	99.	2	M	C	F	AN	129.	3	E	K	F	AN
70.	2	E	C	F	AN	100.	2	H	C	F	AN	130.	3	E	C	F	AN

LOD: E = Easy M = Medium H = Hard
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting C = Communication
AACSB: AN = Analytic

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
131.	1	M	K	F	AN	140.	2	H	AP	F	AN	149.	2	E	AP	F	AN
132.	1	H	K	F	AN	141.	2	H	AP	F	AN	150.	3	E	C	F	AN
133.	1	M	C	F	AN	142.	2	H	AP	F	AN	151.	3	M	K	F	AN
134.	1	E	AP	F	AN	143.	2	E	AP	F	AN	152.	3	E	C	F	AN
135.	1	E	K	F	AN	144.	2	M	AP	F	AN	153.	3	M	K	F	AN
136.	1	E	C	F	AN	145.	2	E	K	F	AN	154.	3	H	C	F	AN
137.	1,2	M	AP	F	AN	146.	2	H	AP	F	AN	155.	3	E	C	F	AN
138.	1,2	M	AP	F	AN	147.	2	M	AP	F	AN						
139.	2	E	C	F	AN	148.	2	E	AP	F	AN						
Matching																	
156.	1–3	M	K	F	AN												
Short-Answer Essay																	
157.	1,2	E	K	F	AN	159.	2	H	C	F	AN	161.	3	M	C	F	AN
158.	2	M	C	F,C	AN	160.	3	H	C	F	AN	162.	3	E	K	F	AN
CPA Questions																	
163.	1	M	AN	F	AN	165.	2	M	AN	F	AN	167.	3	M	K	F	AN
164.	2	E	K	F	AN	166.	2	H	AN	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting C = Communication
AACSB: AN = Analytic

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	8.	TF	47.	MC	54.	MC	61.	MC	68.	MC	135.	Ex
2.	TF	41.	MC	48.	MC	55.	MC	62.	MC	69.	MC	136.	Ex
3.	TF	42.	MC	49.	MC	56.	MC	63.	MC	70.	MC	137.	Ex
4.	TF	43.	MC	50.	MC	57.	MC	64.	MC	131.	Ex	138.	Ex
5.	TF	44.	MC	51.	MC	58.	MC	65.	MC	132.	Ex	156.	Ma
6.	TF	45.	MC	52.	MC	59.	MC	66.	MC	133.	Ex	157.	SAE
7.	TF	46.	MC	53.	MC	60.	MC	67.	MC	134.	Ex	163.	CP
Learning Objective 2													
9.	TF	19.	TF	77.	MC	87.	MC	97.	MC	141.	Ex	157.	SAE
10.	TF	20.	TF	78.	MC	88.	MC	98.	MC	142.	Ex	158.	SAE
11.	TF	21.	TF	79.	MC	89.	MC	99.	MC	143.	Ex	159.	SAE
12.	TF	22.	TF	80.	MC	90.	MC	100.	MC	144.	Ex	164.	CP
13.	TF	71.	MC	81.	MC	91.	MC	101.	MC	145.	Ex	165.	CP
14.	TF	72.	MC	82.	MC	92.	MC	102.	MC	146.	Ex	166.	CP
15.	TF	73.	MC	83.	MC	93.	MC	137.	Ex	147.	Ex		
16.	TF	74.	MC	84.	MC	94.	MC	138.	Ex	148.	Ex		
17.	TF	75.	MC	85.	MC	95.	MC	139.	Ex	149.	Ex		
18.	TF	76.	MC	86.	MC	96.	MC	140.	Ex	156.	Ma		
Learning Objective 3													
23.	TF	32.	TF	40.	TF	110.	MC	118.	MC	126.	MC	153.	Ex
24.	TF	33.	TF	103.	MC	111.	MC	119.	MC	127.	MC	154.	Ex
25.	TF	34.	TF	104.	MC	112.	MC	120.	MC	128.	MC	155.	Ex
26.	TF	35.	TF	105.	MC	113.	MC	121.	MC	129.	MC	156.	Ma
27.	TF	36.	TF	106.	MC	114.	MC	122.	MC	130.	MC	160.	SAE
29.	TF	37.	TF	107.	MC	115.	MC	123.	MC	150.	Ex	161.	SAE
30.	TF	38.	TF	108.	MC	116.	MC	124.	MC	151.	Ex	162.	SAE
31.	TF	39.	TF	109.	MC	117.	MC	125.	MC	152.	Ex	167.	CP

Note: TF = True/False MC = Multiple Choice Ma = Matching
Ex = Exercise SAE = Short-Answer Essay CP = CPA

CHAPTER LEARNING OBJECTIVES

1. **Identify the sections of a classified statement of financial position.** In a classified statement of financial position, we classify assets as current or non-current assets. In the non-current asset category, assets are further classified as long-term investments; property, plant, and equipment; intangible assets and goodwill; or other assets. We classify liabilities as either current or non-current. A shareholders' equity section reports share capital and retained earnings, and other equity items if any exist.

2. **Identify and calculate ratios for analyzing a company's liquidity, solvency, and profitability.** Liquidity ratios, such as working capital and the current ratio, measure a company's short-term ability to pay its maturing obligations and meet unexpected needs for cash. Solvency ratios, such as debt to total assets, measure a company's ability to survive over a long period by having enough assets to settle its liabilities as they fall due. Profitability ratios, such as basic earnings per share and the price-earnings ratio, measure a company's operating success for a specific period of time.

3. **Describe the framework for the preparation and presentation of financial statements.** The key components of the conceptual framework are (1) the objective of general-purpose financial reporting; (2) qualitative characteristics of useful financial information (fundamental and enhancing characteristics); (3) the cost constraint; (4) the going concern assumption underlying the accounting process; (5) elements of the financial statements; and (6) measurement of the elements of financial statements (historical cost and fair value).

TRUE-FALSE STATEMENTS

1. Long-term investments appear in the property, plant, and equipment section of the statement of financial position.

2. Special rights and privileges that provide a future economic benefit to the company are classified as intangible assets.

3. A liability is normally classified as a current liability if it is to be paid within the coming year.

4. Mortgages and pension liabilities are examples of non-current liabilities.

5. The investment classification on the statement of financial position normally includes investments that are intended to be held for a short period of time (less than one year).

6. The main difference between intangible assets and property, plant, and equipment is the length of the asset's life.

7. Listing assets and liabilities in reverse order of liquidity is *not* permitted in Canada.

8. The statement of financial position is normally presented as follows, when listed in order of liquidity: Current assets, current liabilities, non-current assets, non-current liabilities, and shareholders' equity.

9. Intracompany comparisons are based on comparisons with competitors in the same industry.

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

11. Liquidity ratios are concerned with the frequency and amounts of dividend payments.

12. Analysis of financial statements is enhanced with the use of comparative data.

13. Solvency ratios measure the entity's ability to survive over a long period.

14. A single ratio by itself is *not* very meaningful.

15. Profitability means having enough funds on hand to pay debts when they are due.

16. The most liquid resource is inventory.

17. Solvency ratios measure the short-term ability of the company to pay its maturing obligations.

18. The debt to total assets ratio measures the percentage of assets financed by creditors rather than shareholders.

19. From a creditor's point of view, the higher the total debt to total assets ratio, the lower the risk that the company may be unable to pay its obligations.

20. The price-earnings ratio is a measure of liquidity.

21. The higher the price-earnings ratio, the higher are investors' expectations of the company's future profitability.

22. Companies using Accounting Standards for Private Enterprises (ASPE) are *not* required to present basic earnings per share information in their financial statements.

23. The conceptual framework is fundamentally similar for both Canadian publicly traded companies and Canadian private companies.

24. Faithful representation means that accounting information must be complete, neutral, and free from error.

25. Financial reporting does *not* have to present the economic substance of a transaction in order to provide a faithful representation of what really happened.

26. Materiality and relevance are both defined in terms of what influences or makes a difference to a decision maker.

27. Enhancing qualitative characteristics include timeliness and comparability.

28. Under the going concern assumption, reporting assets, such as land, at their cost may be more appropriate than reporting land at its fair value.

29. In order for information to be relevant, it must be reported on a timely basis.

30. Consistency aids comparability when a company uses the same accounting principles and methods from year to year or when companies with similar circumstances use the same accounting principles.

31. Comparability in accounting means that a company uses the same generally accepted accounting principles from one accounting period to the next.

32. Comparability and understandability are examples of enhancing qualitative characteristics.

33. Information has verifiability if the information is comparable.

34. Using a simplified version of Canadian GAAP for small companies in order to reduce the cost of providing financial information is an example of the application of materiality.

35. Elements of financial statements include assets, equity, and expenses, but *not* liabilities.

36. Two measurement principles are historical cost and current value.

37. In general, standard setters require that most assets be recorded using historical cost because cost is representationally faithful.

38. The cost basis of accounting states that assets and liabilities should be recorded at their cost *not* only when originally acquired, but also during the time the entity holds them.

39. Qualitative characteristics help ensure that the information provided in financial statements is useful.

40. A conceptual framework is still under development for companies using International Financial Reporting Standards (IFRS).

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	7.	F	13.	T	19.	F	25.	F	31.	F	37.	T
2.	T	8.	F	14.	T	20.	F	26.	T	32.	T	38.	T
3.	T	9.	F	15.	F	21.	T	27.	T	33.	F	39.	T
4.	T	10.	T	16.	F	22.	T	28.	T	34.	F	40.	T
5.	F	11.	F	17.	F	23.	T	29.	T	35.	F		
6.	F	12.	T	18.	T	24.	T	30.	T	36.	T		

CHAPTER 3

THE ACCOUNTING INFORMATION SYSTEM

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	K	F	AN	14.	2	E	K	F	AN	27.	3	E	K	F	AN
2.	1	E	C	F	AN	15.	2	E	K	F	AN	28.	3	E	K	F	AN
3.	1	E	C	F	AN	16.	2	E	K	F	AN	29.	4	E	K	F	AN
4.	1	E	C	F	AN	17.	2	E	C	F	AN	30.	4	E	C	F	AN
5.	2	E	K	F	AN	18.	2	E	C	F	AN	31.	4	E	K	F	AN
6.	2	E	K	F	AN	19.	2	E	K	F	AN	32.	4	E	C	F	AN
7.	2	E	C	F	AN	20.	2	E	C	F	AN	33.	4	E	K	F	AN
8.	2	E	C	F	AN	21.	3	E	K	F	AN	34.	5	E	C	F	AN
9.	2	E	K	F	AN	22.	3	E	K	F	AN	35.	5	E	K	F	AN
10.	2	E	C	F	AN	23.	3	E	K	F	AN	36.	5	E	C	F	AN
11.	2	E	C	F	AN	24.	3	E	K	F	AN	37.	5	E	C	F	AN
12.	2	E	C	F	AN	25.	3	E	K	F	AN						
13.	2	E	K	F	AN	26.	3	E	K	F	AN						

LOD: E = Easy M = Medium
Bloom's: C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Multiple Choice Questions																	
38.	1	M	C	F	AN	77.	2	M	C	F	AN	116.	4	M	K	F	AN
39.	1	M	C	F	AN	78.	2	M	C	F	AN	117.	4	E	K	F	AN
40.	1	M	C	F	AN	79.	2	M	C	F	AN	118.	4	E	C	F	AN
41.	1	M	C	F	AN	80.	2	E	C	F	AN	119.	4	M	C	F	AN
42.	1	E	C	F	AN	81.	2	E	C	F	AN	120.	4	M	C	F	AN
43.	1	M	C	F	AN	82.	2	E	C	F	AN	121.	4	E	C	F	AN
44.	1	M	C	F	AN	83.	2	E	C	F	AN	122.	4	E	C	F	AN
45.	1	E	C	F	AN	84.	2	E	C	F	AN	123.	4	E	K	F	AN
46.	1	M	C	F	AN	85.	2	E	C	F	AN	124.	4	M	K	F	AN
47.	1	E	C	F	AN	86.	2	E	K	F	AN	125.	4	E	K	F	AN
48.	1	E	K	F	AN	87.	2	M	C	F	AN	126.	4	M	K	F	AN
49.	1	E	C	F	AN	88.	2	M	C	F	AN	127.	4	E	K	F	AN
50.	1	E	C	F	AN	89.	2	E	C	F	AN	128.	4	E	K	F	AN
51.	1	E	C	F	AN	90.	2	M	C	F	AN	129.	4	M	K	F	AN
52.	1	E	C	F	AN	91.	2	E	C	F	AN	130.	4	M	K	F	AN
53.	1	E	C	F	AN	92.	3	M	C	F	AN	131.	4	E	K	F	AN
54.	1	M	C	F	AN	93.	3	E	K	F	AN	132.	4	E	C	F	AN
55.	1	M	C	F	AN	94.	3	E	K	F	AN	133.	5	M	C	F	AN
56.	1	E	C	F	AN	95.	3	E	K	F	AN	134.	5	M	C	F	AN
57.	1	E	C	F	AN	96.	3	E	K	F	AN	135.	5	M	C	F	AN
58.	1	M	C	F	AN	97.	3	E	K	F	AN	136.	5	M	C	F	AN
59.	1	E	C	F	AN	98.	3	M	K	F	AN	137.	5	E	K	F	AN
60.	2	E	C	F	AN	99.	3	M	C	F	AN	138.	5	M	C	F	AN
61.	2	M	C	F	AN	100.	3	E	K	F	AN	139.	5	M	K	F	AN
62.	2	E	K	F	AN	101.	3	E	K	F	AN	140.	5	M	K	F	AN
63.	2	E	K	F	AN	102.	3	E	K	F	AN	141.	5	M	C	F	AN
64.	2	E	K	F	AN	103.	3	M	K	F	AN	142.	5	M	C	F	AN
65.	2	E	K	F	AN	104.	3	E	K	F	AN	143.	5	E	C	F	AN
66.	2	E	K	F	AN	105.	3	E	K	F	AN	144.	5	H	C	F	AN
67.	2	E	K	F	AN	106.	3	M	C	F	AN	145.	5	M	C	F	AN
68.	2	E	C	F	AN	107.	3	M	C	F	AN	146.	5	M	C	F	AN
69.	2	E	C	F	AN	108.	3	E	C	F	AN						
70.	2	M	C	F	AN	109.	3	E	C	F	AN						
71.	2	E	C	F	AN	110.	3	M	C	F	AN						
72.	2	H	K	F	AN	111.	3	M	C	F	AN						
73.	2	E	K	F	AN	112.	3	E	C	F	AN						
74.	2	M	C	F	AN	113.	4	E	K	F	AN						
75.	2	M	C	F	AN	114.	4	M	C	F	AN						
76.	2	M	C	F	AN	115.	4	M	C	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
147.	1	E	C	F	AN	158.	2	E	C	F	AN	169.	4	E	C	F	AN
148.	1	E	AP	F	AN	159.	2	M	AP	F	AN	170.	4,5	M	AP	F	AN
149.	1	E	AP	F	AN	160.	2	M	C	F	AN	171.	5	E	AP	F	AN
150.	1	E	AP	F	AN	161.	2,3	M	AP	F	AN	172.	5	H	AP	F	AN
151.	1	E	C	F	AN	162.	2,4	E	AP	F	AN	173.	5	H	AP	F	AN
152.	1,2	E	C	F	AN	163.	3	E	C	F	AN	174.	5	E	AP	F	AN
153.	2	E	C	F	AN	164.	3	M	AP	F	AN	175.	5	E	AP	F	AN
154.	2	E	C	F	AN	165.	3	E	AP	F	AN	176.	5	M	AP	F	AN
155.	2	E	C	F	AN	166.	3	M	AP	F	AN	177.	5	H	AP	F	AN
156.	2	E	AP	F	AN	167.	3–5	M	AP	F	AN	178.	5	H	AP	F	AN
157.	2	E	C	F	AN	168.	3,5	M	AP	F	AN	179.	5	E	C	F	AN
Matching																	
180.	2–5	E,M	K	F	AN												
Short-Answer Essay																	
181.	1, 2	H	C	F	AN	184.	2	E	C	F	AN	186.	5	M	C	F	AN
182.	2	M	C	F	AN	185.	3	E	C	F,C	AN	187.	5	H	AP	F	AN
183.	2	E	K	F	AN												
Objective Format Questions																	
188.	1	H	C	F	AN	190.	3	M	C	F	AN	192.	5	H	AN	F	AN
189.	2	M	K	F	AN	191.	3	M	K	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	39.	MC	45.	MC	50.	MC	55.	MC	147.	Ex	152.	Ex
2.	TF	40.	MC	46.	MC	51.	MC	56.	MC	148.	Ex	181.	SAE
3.	TF	41.	MC	47.	MC	52.	MC	57.	MC	149.	Ex	188.	OF
4.	TF	42.	MC	48.	MC	53.	MC	58.	MC	150.	Ex		
38.	MC	43.	MC	49.	MC	54.	MC	59.	MC	151.	Ex		
Learning Objective 2													
5.	TF	15.	TF	64.	MC	74.	MC	84.	MC	154.	Ex	181.	SAE
6.	TF	16.	TF	65.	MC	75.	MC	85.	MC	155.	Ex	182.	SAE
7.	TF	17.	TF	66.	MC	76.	MC	86.	MC	156.	Ex	183.	SAE
8.	TF	18.	TF	67.	MC	77.	MC	87.	MC	157.	Ex	184.	SAE
9.	TF	19.	TF	68.	MC	78.	MC	88.	MC	158.	Ex	189.	OF
10.	TF	20.	TF	69.	MC	79.	MC	89.	MC	159.	Ex		
11.	TF	60.	MC	70.	MC	80.	MC	90.	MC	160.	Ex		
12.	TF	61.	MC	71.	MC	81.	MC	91.	MC	161.	Ex		
13.	TF	62.	MC	72.	MC	82.	MC	152.	Ex	162.	Ex		
14.	TF	63.	MC	73.	MC	83.	MC	153.	Ex	180.	Ma		
Learning Objective 3													
21.	TF	27.	TF	96.	MC	102.	MC	108.	MC	163.	Ex	180.	Ma
22.	TF	28.	TF	97.	MC	103.	MC	109.	MC	164.	Ex	185.	SAE
23.	TF	92.	MC	98.	MC	104.	MC	110.	MC	165.	Ex	190.	OF
24.	TF	93.	MC	99.	MC	105.	MC	111.	MC	166.	Ex	191.	OF
25.	TF	94.	MC	100.	MC	106.	MC	112.	MC	167.	Ex		
26.	TF	95.	MC	101.	MC	107.	MC	161.	Ex	168.	Ex		
Learning Objective 4													
29.	TF	113.	MC	118.	MC	123.	MC	128.	MC	162.	Ex		
30.	TF	114.	MC	119.	MC	124.	MC	129.	MC	167.	Ex		
31.	TF	115.	MC	120.	MC	125.	MC	130.	MC	169.	Ex		
32.	TF	116.	MC	121.	MC	126.	MC	131.	MC	170.	Ex		
33.	TF	117.	MC	122.	MC	127.	MC	132.	MC	180.	Ma		
Learning Objective 5													
34.	TF	134.	MC	139.	MC	144.	MC	170.	Ex	175.	Ex	180.	Ma
35.	TF	135.	MC	140.	MC	145.	MC	171.	Ex	176.	Ex	186.	SAE
36.	TF	136.	MC	141.	MC	146.	MC	172.	Ex	177.	Ex	187.	SAE
37.	TF	137.	MC	142.	MC	167.	Ex	173.	Ex	178.	Ex	192.	OF
133.	MC	138.	MC	143.	MC	168.	Ex	174.	Ex	179.	Ex		

Note: TF = True/False MC = Multiple Choice Ma = Matching
Ex = Exercise SAE = Short-Answer Essay OF = Objective Format

CHAPTER LEARNING OBJECTIVES

1. ***Analyze the effects of transactions on the accounting equation.*** Each accounting transaction has a dual effect on the accounting equation: assets = liabilities + shareholders' equity. For example, if an individual asset is increased, there must be a corresponding decrease in another asset, an increase in a specific liability, or an increase in shareholders' equity.

2. ***Explain how accounts, debits, and credits are used to record transactions.*** An account is an individual accounting record of increases and decreases in specific asset, liability, and shareholders' equity (common shares, retained earnings, revenues, expenses, and dividends declared) accounts. The terms *debit* and *credit* are synonymous with *left* and *right*. Assets, expenses, and dividends declared are increased by debits and decreased by credits. The normal balance of these accounts is a debit balance (the increase side). Liabilities, common shares, retained earnings, and revenues are increased by credits and decreased by debits. The normal balance of these accounts is a credit balance (the increase side).

3. ***Journalize transactions in the general journal.*** The initial record of an accounting transaction is entered in a general journal. The journal discloses in one place the complete effect of a transaction, provides a chronological record of transactions, and helps prevent or locate errors because the debit and credit amounts for each entry can be readily compared.

4. ***Post transactions to the general ledger.*** Posting is the process of transferring journal entries from the general journal to the general ledger. This accumulates the effects of the journalized transactions in the individual accounts (T accounts) contained in the general ledger.

5. ***Prepare a trial balance.*** A trial balance is a list of general ledger accounts and their balances at a specific time. The main purpose of the trial balance is to prove the mathematical equality of debits and credits after posting. A trial balance also can help uncover errors in journalizing and posting and is useful in preparing financial statements.

TRUE-FALSE STATEMENTS

1. Economic events that require recording in the accounting records are called accounting transactions.

2. Revenue is only recorded when cash is received.

3. Collection of an account receivable will increase total assets.

4. Cash received from a customer in advance of work being performed or goods provided is recorded as revenue.

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

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

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

8. If a revenue account is credited, this must increase shareholders' equity.

9. The normal balance of a liability account is a debit.

10. A credit means that an account has been increased.

11. A decrease in a liability account is recorded by a debit.

12. An increase in an asset is recorded by a debit.

13. The double-entry system of accounting refers to the placement of a double line at the end of a column of figures.

14. The double-entry accounting system records the dual effect of each transaction.

15. The normal balance of an asset is a credit.

16. The normal balance of the Dividends Declared account is a debit.

17. Assets are decreased with a credit.

18. An expense account is a subdivision of the retained earnings account and decreases shareholders' equity.

19. Revenues are a subdivision of shareholders' equity.

20. Under the double-entry system, revenues must always equal expenses.

21. The first step in the recording process is entering the transaction into the general journal.

22. Source documents can provide evidence that a transaction has occurred.

23. Each transaction must be analyzed in terms of its effect on the accounts before it can be recorded in a journal.

24. The journal is a chronological record of all transactions.

25. The account titles used in journalizing transactions need not be identical to the account titles in the ledger.

26. Entering transactions into the journal is called posting.

27. The account to be credited is entered first in a journal entry.

28. A compound journal entry affects more than two accounts.

29. The chart of accounts is a special ledger used in accounting systems.

30. A general ledger should be arranged in financial statement order beginning with the statement of financial position accounts.

31. The chart of accounts is the framework for the accounting database.

32. Posting is the process of proving the equality of debits and credits in the trial balance.

33. A list of accounts and their account numbers is called the chart of accounts.

34. A trial balance can still balance even if an entry is posted to the wrong account.

35. The main purpose of the trial balance is to check that debits equal credits.

36. If a journal entry is posted twice, this will be discovered by preparing a trial balance.

37. The retained earnings on the trial balance prepared immediately after posting represents the retained earnings at the beginning of the period.

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	8.	T	15.	F	22.	T	29.	F	36.	F
2.	F	9.	F	16.	T	23.	T	30.	T	37.	T
3.	F	10.	F	17.	T	24.	T	31.	T		
4.	F	11.	T	18.	T	25.	F	32.	F		
5.	F	12.	T	19.	T	26.	F	33.	T		
6.	T	13.	F	20.	F	27.	F	34.	T		
7.	F	14.	T	21.	F	28.	T	35.	T		

MULTIPLE CHOICE QUESTIONS

38. If total assets are increased, there must be a corresponding
(a) increase in liabilities only.
(b) increase in shareholders' equity only.
(c) increase in liabilities and decrease in shareholders' equity.
(d) increase in liabilities and/or increase in shareholders' equity.

39. An increase in the Dividends Declared account will result in
(a) an increase in the Retained Earnings account.
(b) an increase in expenses.
(c) a decrease in the Retained Earnings account.
(d) a decrease in expenses.

40. Prepaid expenses are recorded as
(a) expenses on the statement of income.
(b) assets on the statement of financial position.
(c) revenues on the statement of income.
(d) liabilities on the statement of financial position.

41. The payment of an account payable
(a) decreases total assets.
(b) increases total assets.
(c) has no effect on total assets.
(d) increases total liabilities.

42. Shareholders' equity is increased by
(a) dividends declared.
(b) revenues.
(c) expenses.
(d) liabilities.

43. If total liabilities increased by $22,500, then
(a) assets must have increased by $22,500.
(b) only shareholders' equity must have increased by $22,500.
(c) assets must have increased by $22,500, or shareholders' equity must have decreased by $22,500.
(d) assets and shareholders' equity must have both decreased by $22,500.

44. Collection of an $800 accounts receivable
(a) increases an asset $800; decreases a liability $800.
(b) decreases a liability $800; increases shareholders' equity $800.
(c) decreases an asset $800; decreases a liability $800.

(d) has no effect on total assets.

45. If an individual asset is increased, then
(a) there could be an equal decrease in a specific liability.
(b) there could be an equal decrease in shareholders' equity.
(c) there could be an equal decrease in another asset.
(d) none of these is possible.

46. If services are performed on credit, then
(a) assets will decrease.
(b) liabilities will increase.
(c) shareholders' equity will increase.
(d) liabilities will decrease.

47. If expenses are paid in cash, then
(a) assets will increase.
(b) liabilities will decrease.
(c) shareholders' equity will increase.
(d) assets will decrease.

48. Accounting systems should record
(a) all economic events.
(b) events that result in a change in assets, liabilities, or shareholders' equity items.
(c) only events that involve cash.
(d) only events that include revenues, expenses, and cash.

49. An investment by the shareholders in a company increases
(a) assets and shareholders' equity.
(b) assets and liabilities.
(c) liabilities and shareholders' equity.
(d) assets only.

50. The purchase of an asset for cash
(a) increases assets and shareholders' equity.
(b) increases assets and liabilities.
(c) decreases assets and increases liabilities.
(d) has no effect on total assets.

51. The purchase of an asset on credit
(a) increases assets and shareholders' equity.
(b) increases assets and liabilities.
(c) decreases assets and increases liabilities.
(d) has no effect on total assets.

CHAPTER 4

ACCRUAL ACCOUNTING CONCEPTS

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	K	F	AN	14.	2	M	C	F	AN	27.	4	M	K	F	AN
2.	1	E	K	F	AN	15.	2	M	C	F	AN	28.	4	M	K	F	AN
3.	1	M	C	F	AN	16.	2	M	C	F	AN	29.	4	M	C	F	AN
4.	1	M	K	F	AN	17.	2	E	K	F	AN	30.	5	E	C	F	AN
5.	1	E	K	F	AN	18.	2	M	C	F	AN	31.	5	E	K	F	AN
6.	1	E	C	F	AN	19.	2	M	K	F	AN	32.	5	E	K	F	AN
7.	1	E	K	F	AN	20.	2	M	C	F	AN	33.	5	M	K	F	AN
8.	1	E	K	F	AN	21.	2	M	C	F	AN	34.	5	M	C	F	AN
9.	1	E	K	F	AN	22.	3	M	K	F	AN	35.	5	E	K	F	AN
10.	1	M	K	F	AN	23.	3	H	AP	F	AN	36.	5	E	C	F	AN
11.	1	E	C	F	AN	24.	3	M	C	F	AN	37.	5	E	C	F	AN
12.	1	M	K	F	AN	25.	4	M	K	F	AN						
13.	2	E	K	F	AN	26.	4	E	C	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting P = Professional and Ethical Behaviour
AACSB: AN = Analytic E = Ethics

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Multiple Choice Questions

Item	LO	LOD	Bloom's	CPA	AACSB
38.	1	M	C	F	AN
39.	1	E	C	F	AN
40.	1	E	C	F	AN
41.	1	E	C	F	AN
42.	1	E	AP	F	AN
43.	1	E	C	F	AN
44.	1	M	C	F	AN
45.	1	M	C	F	AN
46.	1	M	C	F	AN
47.	1	M	C	F	AN
48.	1	M	C	F	AN
49.	1	H	C	F	AN
50.	1	H	C	F	AN
51.	1	H	C	F	AN
52.	1	M	C	F	AN
53.	1	M	C	F	AN
54.	1	M	C	F	AN
55.	1	M	C	F	AN
56.	1	M	C	F	AN
57.	1	E	C	F	AN
58.	1	M	K	F	AN
59.	1	E	K	F	AN
60.	2	E	K	F	AN
61.	2	M	C	F	AN
62.	2	M	C	F	AN
63.	2	M	C	F	AN
64.	2	M	AP	F	AN
65.	2	M	C	F	AN
66.	2	M	C	F	AN
67.	2	H	C	F	AN
68.	2	E	C	F	AN
69.	2	H	K	F	AN
70.	2	M	C	F	AN

Item	LO	LOD	Bloom's	CPA	AACSB
71.	2	M	K	F	AN
72.	2	M	AP	F	AN
73.	2	M	C	F	AN
74.	2	E	C	F	AN
75.	2	M	AP	F	AN
76.	2	M	AP	F	AN
77.	2	E	C	F	AN
78.	2	E	C	F	AN
79.	2	M	K	F	AN
80.	2	M	AP	F	AN
81.	2	M	AP	F	AN
82.	2	H	AP	F	AN
83.	2	H	AP	F	AN
84.	2	M	C	F	AN
85.	2	M	C	F	AN
86.	2	H	C	F	AN
87.	2	H	C	F	AN
88.	2	M	C	F	AN
89.	2	M	AP	F	AN
90.	2	H	AP	F	AN
91.	2	M	AP	F	AN
92.	2	E	K	F	AN
93.	2	M	K	F	AN
94.	2	H	C	F	AN
95.	2	M	C	F	AN
96.	2	M	AP	F	AN
97.	2	M	K	F	AN
98.	2	M	AP	F	AN
99.	2,3	H	C	F	AN
100.	2,3	H	C	F	AN
101.	3	M	C	F	AN
102.	3	H	K	F	AN
103.	3	H	C	F	AN

Item	LO	LOD	Bloom's	CPA	AACSB
104.	3	M	C	F	AN
105.	3	H	C	F	AN
106.	3	H	C	F	AN
107.	3	H	AP	F	AN
108.	3	M	AP	F	AN
109.	3	M	AP	F	AN
110.	3	M	AP	F	AN
111.	3	E	AP	F	AN
112.	3	M	AP	F	AN
113.	3	M	AP	F	AN
114.	3	M	AP	F	AN
115.	3	H	AP	F	AN
116.	3	E	C	F	AN
117.	4	M	AP	F	AN
118.	4	M	C	F	AN
119.	4	E	K	F	AN
120.	4	E	K	F	AN
121.	4	M	C	F	AN
122.	4	M	K	F	AN
123.	4	M	K	F	AN
124.	4	E	K	F	AN
125.	4	E	K	F	AN
126.	5	M	K	F	AN
127.	5	M	C	F	AN
128.	5	E	K	F	AN
129.	5	M	K	F	AN
130.	5	M	K	F	AN
131.	5	M	C	F	AN
132.	5	M	C	F	AN
133.	5	E	K	F	AN
134.	5	E	K	F	AN
135.	5	E	K	F	AN

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Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting P = Professional and Ethical Behaviour
AACSB: AN = Analytic E = Ethics

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
136.	1	M	AP	F	AN	150.	2,3	M	AP	F	AN	164.	2,4	H	AP	F	AN
137.	1	M	AP	F	AN	151.	2,3	M	C	F	AN	165.	2-4	M	AP	F	AN
138.	1-3	H	AP	F	AN	152.	2,3	H	C	F	AN	166.	2-4	M	AP	F	AN
139.	1-3	H	AP	F	AN	153.	2,3	H	K	F	AN	167.	3	E	AP	F	AN
140.	1-3	H	AP	F	AN	154.	2,3	E	C	F	AN	168.	3	M	AP	F	AN
141.	1-3	H	AP	F	AN	155.	2,3	E	AP	F	AN	169.	3	E	C	F	AN
142.	2	E	C	F	AN	156.	2,3	E	AP	F	AN	170.	4	E	K	F	AN
143.	2	H	AN	F	AN	157.	2,3	M	AP	F	AN	171.	4	E	AP	F	AN
144.	2	M	AP	F	AN	158.	2,3	H	AP	F	AN	172.	4,5	M	AP	F	AN
145.	2	M	AP	F	AN	159.	2,3	E	C	F	AN	173.	5	E	K	F	AN
146.	2	H	AP	F	AN	160.	2,3	E	AP	F	AN	174.	5	E	AP	F	AN
147.	2,3	M	C	F	AN	161.	2,3	M	AP	F	AN	175.	5	E	AP	F	AN
148.	2,3	M	AP	F	AN	162.	2,3	E	AP	F	AN	176.	5	E	AP	F	AN
149.	2,3	M	AP	F	AN	163.	2,3	M	AP	F	AN						
Matching																	
177.	1-5	E	C	F	AN												
Short-Answer Essay																	
178.	1	M	C	F	AN	181.	1-3	E	C	F	AN	184.	2,3	H	AN	F	AN
179.	1	E	C	F	AN	182.	2	M	AP	F, P	AN, E	185.	2,3	E	C	F	AN
180.	1-3	H	AN	F	AN	183.	2	M	C	F	AN	186.	5	E	C	F	AN
Objective Format Questions																	
187.	1	M	C	F	AN	189.	1,2	M	K	F	AN	191.	3-5	H	AN	F	AN
188.	1,2	M	C	F	AN	190.	3-5	M	K	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting P = Professional and Ethical Behaviour
AACSB: AN = Analytic E = Ethics

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1											
1.	TF	9.	TF	42.	MC	50.	MC	58.	MC	177.	Ma
2.	TF	10.	TF	43.	MC	51.	MC	59.	MC	178.	SAE
3.	TF	11.	TF	44.	MC	52.	MC	136.	Ex	179.	SAE
4.	TF	12.	TF	45.	MC	53.	MC	137.	Ex	180.	SAE
5.	TF	38.	MC	46.	MC	54.	MC	138.	Ex	181.	SAE
6.	TF	39.	MC	47.	MC	55.	MC	139.	Ex	187.	OF
7.	TF	40.	MC	48.	MC	56.	MC	140.	Ex	188.	OF
8.	TF	41.	MC	49.	MC	57.	MC	141.	Ex	189.	OF
Learning Objective 2											
13.	TF	66.	MC	81.	MC	96.	MC	148.	Ex	163.	Ex
14.	TF	67.	MC	82.	MC	97.	MC	149.	Ex	164.	Ex
15.	TF	68.	MC	83.	MC	98.	MC	150.	Ex	165.	Ex
16.	TF	69.	MC	84.	MC	99.	MC	151.	Ex	166.	Ex
17.	TF	70.	MC	85.	MC	100.	MC	152.	Ex	177.	Ma
18.	TF	71.	MC	86.	MC	138.	Ex	153.	Ex	180.	SAE
19.	TF	72.	MC	87.	MC	139.	Ex	154.	Ex	181.	SAE
20.	TF	73.	MC	88.	MC	140.	Ex	155.	Ex	182.	SAE
21.	TF	74.	MC	89.	MC	141.	Ex	156.	Ex	183.	SAE
60.	MC	75.	MC	90.	MC	142.	Ex	157.	Ex	184.	SAE
61.	MC	76.	MC	91.	MC	143.	Ex	158.	Ex	185.	SAE
62.	MC	77.	MC	92.	MC	144.	Ex	159.	Ex	188.	OF
63.	MC	78.	MC	93.	MC	145.	Ex	160.	Ex	189.	OF
64.	MC	79.	MC	94.	MC	146.	Ex	161.	Ex		
65.	MC	80.	MC	95.	MC	147.	Ex	162.	Ex		
Learning Objective 3											
22.	TF	105.	MC	114.	MC	149.	Ex	158.	Ex	168.	Ex
23.	TF	106.	MC	115.	MC	150.	Ex	159.	Ex	169.	Ex
24.	TF	107.	MC	116.	MC	151.	Ex	160.	Ex	177.	Ma
99.	MC	108.	MC	138.	Ex	152.	Ex	161.	Ex	180.	SAE
100.	MC	109.	MC	139.	Ex	153.	Ex	162.	Ex	181.	SAE
101.	MC	110.	MC	140.	Ex	154.	Ex	163.	Ex	184.	SAE
102.	MC	111.	MC	141.	Ex	155.	Ex	165.	Ex	185.	SAE
103.	MC	112.	MC	147.	Ex	156.	Ex	166.	Ex	190.	OF
104.	MC	113.	MC	148.	Ex	157.	Ex	167.	Ex	191.	OF
Learning Objective 4											
25.	TF	29.	TF	120.	MC	124.	MC	166.	Ex	177.	Ma
26.	TF	117.	MC	121.	MC	125.	MC	170.	Ex	190.	OF
27.	TF	118.	MC	122.	MC	164.	Ex	171.	Ex	191.	OF
28.	TF	119.	MC	123.	MC	165.	Ex	172.	Ex		
Learning Objective 5											
30.	TF	35.	TF	128.	MC	133.	MC	174.	Ex	190.	OF
31.	TF	36.	TF	129.	MC	134.	MC	175.	Ex	191.	OF
32.	TF	37.	TF	130.	MC	135.	MC	176.	Ex		
33.	TF	126.	MC	131.	MC	172.	Ex	177.	Ma		
34.	TF	127.	MC	132.	MC	173.	Ex	186.	SAE		

Type: TF = True-False MC = Multiple Choice Ma = Matching
Ex = Exercise SAE = Short-Answer Essay OF = Objective Format

CHAPTER LEARNING OBJECTIVES

1. ***Explain the accrual basis of accounting and the reasons for adjusting entries.*** Under the accrual basis of accounting, revenues are recognized (recorded) when they are earned, regardless of whether cash has been received. Expenses are recognized (recorded) when they are incurred, regardless of whether cash has been paid. This differs from the cash basis of accounting in which companies record events only in the periods in which the company receives (revenues) or pays cash (expenses).
   Revenues are recognized when there is an increase in economic resources, such as an increase in assets or a decrease in liabilities in the course of the company's ordinary activities. This happens when a company satisfies its performance obligations by providing services to customers. Under IFRS, a five-step model is used for determining when performance obligations have been satisfied and revenues can be recognized. The steps are: (1) Identify the contract with the client or customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the company satisfies the performance obligation. Under ASPE, revenues are recognized when the services have been provided to customers, the amount is measurable, and collection is reasonably assured.
   Expenses are recognized when there is a decrease in economic resources, which occurs when assets are consumed or liabilities are incurred in the company's ordinary revenue-generating activities. Expense recognition is linked to revenue recognition in that expenses are normally recognized in the same reporting period as the revenues they helped to generate.
   Companies make adjusting entries at the end of each accounting period to ensure that asset and liability accounts are reported at their correct amounts, revenues have been recorded when they are earned, and expenses have been recorded when they have been incurred. There are two general types of adjusting entries: (1) prepayments, which recognize the portion of an asset's cost that needs to be expensed or the portion of deferred revenue that has been earned and needs to be recognized as revenue on the statement of income, and (2) accruals, which record expenses incurred (but unpaid and not recorded earlier) or revenues earned (but not yet received as cash or recorded earlier) in the statement of income and the related payable or receivable in the statement of financial position.

2. ***Prepare adjusting entries for prepayments.*** Prepayments involve accounts that have previously been recorded as assets (such as when cash was paid in advance for prepaid expenses) or liabilities (such as when cash was received in advance for deferred revenues). The adjusting entry for prepaid expenses results in an increase (debit) to an expense account and a decrease (credit) to an asset account or an increase (credit) to a contra asset account. The adjusting entry for deferred revenues results in a decrease (debit) to a liability (deferred revenue) account and an increase (credit) to a revenue account.

3. ***Prepare adjusting entries for accruals.*** Adjusting entries for accruals are needed to record the expenses and revenues that apply to the current accounting period and that have not already been recognized through transaction journal entries. Accruals involve

accounts for which there has been no cash received or paid as yet. The adjusting entry for accrued expenses results in an increase (debit) to an expense account and an increase (credit) to a liability (payable) account. The adjusting entry for accrued revenues results in an increase (debit) to an asset (receivable) account and an increase (credit) to a revenue account.

4. ***Prepare an adjusted trial balance and financial statements.*** An adjusted trial balance is a trial balance that shows the balances of all accounts at the end of an accounting period, including those that have been adjusted. It demonstrates that total debits equal total credits. An adjusted trial balance facilitates the preparation of the financial statements.

5. ***Prepare closing entries and a post-closing trial balance.*** One purpose of closing entries is to update the Retained Earnings account to its end-of-period balance. A second purpose is to reset the balance in all temporary accounts (revenue, expense, and dividends declared accounts) to zero for the beginning of the new accounting period. To accomplish this, entries are made to close each individual revenue and expense account to a specific-purpose temporary account called Income Summary, which summarizes net income (or net loss). The Income Summary account is then closed to the Retained Earnings account. The Dividends Declared account is closed directly to Retained Earnings (and not via the Income Summary account, because the declaration of dividends does not affect net income).

   A post-closing trial balance lists only permanent accounts (statement of financial position accounts) because these account balances are carried forward to the next accounting period. The purpose of the post-closing trial balance, as with other trial balances, is to prove the equality of total debits and total credits.

TRUE-FALSE STATEMENTS

1. Accounting divides the economic life of a business entity into time periods.

2. An accounting transaction *never* affects more than one accounting time period.

3. Revenue results when there is an increase in a liability or a decrease in an asset.

4. Revenue must be recognized when (or as) the company satisfies the performance obligation, regardless of whether or not the transaction price has been determined.

5. Revenue recognition follows expense recognition.

6. Expense recognition is tied to changes in assets and liabilities.

7. Expense recognition always coincides with revenue recognition.

8. Under the accrual basis of accounting, expenses are only recognized when they are paid.

9. Under the cash basis of accounting, revenue is only recognized when cash is received.

10. Under the cash basis of accounting, expense recognition generally does *not* follow revenue recognition.

11. Since some costs are not recorded, adjusting entries are necessary.

12. For a private company reporting under ASPE, adjusting entries must be prepared at least quarterly.

13. Prepaid expenses are costs that are paid for before they are used.

14. Expenses paid before being used or consumed are initially recorded as liabilities.

15. When money is received from a customer prior to the delivery of goods or the performance of a service, it is recorded as revenue.

16. The purchase of certain types of long-lived (non-current) assets is essentially a long-term prepayment for services.

17. The cost of any depreciable asset less accumulated depreciation reflects the carrying amount of the asset.

18. The carrying amount of a depreciable asset is always equal to its actual value because depreciation is a valuation technique.

19. Accumulated Depreciation is a liability account and its normal account balance is a credit.

20. The balances of the Depreciation Expense and the Accumulated Depreciation accounts should always be the same.

21. A contra asset account is subtracted from a related asset account in the statement of financial position and has a normal credit balance.

22. Adjusting entries *never* affect cash.

23. If a three-month, 6% bank loan for $5,000 is signed on October 1, the interest expense for the month of October is $25.
Solution: Correct interest expense: $5,000 x.06 x 1/12 = $25

24. The adjustment for accrued salaries results from services being paid for after the services are performed.

25. The statement of financial position and statement of income can be prepared from the information provided by an adjusted trial balance.

26. An adjusted trial balance must be prepared before the adjusting entries can be recorded.

27. The purpose of an adjusted trial balance is to ensure all adjusting entries have been recorded.

28. The statement of changes in equity is prepared from the Common Shares, Retained Earnings and Dividends Declared accounts on the adjusted trial balance.

29. When preparing the statement of financial position, the balance of Retained Earnings is taken from the Adjusted Trial Balance.

30. The post-closing trial balance will contain only permanent accounts.

31. The Dividends Declared account is closed to the Income Summary account at the end of each year.

32. Financial statements are generally prepared before the closing entries are posted.

33. The Income Summary account is a permanent account.

34. When closing entries are posted, the result is a zero balance in each statement of income account.

35. Closing entries are prepared before adjusting entries.

36. Closing entries result in the transfer of net income or loss into the Retained Earnings account.

37. The post-closing trial balance will have fewer accounts than the adjusted trial balance.

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	9.	T	17.	T	25.	T	33.	F
2.	F	10.	T	18.	F	26.	F	34.	T
3.	F	11.	T	19.	F	27.	F	35.	F
4.	F	12.	F	20.	F	28.	F	36.	T
5.	F	13.	T	21.	T	29.	F	37.	T
6.	T	14.	F	22.	T	30.	T		
7.	F	15.	F	23.	T	31.	F		
8.	F	16.	T	24.	T	32.	T		

MULTIPLE CHOICE QUESTIONS

38. Adjusting entries are needed
(a) to produce relevant financial information.
(b) only under the cash basis of accounting.
(c) to update accounts at the beginning of the accounting period.
(d) for budgeting purposes.

39. Under IFRS, which of the following is generally *not* a guideline for recognizing revenue?
(a) When (or as) the company satisfies the performance obligation.
(b) The contract is identified with the client.
(c) Collection is reasonably assured.
(d) The transaction price is determinable.

40. Which of the following is *not* generally an accounting time period?
(a) a week
(b) a month
(c) a quarter
(d) a year

41. In general, revenue recognition occurs
(a) when cash is received.
(b) when it is earned.
(c) when expenses are incurred.
(d) in the period that income taxes are paid.

42. Under IFRS, revenue recognition criteria include recognizing revenue when
(a) cash is received.
(b) the company satisfies the performance obligation.
(c) related expenses are recognized.
(d) the revenue is recorded.

43. Recording transactions that affect a company's financial statements in the periods in which they occur rather than when cash is received or paid is called
(a) time period accounting.
(b) the cash basis of accounting.
(c) monetary accounting.
(d) the accrual basis of accounting.

44. On February 15, a local business receives an invoice for electricity used in the month of January and pays it on March 1. In which month should the business recognize the expense?
(a) February
(b) January

(c) March
(d) No expense should be recorded.

45. A dress shop makes a dress that sells for $200 and delivers it to the customer on June 30. The customer is sent a statement on July 7 and a cheque is received by the dress shop on July 11. When should the $200 be recognized as revenue?
(a) July 7
(b) July 11
(c) June 30
(d) July 1

46. A furniture factory's employees work overtime in February to finish an order that is sold on February 28. The office sends a statement to the customer in early March and payment is received by mid-March. The overtime salaries should be expensed in
(a) February.
(b) March.
(c) the period when the workers receive their cheques.
(d) either February or March depending on when the pay period ends.

47. Under the accrual basis of accounting
(a) cash must be received before revenue is recognized.
(b) net income is calculated by matching cash outflows against cash inflows.
(c) revenue is recognized when earned, while expenses are recognized when incurred to generate revenue.
(d) the ledger accounts must be adjusted to reflect a cash basis of accounting before financial statements are prepared under generally accepted accounting principles.

48. Using accrual accounting, expenses are recorded and reported only
(a) when they are incurred for the purpose of generating revenue, whether or not cash is paid.
(b) when they are incurred and paid at the same time.
(c) if they are paid before they are incurred.
(d) if they are paid after they are incurred.

49. Guardian Corp. sells $6,250 of goods on account in the current year and collects $3,250 of this. It incurs $4,200 in expenses on account during the current year and pays $2,600 of them. Guardian would report what amount of net income under the cash and accrual bases of accounting, respectively?
(a) $2,050 on the cash basis and $3,000 on the accrual basis
(b) $3,250 on the cash basis and $4,200 on the accrual basis
(c) $3,000 on the cash basis and $1,600 on the accrual basis
(d) $650 on the cash basis and $2,050 on the accrual basis
Solution: Cash basis: $3,250 – $2,600 = $650; Accrual basis: $6,250 – $4,200 = $2,050

50. Fang's Tune-Up Shop Ltd. uses the accrual basis of accounting. Fang services a car on May 31. The customer picks up the vehicle on June 1 and mails payment to Fang on June 5.

CHAPTER 5

MERCHANDISING OPERATIONS

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	K	F	AN	16.	3	E	K	F	AN	31.	5	E	AP	F	AN
2.	1	E	K	F	AN	17.	3	E	C	F	AN	32.	5	E	K	F	AN
3.	1	E	K	F	AN	18.	3	E	K	F	AN	33.	5	E	K	F	AN
4.	1	E	K	F	AN	19.	3	M	C	F	AN	34.	5	E	K	F	AN
5.	1	E	C	F	AN	20.	3	M	C	F	AN	35.	5	M	K	F	AN
6.	1	M	K	F	AN	21.	4	M	K	F	AN	*36.	6	E	K	F	AN
7.	1	M	K	F	AN	22.	4	E	K	F	AN	*37.	6	M	C	F	AN
8.	2	M	C	F	AN	23.	4	E	K	F	AN	*38.	6	E	K	F	AN
9.	2	M	K	F	AN	24.	4	E	K	F	AN	*39.	6	E	K	F	AN
10.	2	E	C	F	AN	25.	4	E	K	F	AN	*40.	6	M	C	F	AN
11.	2	E	C	F	AN	26.	4	M	K	F	AN	*41.	6	M	C	F	AN
12.	2	E	AP	F	AN	27.	4	M	K	F	AN	**42.	7	E	K	F	AN
13.	2	M	C	F	AN	28.	4	M	K	F	AN	**43.	7	M	K	F	AN
14.	2	M	AP	F	AN	29.	4	E	K	F	AN	**44.	7	E	C	F	AN
15.	3	E	C	F	AN	30.	5	M	K	F	AN	**45.	7	M	AP	F	AN

LOD: E = Easy M = Medium
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

*This topic is dealt with in Appendix A to the chapter.
**This topic is dealt with in Appendix B to the chapter.

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Multiple Choice Questions																	
46.	1	M	C	F	AN	85.	3	E	K	F	AN	124.	5	E	AP	F	AN
47.	1	E	K	F	AN	86.	3	E	C	F	AN	125.	5	M	AP	F	AN
48.	1	E	K	F	AN	87.	3	E	C	F	AN	126.	5	E	AP	F	AN
49.	1	E	K	F	AN	88.	3	E	C	F	AN	127.	5	E	K	F	AN
50.	1	M	C	F	AN	89.	3	M	K	F	AN	128.	5	E	K	F	AN
51.	1	M	C	F	AN	90.	3	E	K	F	AN	129.	5	M	AP	F	AN
52.	1	E	K	F	AN	91.	3	E	C	F	AN	130.	5	M	AP	F	AN
53.	1	M	K	F	AN	92.	3	M	AP	F	AN	131.	5	E	C	F	AN
54.	1	E	K	F	AN	93.	3	E	C	F	AN	*132.	6	E	C	F	AN
55.	1	E	K	F	AN	94.	3	E	C	F	AN	*133.	6	M	C	F	AN
56.	1	E	K	F	AN	95.	3	M	C	F	AN	*134.	6	M	C	F	AN
57.	1	M	K	F	AN	96.	3	E	C	F	AN	*135.	6	E	C	F	AN
58.	1	M	K	F	AN	97.	3	M	C	F	AN	*136.	6	E	C	F	AN
59.	1	E	C	F	AN	98.	3	E	C	F	AN	*137.	6	E	C	F	AN
60.	1	E	K	F	AN	99.	3	E	C	F	AN	*138.	6	E	C	F	AN
61.	1	E	C	F	AN	100.	4	E	K	F	AN	*139.	6	E	C	F	AN
62.	1	E	C	F	AN	101.	4	E	C	F	AN	*140.	6	M	C	F	AN
63.	1	M	C	F	AN	102.	4	E	K	F	AN	*141.	6	M	C	F	AN
64.	1	E	C	F	AN	103.	4	E	K	F	AN	*142.	6	E	C	F	AN
65.	1	E	C	F	AN	104.	4	E	C	F	AN	*143.	6	E	C	F	AN
66.	1	E	C	F	AN	105.	4	E	C	F	AN	*144.	6	E	AP	F	AN
*67.	1,6	M	C	F	AN	106.	4	M	C	F	AN	*145.	6	M	AP	F	AN
*68.	1,6	E	K	F	AN	107.	4	E	K	F	AN	*146.	6	M	C	F	AN
*69.	1,6	E	K	F	AN	108.	4	E	K	F	AN	*147.	6	M	AP	F	AN
70.	2	E	C	F	AN	109.	4	E	K	F	AN	*148.	6	M	AP	F	AN
71.	2	M	C	F	AN	110.	4	H	C	F	AN	*149.	6	M	AP	F	AN
72.	2	E	K	F	AN	111.	4	M	C	F	AN	*150.	6	M	C	F	AN
73.	2	M	AP	F	AN	112.	4	E	K	F	AN	**151.	7	E	K	F	AN
74.	2	E	C	F	AN	113.	4	E	K	F	AN	**152.	7	E	C	F	AN
75.	2	M	C	F	AN	114.	4	M	C	F	AN	**153.	7	M	C	F	AN
76.	2	M	C	F	AN	115.	4	E	K	F	AN	**154.	7	E	AP	F	AN
77.	2	E	C	F	AN	116.	4	M	K	F	AN	**155.	7	M	AP	F	AN
78.	2	M	C	F	AN	117.	4	E	K	F	AN	**156.	7	M	AP	F	AN
79.	2	E	AP	F	AN	118.	4	M	AP	F	AN	**157.	7	E	C	F	AN
80.	2	E	C	F	AN	119.	5	M	AP	F	AN	**158.	7	E	C	F	AN
81.	2	E	K	F	AN	120.	5	M	AP	F	AN	**159.	7	E	C	F	AN
82.	3	H	C	F	AN	121.	5	M	C	F	AN	**160.	7	E	K	F	AN
83.	3	E	C	F	AN	122.	5	E	C	F	AN						
84.	3	M	K	F	AN	123.	5	M	C	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

*This topic is dealt with in Appendix A to the chapter.
**This topic is dealt with in Appendix B to the chapter.

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
161.	1	M	AP	F	AN	174.	4	E	AP	F	AN	*187.	6	H	AP	F	AN
162.	2	H	AP	F	AN	175.	4	E	C	F	AN	*188.	6	M	AP	F	AN
163.	2	M	AP	F	AN	176.	4	M	AP	F	AN	*189.	6	E	AP	F	AN
164.	2,3	E	AP	F	AN	177.	4,5	E	AP	F	AN	*190.	6	E	AP	F	AN
165.	2,3	M	AP	F	AN	178.	4,5	E	AP	F	AN	*191.	6	E	AP	F	AN
166.	2,3	E	AP	F	AN	179.	4,5	E	AP	F	AN	*192.	6	M	AP	F	AN
167.	2,3	E	AP	F	AN	**180.	4,5,7	E	AP	F	AN	*193.	6	E	AP	F	AN
168.	2,3	H	AP	F	AN	**181.	4,5,7	M	AP	F	AN	*194.	6	M	AP	F	AN
169.	2,3	H	AP	F	AN	182.	5	M	AP	F	AN	*195.	6	E	AP	F	AN
170.	2,3	M	AP	F	AN	183.	5	M	AP	F	AN	**196.	7	M	AP	F	AN
*171.	2,3,6	E	AP	F	AN	184.	5	M	AP	F	AN	**197.	7	E	AP	F	AN
172.	3	M	AP	F	AN	*185.	5,6	M	AP	F	AN						
173.	4	M	AP	F	AN	*186.	6	M	AP	F	AN						
Matching																	
*198.	1–3,5,6	E,M	K	F	AN												
Short-Answer Essay																	
199.	1	M	C	F	AN	203.	4	E	C	F	AN	207.	4	M	C	F,E	AN,C
*200.	1,2,6	M	C	F	AN	204.	4	M	C	F	AN	208.	4,5	M	C	F,E	AN,E
*201.	1,6	E	K	F	AN	205.	4	E	C	F	AN	209.	5	E	C	F	AN
**202.	3,7	E	C	F	AN	206.	4	E	C	F	AN	**210.	6,7	E	C	F	AN
Objective Format Questions																	
211.	2,3	M	C	F	AN	**213.	4,7	M	AN	F	AN	*215.	6	M	C	F	AN
212.	4	M	K	F	AN	*214.	6	E	K	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: E = Professional and Ethical Behaviour F = Financial Reporting
AACSB: AN = Analytic C = Communication E = Ethics

*This topic is dealt with in Appendix A to the chapter.
**This topic is dealt with in Appendix B to the chapter.

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	7.	TF	51.	MC	57.	MC	63.	MC	*69.	MC		
2.	TF	46.	MC	52.	MC	58.	MC	64.	MC	161.	Ex		
3.	TF	47.	MC	53.	MC	59.	MC	65.	MC	*198.	Ma		
4.	TF	48.	MC	54.	MC	60.	MC	66.	MC	199.	SAE		
5.	TF	49.	MC	55.	MC	61.	MC	*67.	MC	*200.	SAE		
6.	TF	50.	MC	56.	MC	62.	MC	*68.	MC	*201.	SAE		
Learning Objective 2													
8.	TF	13.	TF	73.	MC	78.	MC	163.	Ex	168.	Ex	*200.	SAE
9.	TF	14.	TF	74.	MC	79.	MC	164.	Ex	169.	Ex	211.	OF
10.	TF	70.	MC	75.	MC	80.	MC	165.	Ex	170.	Ex		
11.	TF	71.	MC	76.	MC	81.	MC	166.	Ex	*171.	Ex		
12.	TF	72.	MC	77.	MC	162.	Ex	167.	Ex	*198.	Ma		
Learning Objective 3													
15.	TF	82.	MC	88.	MC	94.	MC	164.	Ex	170.	Ex		
16.	TF	83.	MC	89.	MC	95.	MC	165.	Ex	*171.	Ex		
17.	TF	84.	MC	90.	MC	96.	MC	166.	Ex	172.	Ex		
18.	TF	85.	MC	91.	MC	97.	MC	167.	Ex	*198.	Ma		
19.	TF	86.	MC	92.	MC	98.	MC	168.	Ex	*202.	SAE		
20.	TF	87.	MC	93.	MC	99.	MC	169.	Ex	211.	OF		
Learning Objective 4													
21.	TF	28.	TF	105.	MC	112.	MC	173.	Ex	**180.	Ex	208.	SAE
22.	TF	29.	TF	106.	MC	113.	MC	174.	Ex	**181.	Ex	212.	OF
23.	TF	100.	MC	107.	MC	114.	MC	175.	Ex	203.	SAE	**213.	OF
24.	TF	101.	MC	108.	MC	115.	MC	176.	Ex	204.	SAE		
25.	TF	102.	MC	109.	MC	116.	MC	177.	Ex	205.	SAE		
26.	TF	103.	MC	110.	MC	117.	MC	178.	Ex	206.	SAE		
27.	TF	104.	MC	111.	MC	118.	MC	179.	Ex	207.	SAE		
Learning Objective 5													
30.	TF	35.	TF	123.	MC	128.	MC	178.	Ex	183.	Ex	209.	SAE
31.	TF	119.	MC	124.	MC	129.	MC	179.	Ex	184.	Ex		
32.	TF	120.	MC	125.	MC	130.	MC	**180.	Ex	*185.	Ex		
33.	TF	121.	MC	126.	MC	131.	MC	**181.	Ex	*198.	Ma		
34.	TF	122.	MC	127.	MC	177.	Ex	182.	Ex	208.	SAE		
***Learning Objective 6**													
*36.	TF	*68.	MC	*137.	MC	*144.	MC	*171.	Ex	*191.	Ex	*201	SAE
*37.	TF	*69.	MC	*138.	MC	*145.	MC	*185.	Ex	*192.	Ex	*210.	SAE
*38.	TF	*132.	MC	*139.	MC	*146.	MC	*186.	Ex	*193.	Ex	*214.	OF
*39.	TF	*133.	MC	*140.	MC	*147.	MC	*187.	Ex	*194.	Ex	*215.	OF
*40.	TF	*134.	MC	*141.	MC	*148.	MC	*188.	Ex	*195.	Ex		
*41.	TF	*135.	MC	*142.	MC	*149.	MC	*189.	Ex	*198.	Ma		
*67.	MC	*136.	MC	*143.	MC	*150.	MC	*190.	Ex	*200	SAE		
****Learning Objective 7**													
**42.	TF	**45.	TF	**153.	MC	**156.	MC	**159.	MC	**181.	Ex	**202.	SAE
**43.	TF	**151.	MC	**154.	MC	**157.	MC	**160.	MC	**196.	Ex	**210.	SAE
**44.	TF	**152.	MC	**155.	MC	**158.	MC	**180.	Ex	**197.	Ex	**213.	OF

Note: TF = True-False MC = Multiple Choice Ma = Matching
Ex = Exercise SAE = Short-Answer Essay OF = Objective Format

*This topic is dealt with in Appendix A to the chapter.

**This topic is dealt with in Appendix B to the chapter.

CHAPTER LEARNING OBJECTIVES

1. ***Identify the differences between service and merchandising companies.*** A service company performs services. It has service or fee revenue and operating expenses. A merchandising company sells goods. It has sales revenue, cost of goods sold, and gross profit in addition to operating expenses. Both types of companies may also report non-operating items and each would report income tax expense.
   There are two types of inventory systems: perpetual inventory systems and periodic inventory systems. In a perpetual inventory system, the cost of goods sold and ending inventory amounts are always known. This is not the case with a periodic inventory system in which these amounts can be determined only after an inventory count. In addition to providing more timely information, perpetual inventory systems have the added advantages of enabling management to determine the extent of any theft of inventory and establish automatic reordering points.

2. ***Record purchases under a perpetual inventory system.*** The Inventory account is debited for all purchases of merchandise and for freight costs if those costs are paid by the buyer (freight terms FOB shipping point). The Inventory account is credited for purchase discounts, and purchase returns and allowances. Freight terms are used to determine when the ownership of inventory changes hands. If the terms are FOB destination, then the inventory remains an asset of the seller until it reaches the buyer's place of business. If the terms are FOB shipping point, then the inventory becomes an asset of the buyer as soon as it is shipped.
   Purchase discounts are discounts provided by the seller to encourage the buyer to pay for credit purchases in advance of the due date. When they are taken, they must be accounted for because they reduce the cost of inventory purchases that have already been recorded. Quantity discounts are related to volume purchases of inventory and are offered at the time of purchase. They do not have to be separately accounted for because they simply reduce the purchase price, which is then used to record the inventory purchase.
   An inventory count must be taken at least once per year so that any inventory shortages due to theft or shrinkage can be accounted for. This is done by adjusting cost of goods sold and inventory.

3. ***Record sales under a perpetual inventory system.*** When inventory is sold, two entries are required: (1) Cash or Accounts Receivable is debited and Sales is credited for the selling price of the merchandise, and (2) Cost of Goods Sold is debited and Inventory is credited for the cost of inventory items sold. When using the five-step model, sales returns and allowances are considered to be a variable consideration. As a result, the estimated sales returns and allowances reduce the amount of revenue that can be recognized. A refund liability is established for these estimated amounts at the time of sale. Two journal entries are also required for sales returns so that the refund liability can be adjusted and so that inventory can be adjusted by the cost of the returned merchandise (if its condition would enable the company to resell it). Freight costs paid by the seller (shipping terms FOB destination) are recorded as an operating expense.
   Sales involving multiple performance obligations require the transaction price to be allocated to the performance obligations on the basis of their stand-alone selling prices. Once each performance obligation is satisfied, that portion of the transaction price can be

recognized as revenue.

4. ***Prepare a single-step and a multiple-step income statement.*** In a single-step statement of income, all data (except for income tax expense) are classified under two categories—revenues or expenses—and income before income tax is determined in one step. Income tax expense is separated from the other expenses and reported separately after income before income tax to determine net income (loss).
   A multiple-step statement of income shows several steps in determining net income. Step 1 deducts cost of goods sold from sales to determine gross profit. Step 2 deducts operating expenses (which can be classified by nature or by function) from gross profit to determine income from operations. Step 3 adds or deducts any non-operating items to determine income before income tax. Finally, Step 4 deducts income tax expense to determine net income (loss).
   A comprehensive statement of income reports comprehensive income, which is the sum of net income and other comprehensive income amounts. Other comprehensive income includes unrealized gains and losses that result from adjusting certain assets and liabilities to their fair value at the end of each reporting period.

5. ***Calculate the gross profit margin and profit margin.*** The gross profit margin, calculated by dividing gross profit by sales, measures the gross profit earned for each dollar of sales. The profit margin, calculated by dividing net income by sales, measures the income earned for each dollar of sales. Both are measures of profitability that are closely watched by management and other interested parties. Generally, management's aim is to maximize both gross profit margin and profit margin.

*6. ***Record purchases and sales under a periodic inventory system (Appendix 5A).*** The periodic inventory system differs from the perpetual inventory system in that separate temporary accounts are used in the periodic system to record (1) purchases, (2) purchase returns and allowances, (3) purchase discounts, and (4) freight costs that are paid by the buyer (shipping terms FOB shipping point). The formula for cost of goods purchased is as follows: Purchases – purchase returns and allowances – purchase discounts = net purchases; and net purchases + freight in = cost of goods purchased.
   In a periodic inventory system, only one journal entry is made to record a sale of merchandise because the cost of goods sold is not recorded throughout the period. Instead, the cost of goods sold is determined at the end of the period, after an inventory count has been completed.
   To determine the cost of goods sold, first calculate the cost of goods purchased, as indicated above. Then, calculate the cost of goods sold as follows: Beginning inventory + cost of goods – purchased = cost of goods available for sale; and cost of goods available for sale – ending inventory = cost of goods sold.
   At the end of the period, the Inventory account is adjusted to reflect its proper balance as determined from the inventory count results. The change in this account is allocated to the Cost of Goods Sold account as are the balances in the Freight In and Purchases accounts and any related contra accounts.
   The statement of financial position, statement of changes in equity, and statement of cash flows are no different in a periodic inventory system than in a perpetual inventory system. However, a multiple-step statement of income includes more detail in the cost of goods sold section in a periodic inventory system.

7. ***Account for sales returns and sales discounts under ASPE (Appendix 5B).* Under ASPE, sales are recorded at their full amount, even when returns are expected to occur. When inventory that was sold is returned by a customer, the seller will record two journal entries if a perpetual system is used. First, the seller will debit sales returns and allowances and credit cash or accounts receivable by an amount equal to the sales price of the returned goods. Secondly, if the returned inventory can be sold again, the seller will debit inventory and credit cost of goods sold by the cost initially paid for that inventory. The second entry would not be recorded if the company used a periodic system. If the seller offers sales discounts, the seller will record the amount of the discount when receiving payment from the customer within the discount period. At that time, the seller will debit cash and sales discounts and credit accounts receivable. Both sales returns and allowances and sales discounts are contra-accounts to sales.

TRUE-FALSE STATEMENTS

1. A physical inventory count should be done at least once a year regardless of whether a perpetual or periodic inventory system is being used.

2. The operating cycle of a merchandising company is generally shorter than that of a service company.

3. Under a perpetual inventory system, the cost of goods sold is determined each time a sale occurs.

4. Inventory is usually the largest current asset for a merchandiser.

5. Cost of Goods Sold is considered an operating expense for a merchandising company.

6. Operating expenses are subtracted from revenue for a service company and from gross profit for a merchandising company.

7. Cost of goods available for sale is considered an operating expense for a merchandising company.

8. When the terms of sale are FOB shipping point, the seller is responsible for any damages to the goods during shipping.

9. Freight terms will specify the point at which ownership of the goods is transferred from the seller to the buyer.

10. Freight costs incurred on incoming merchandise are an operating expense to the buyer.

11. The terms 2/10, n/30 mean that a 2% discount is allowed on payments made over 10 days but within the credit period.

12. If merchandise costing $2,500, terms 2/10 n/30, is paid within 10 days, the amount of the purchase discount is $250.
Solution: $2,500 x.02 = $50.00

13. A quantity discount is recorded separately, the same way as a purchase discount.

14. If a quantity discount of 10% is received on a purchase of $10,000, inventory would be recorded at $9,000.
Solution: $10,000 x.90 = $9,000

15. When sales are made with a right of return, the sales revenue is recorded net of the expected amount of returns and a Refund Liability is also debited.

16. A Refund Liability (deferred revenue) account is used to track expected sales returns and allowances.

17. When a company collects sales taxes from selling a product or service, these sales taxes are also recorded as revenue.

18. An asset account, Estimated Inventory Returns, is used to record the cost of the goods expected to be returned.

19. When goods are shipped FOB shipping point, freight costs are an operating expense for the seller.

20. Under ASPE, when returned merchandise is defective, the seller's sales account is debited.

21. The multiple-step statement of income is considered more useful than the single-step statement of income for a merchandising company because it highlights the components of net income.

22. Operating expenses are similar in merchandising and service companies.

23. Gross profit appears on both the single-step and multiple-step forms of the statement of income.

24. Non-operating activities include revenues and expenses that are related to the company's main operations.

25. Corporations following IFRS must classify their expenses either by nature or by function.

26. Income from operations appears on both the single-step and multiple-step forms of the statement of income.

27. A merchandising company's income from operations is determined by subtracting cost of goods sold from sales.

28. Interest income for a merchandising company is usually reported in the non-operating activities section of the statement of income.

29. Companies following ASPE may classify their expenses by nature, but not by function.

30. Gross profit margin is the same as the gross profit amount.

31. If sales are $1,000,000 and cost of goods sold is $800,000, the gross profit margin is 20%.
Solution: ($1,000,000 – $800,000) / $1,000,000 = 20%

32. The gross profit amount is generally considered to be more informative than the gross profit margin.

33. Gross profit margin is calculated by dividing cost of goods sold by sales.

34. Profit margin indicates whether a company is controlling operating expenses relative to sales.

35. Profit margin is calculated by dividing net income by sales.

*36. Purchase Returns and Allowances and Purchase Discounts are contra expense accounts with normal credit balances.

*37. Freight In is subtracted from the Purchases account to arrive at cost of goods purchased.

*38. A key difference between the periodic and perpetual inventory systems is the timing of the calculation of cost of goods sold.

*39. The cost of goods sold section of a statement of income prepared under a periodic inventory system will contain more detail than under a perpetual inventory system.

*40. On the statement of income for a company using the periodic inventory system, the inventory at the beginning of the period is added to the cost of merchandise purchased for the period to calculate the cost of goods available for sale during the period.

*41. Compared to a perpetual inventory system, the use of the periodic inventory system will result in a different value for inventory on the statement of financial position.

**42. Discounts taken for early payment of an invoice are called sales discounts by the buyer.

**43. Under ASPE, the Sales Returns account and the Sales Discounts account are both classified as expense accounts.

**44. When the terms of sale include a sales discount, it usually is advisable for the buyer to pay within the discount period.

**45. Merchandise is sold for $2,500 with terms 1/10, n/30. If $500 of the merchandise is returned prior to payment and the invoice is paid within the discount period, the amount of the sales discount is $20.
Solution: ($2,500 – $500) x.01 = $20.00

CHAPTER 6

REPORTING AND ANALYZING INVENTORY

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	C	F	AN	10.	2	E	C	F	AN	19.	5	E	C	F	AN
2.	1	E	K	F	AN	11.	2	E	K	F	AN	20.	5	E	C	F	AN
3.	1	E	C	F	AN	12.	2	M	K	F	AN	21.	5	M	K	F	AN
4.	1	M	C	F	AN	13.	2	E	K	F	AN	22.	5	M	K	F	AN
5.	2	E	K	F	AN	14.	2	M	K	F	AN	23.	5	E	C	F	AN
6.	2	M	C	F	AN	15.	3	M	K	F	AN	24.	5	E	C	F	AN
7.	2	E	K	F	AN	16.	3	E	K	F	AN	25.	5	M	K	F	AN
8.	2	M	C	F	AN	17.	3	M	C	F	AN	*26.	6	E	C	F	AN
9.	2	E	K	F	AN	18.	3	M	K	F	AN						
Multiple Choice Questions																	
27.	1	H	C	F	AN	53.	2	E	AP	F	AN	79.	4	E	C	F	AN
28.	1	M	K	F	AN	54.	2	E	K	F	AN	80.	4	H	C	F	AN
29.	1	M	K	F	AN	55.	2	E	C	F	AN	81.	4	M	C	F	AN
30.	1	E	K	F	AN	56.	3	M	C	F	AN	82.	4	M	C	F	AN
31.	1	H	C	F	AN	57.	3	E	C	F	AN	83.	4	E	C	F	AN
32.	1	E	K	F	AN	58.	3	E	K	F	AN	84.	4	E	C	F	AN
33.	1	E	K	F	AN	59.	3	E	K	F	AN	85.	5	E	K	F	AN
34.	2	E	K	F	AN	60.	3	M	K	F	AN	86.	5	E	C	F	AN
35.	2	H	C	F	AN	61.	3	E	K	F	AN	87.	5	M	AP	F	AN
36.	2	E	AP	F	AN	62.	3	E	K	F	AN	88.	5	M	AP	F	AN
37.	2	E	K	F	AN	63.	3	E	C	F	AN	89.	5	H	AP	F	AN
38.	2	M	AP	F	AN	64.	3	E	C	F	AN	90.	5	E	C	F	AN
39.	2	M	AP	F	AN	65.	3	E	C	F	AN	91.	5	E	K	F	AN
40.	2	M	AP	F	AN	66.	3	M	C	F	AN	92.	5	E	K	F	AN
41.	2	H	AP	F	AN	67.	3	M	C	F	AN	93.	5	E	AP	F	AN
42.	2	M	C	F	AN	68.	3	E	C	F	AN	94.	5	E	AP	F	AN
43.	2	M	AP	F	AN	69.	3	E	C	F	AN	95.	5	M	C	F	AN
44.	2	E	AP	F	AN	70.	3	M	C	F	AN	96.	5	H	AP	F	AN
45.	2	M	AP	F	AN	71.	3	E	C	F	AN	97.	5	M	AP	F	AN
46.	2	H	AP	F	AN	72.	3	E	K	F	AN	*98.	6	E	K	F	AN
47.	2	M	AP	F	AN	73.	3	M	C	F	AN	*99.	6	H	C	F	AN
48.	2	M	C	F	AN	74.	3	E	C	F	AN	*100.	6	E	K	F	AN
49.	2	M	AP	F	AN	75.	3	E	K	F	AN	*101.	6	M	C	F	AN
50.	2	M	AP	F	AN	76.	3	E	C	F	AN	*102.	6	E	AP	F	AN
51.	2	H	AP	F	AN	77.	3	M	C	F	AN	*103.	6	E	AP	F	AN
52.	2	M	AP	F	AN	78.	3	E	K	F	AN	*104.	6	M	C	F	AN

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CPA: F = Financial Reporting
AACSB: AN = Analytic

*This topic is dealt with in an Appendix to the chapter.

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
105.	1	H	C	F	AN	115.	3	M	AP	F	AN	125.	5	M	C	F	AN
106.	1	E	K	F	AN	116.	3	E	K	F	AN	126.	5	M	C	F	AN
107.	2	E	C	F	AN	117.	4	H	E	F	AN	127.	5	E	K	F	AN
108.	2	H	C	F	AN	118.	4	H	AP	F	AN	*128.	6	M	AP	F	AN
109.	2	M	C	F	AN	119.	4	M	C	F	AN	*129.	6	M	AP	F	AN
110.	2	H	C	F	AN	120.	4	M	AP	F	AN	*130.	6	E	C	F	AN
111.	2	H	AP	F	AN	121.	5	E	AP	F	AN	*131.	6	M	AP	F	AN
112.	2	M	AP	F	AN	122.	5	M	AP	F	AN	*132.	6	M	AP	F	AN
113.	2,3	E	AP	F	AN	123.	5	E	AP	F	AN	*133.	6	M	AP	F	AN
114.	3	M	AP	F	AN	124.	5	M	C	F	AN						
Matching																	
134.	1,2,5	E,M	K	F	AN												
Short-Answer Essay																	
135.	1	M	C	F,E	AN,E	138.	2,3	M	C	F	AN	141.	5	E	C	F	AN
136.	1,5	M	AP	F	AN, E	139.	4	H	E	F	AN						
137.	2,3	H	C	F	AN	140.	4	M	C	F,C	AN,C						
Objective Format Questions																	
142.	2	M	C	F	AN	144.	4,5	H	K	F	AN	*146.	6	M	AN	F	AN
143.	3	M	K	F	AN	145.	5	M	K	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: C = Communication E = Professional and Ethical Behaviour F = Financial Reporting
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SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	4.	TF	29.	MC	32.	MC	106.	Ex	136.	SAE		
2.	TF	27.	MC	30.	MC	33.	MC	134.	Ma				
3.	TF	28.	MC	31.	MC	105.	Ex	135.	SAE				
Learning Objective 2													
5.	TF	12.	TF	38.	MC	45.	MC	52.	MC	110.	Ex	142.	OF
6.	TF	13.	TF	39.	MC	46.	MC	53.	MC	111.	Ex		
7.	TF	14.	TF	40.	MC	47.	MC	54.	MC	112.	Ex		
8.	TF	34.	MC	41.	MC	48.	MC	55.	MC	113.	Ex		
9.	TF	35.	MC	42.	MC	49.	MC	107.	Ex	134.	Ma		
10.	TF	36.	MC	43.	MC	50.	MC	108.	Ex	137.	SAE		
11.	TF	37.	MC	44.	MC	51.	MC	109.	Ex	138.	SAE		
Learning Objective 3													
15.	TF	57.	MC	62.	MC	67.	MC	72.	MC	77.	MC	116.	Ex
16.	TF	58.	MC	63.	MC	68.	MC	73.	MC	78.	MC	137.	SAE
17.	TF	59.	MC	64.	MC	69.	MC	74.	MC	113.	Ex	138.	SAE
18.	TF	60.	MC	65.	MC	70.	MC	75.	MC	114.	Ex	143.	OF
56.	MC	61.	MC	66.	MC	71.	MC	76.	MC	115.	Ex		
Learning Objective 4													
79.	MC	81.	MC	83.	MC	117.	Ex	119.	Ex	139.	SAE	144.	OF
80.	MC	82.	MC	84.	MC	118.	Ex	120.	Ex	140.	SAE		
Learning Objective 5													
19.	TF	24.	TF	88.	MC	93.	MC	121.	Ex	126.	Ex	144.	OF
20.	TF	25.	TF	89.	MC	94.	MC	122.	Ex	127.	Ex	145.	OF
21.	TF	85.	MC	90.	MC	95.	MC	123.	Ex	134.	Ma		
22.	TF	86.	MC	91.	MC	96.	MC	124.	Ex	136.	SAE		
23.	TF	87.	MC	92.	MC	97.	MC	125.	Ex	141.	SAE		
***Learning Objective 6**													
*26.	TF	*100.	MC	*103.	MC	*129.	Ex	*132.	Ex				
*98.	MC	*101.	MC	*104.	MC	*130.	Ex	*133.	Ex				
*99.	MC	*102.	MC	*128.	Ex	*131.	Ex	*146	OF				

Note: TF = True-False; MC = Multiple Choice; Ma = Matching; Ex = Exercise; SAE = Short-Answer Essay; OF = Objective Format

*This topic is dealt with in an Appendix to the chapter.

CHAPTER LEARNING OBJECTIVES

1. ***Describe the steps in determining inventory quantities.*** The steps are (1) determine the ownership of goods in transit, on consignment, and in similar situations; (2) take a physical inventory of goods on hand; and (3) if the cost of the physical inventory counted is different from the balance in the Inventory account, adjust it along with the Cost of Goods Sold account.
   To prevent theft of inventory, companies implement internal controls such as physical safeguards, review and reconciliation with periodic inventory counts, and segregation of accounting duties from custody of inventory.

2. ***Apply the cost formulas using specific identification, FIFO, and average cost under a perpetual inventory system.*** Allocate costs to the Cost of Goods Sold account each time that a sale occurs in a perpetual inventory system. The cost is determined by using the specific identification; first-in, first-out (FIFO); or average cost formula.
   Specific identification is used for goods that are not ordinarily interchangeable. Typically, the goods are unique, high-value items. This cost formula tracks the actual physical flow of goods, allocating the exact cost of each merchandise item to Cost of Goods Sold and ending inventory.
   If a company's goods are interchangeable (homogeneous), then either the FIFO or average cost formula may be used.
   The FIFO cost formula assumes a first-in, first-out cost flow for sales. Cost of goods sold consists of the cost of the earliest goods purchased. Ending inventory consists of the cost of the most recent goods purchased.
   Under the average cost formula, a new weighted (moving) average unit cost is calculated after each purchase or purchase return and applied to the number of units sold (and as a result, to the number of units remaining in ending inventory).

3. ***Explain the effects on the financial statements of choosing each of the inventory cost formulas.*** Management should select the cost formula that most closely corresponds to the physical flow of goods and should report inventory on the statement of financial position at an amount that is closest to the cost of inventory recently purchased.
   Specific identification results in an exact match of costs and revenues on the statement of income. When prices are rising, the average cost formula results in a higher cost of goods sold and lower net income than FIFO. The average cost formula therefore results in a better allocation on the statement of income of more current (recent) costs with current revenues than does FIFO. In terms of the statement of financial position, FIFO is better because it results in an ending inventory that is closest to current (replacement) value. All three of the cost formulas result in the same cash flow before income tax.

4. ***Identify the effects of inventory errors on the financial statements.*** Ignoring the effects of income tax, an error made in determining the quantities and/or cost of inventory at the end of the year will also affect cost of goods sold. If ending inventory is overstated, cost of goods sold will be understated, and net income will be overstated. Therefore, after recording closing entries, the overstatement in net income transfers into an overstatement in retained earnings matching the overstatement in inventory and balancing the effect of the

error on the statement of financial position. Assuming the error made in the first period has not been found or corrected, in the following period, when the overstated inventory is sold, its cost flows into cost of goods sold, overstating that expense. This in turn lowers net income by exactly the same amount that overstated net income in the prior period. By the end of the second period, net income from both periods will now be included in retained earnings. Because the errors in the net incomes of these periods are now offset, Retained Earnings is now correct. Inventory is also correct at the end of the second period, assuming the company counted inventory correctly at that time.
If an error occurs by recording goods in transit as an inventory purchase in a period before title to the goods changes hands, both Inventory and Accounts Payable will be overstated. If a company has purchased inventory but failed to record and count that inventory, then both Inventory and Accounts Payable will be understated.

5. ***Demonstrate the presentation and analysis of inventory.*** Inventory is valued at the lower of its cost and net realizable value, which can result in the recording of a writedown if the net realizable value is less than cost. We record the writedown with a debit to Cost of Goods Sold and a credit to Inventory.
We report ending inventory as a current asset on the statement of financial position at the lower of cost and net realizable value. We report cost of goods sold as an expense on the statement of income.
The inventory turnover ratio is a measure of liquidity. We calculate it by dividing the cost of goods sold by average inventory [(beginning inventory + ending inventory) ÷ 2]. We can convert inventory turnover into days in inventory by dividing 365 days by the inventory turnover ratio. Inventory turnover relates inversely to days in inventory: as one rises, the other falls. In general, companies want a reasonably higher inventory turnover and lower days in inventory ratio than the industry average.

6. ***Apply the FIFO and average cost formulas under a periodic inventory system (Appendix 6A).*** Under the FIFO cost formula, companies determine the quantity of ending inventory and then allocate the cost of the most recent goods purchased to that ending inventory. By deducting the cost of ending inventory from the cost of goods available for sale, cost of goods sold can be determined. Alternatively, companies can also determine the cost of goods sold by applying the cost of the earliest goods on hand to cost of goods sold. The cost of goods sold and ending inventory amounts under FIFO are the same regardless of whether a periodic or perpetual inventory system is used.
Under the average cost formula, we divide the total cost of goods available for sale during the period by the units available for sale during the same period to calculate a weighted average cost per unit. Then we multiple this average unit cost by the number of units remaining in inventory to calculate the ending inventory. By subtracting ending inventory from the cost of goods available for sale, we can determine cost of goods sold. Alternatively, we can calculate cost of goods sold by multiplying the average unit cost by the number of units sold. The main difference between a periodic and a perpetual inventory system is that in a periodic system, average cost is determined only once (at the end of the accounting period), while average cost is determined at the date of each sale in a perpetual inventory system.

TRUE-FALSE STATEMENTS

1. A system of internal control is *not* needed when a company regularly takes a physical inventory.

2. Consigned goods are held for sale by one party, although ownership of the goods is retained by another party.

3. Once goods leave the premises of the seller, they should *never* be added to the seller's physical inventory count.

4. In order to remove the cost of items sold from inventory, a unit cost must be determined.

5. When using the perpetual system, the average cost formula relies on a simple average calculation.

6. If prices *never* changed, there would be no need for alternative inventory cost formulas.

7. Inventory cost formulas such as FIFO and average cost, deal more with the flow of costs than with the flow of goods.

8. The first-in, first-out (FIFO) inventory cost formula results in an ending inventory valued at the most recent cost.

9. The specific identification formula is desirable when a company sells a large number of low-unit-cost items.

10. If a company has no beginning inventory and the unit cost of inventory items does *not* change during the year, the unit cost assigned to the cost of goods sold will be the same under FIFO and average cost formulas.

11. A company may use more than one inventory cost formula if it has different types of inventory.

12. The cost formula a company chooses should correspond as closely as possible to the actual physical flow of goods.

13. The FIFO inventory cost formula agrees closely to the actual physical movement of goods in most businesses.

14. The inventory cost formula that best matches cost and revenues is FIFO.

15. A change in the method of cost formula for inventory must be disclosed in the financial statements.

16. Approximating the physical flow of inventory is *not* important when selecting an inventory cost formula.

17. All three methods of inventory cost formula will produce the same cumulative cost of goods sold over the life cycle of the business.

18. When the value of inventory is lower than its cost, the inventory is written down to its net realizable value.

19. If net realizable value of the inventory is lower than its cost, the total assets on the statement of financial position and net income on the statement of income will be reduced.

20. Inventory that originally cost $100 had been written down to its net realizable value (NRV) of $75. Subsequently, the NRV of the inventory recovered to equal its cost of $100. In this situation, the amount of the $25 ($100 – $75) prior writedown in value should be reversed.

21. An inventory writedown from cost to net realizable value should *not* be made in the period in which the price decline occurs.

22. The lower of cost and net realizable value should be applied to the total inventory, rather than to individual inventory items.

23. A low inventory turnover ratio could mean a company is at risk of experiencing inventory shortages.

24. A high inventory turnover ratio indicates that minimal funds are tied up in inventory.

25. In the average cost formula used in a periodic inventory system, the same weighted average cost per unit is used to calculate all of the goods sold during the period.

*26. The results under FIFO in a perpetual inventory system are the same as in a periodic inventory system.

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	6.	T	11.	T	16.	F	21.	F	*26.	T
2.	T	7.	F	12.	T	17.	F	22.	F		
3.	F	8.	T	13.	T	18.	T	23.	F		
4.	F	9.	F	14.	T	19.	T	24.	T		
5.	F	10.	T	15.	T	20.	T	25.	T		

MULTIPLE CHOICE QUESTIONS

27. Goods in transit shipped
(a) FOB shipping point should be included in the buyer's ending inventory.
(b) FOB destination should not be excluded from the buyer's ending inventory.
(c) FOB shipping point should not be included in the buyer's ending inventory.
(d) FOB destination should not be included in the seller's ending inventory.

28. The factor that determines whether or *not* goods should be included in a physical count of inventory is
(a) physical possession.
(b) ownership.
(c) management's judgement.
(d) whether or not the purchase price has been paid.

29. If goods in transit are shipped FOB destination,
(a) the seller has legal title to the goods until they are delivered.
(b) the buyer has legal title to the goods during transit.
(c) the transportation company has legal title to the goods while the goods are in transit.
(d) no one has legal title to the goods until they are delivered.

30. To accurately determine inventory quantities, a company must
(a) use the perpetual inventory system.
(b) employ an independent company to conduct inventory counts.
(c) rely on the warehouse records.
(d) take a physical inventory.

31. Westcom Corporation's goods in transit at December 31 include (1) sales made FOB destination, (2) sales made FOB shipping point, (3) purchases made FOB destination, and (4) purchases made FOB shipping point. Which items should be included in Westcom's inventory at December 31?
(a) (2) and (3)
(b) (1) and (4)
(c) (1) and (3)
(d) (2) and (4)

32. Goods held on consignment are
(a) never owned by the consignee.
(b) included in the consignee's ending inventory.
(c) kept for sale on the premises of the consignor.
(d) not included in anyone's ending inventory.

33. Cost of goods available for sale is:

CHAPTER 7

INTERNAL CONTROL AND CASH

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	K	AA	AN	11.	2	E	C	AA	AN	21.	3	M	C	AA	AN
2.	1	E	K	AA	AN	12.	2	E	C	AA	AN	22.	3	E	C	AA	AN
3.	1	M	C	AA	AN	13.	2	M	C	AA	AN	23.	3	M	C	AA	AN
4.	1	M	C	AA	AN	14.	2	E	C	AA	AN	24.	4	E	K	AA	AN
5.	1	M	K	AA	AN	15.	2	E	C	AA	AN	25.	4	M	K	AA	AN
6.	1	M	K	AA	AN	16.	3	E	C	AA	AN	26.	4	E	K	AA	AN
7.	1	M	C	AA	AN	17.	3	E	C	AA	AN	27.	4	E	C	AA	AN
8.	1	E	C	AA	AN	18.	3	M	K	AA	AN	28.	4	E	C	AA	AN
9.	1	M	C	AA	AN	19.	3	M	K	AA	AN						
10.	1	E	C	AA	AN	20.	3	E	K	AA	AN						
Multiple Choice Questions																	
29.	1	M	C	AA	AN	52.	1	M	C	AA	AN	75.	3	M	C	AA	AN
30.	1	M	C	AA	AN	53.	1	E	C	AA	AN	76.	3	E	C	AA	AN
31.	1	H	K	AA	AN	54.	1	E	C	F	AN	77.	3	M	AP	AA	AN
32.	1	E	K	AA	AN	55.	2	E	K	F	AN	78.	3	M	AP	AA	AN
33.	1	E	C	AA	AN	56.	2	E	C	AA	AN	79.	3	M	C	AA	AN
34.	1	M	K	AA	AN	57.	2	E	C	AA	AN	80.	3	M	C	AA	AN
35.	1	M	K	AA	AN	58.	2	M	C	AA	AN	81.	3	M	C	AA	AN
36.	1	E	K	AA	AN	59.	2	E	C	AA	AN	82.	3	E	C	AA	AN
37.	1	M	K	AA	AN	60.	2	E	C	AA	AN	83.	3	E	AP	AA	AN
38.	1	M	C	AA	AN	61.	2	M	C	AA	AN	84.	3	H	AP	AA	AN
39.	1	M	C	AA	AN	62.	2	M	C	AA	AN	85.	3	M	AP	AA	AN
40.	1	M	C	AA	AN	63.	2	E	K	AA	AN	86.	3	M	AP	AA	AN
41.	1	M	C	AA	AN	64.	2	E	C	AA	AN	87.	3	H	AP	AA	AN
42.	1	E	C	AA	AN	65.	2	M	C	AA	AN	88.	3	E	C	F	AN
43.	1	M	K	AA	AN	66.	3	M	K	AA	AN	89.	4	E	C	F	AN
44.	1	E	K	AA	AN	67.	3	M	C	AA	AN	90.	4	M	C	AA	AN
45.	1	E	K	AA	AN	68.	3	M	C	AA	AN	91.	4	M	C	AA	AN
46.	1	E	C	AA	AN	69.	3	M	C	AA	AN	92.	4	M	C	AA	AN
47.	1	M	K	AA	AN	70.	3	M	C	AA	AN	93.	4	E	K	AA	AN
48.	1	M	C	AA	AN	71.	3	M	C	AA	AN	94.	4	M	K	AA	AN
49.	1	H	C	AA	AN	72.	3	E	C	AA	AN	95.	4	E	K	AA	AN
50.	1	M	K	AA	AN	73.	3	E	C	AA	AN	96.	4	E	C	AA	AN
51.	1	H	C	AA	AN	74.	3	M	K	AA	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: AA = Audit & Assurance
AACSB: AN = Analytic

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
97.	1	H	C	AA	AN	106.	3	M	C	AA	AN	115.	3	M	AP	AA	AN
98.	1	E	C	AA	AN	107.	3	E	AP	AA	AN	116.	3	E	AP	AA	AN
99.	1	E	C	AA	AN	108.	3	E	AP	AA	AN	117.	3	M	AP	AA	AN
100.	1	M	C	AA	AN	109.	3	E	AP	AA	AN	118.	3	E	C	AA	AN
101.	1,2	M	C	AA	AN	110.	3	M	AP	AA	AN	119.	3	H	AP	AA	AN
102.	1,2	M	C	AA	AN	111.	3	M	AP	AA	AN	120.	3	M	AP	F	AN
103.	1,3	H	AP	AA	AN	112.	3	M	AP	AA	AN	121.	4	M	AP	F	AN
104.	2,4	M	AP	AA	AN	113.	3	M	C	AA	AN	122.	4	H	AN	AA	AN
105.	3	H	AP	AA	AN	114.	3	H	AP	AA	AN						
Matching																	
123.	1–4	E,M	K	AA	AN												
Short-Answer Essay																	
124.	1	E	C	AA	AN	128.	2	M	C	AA	AN	132.	3	M	C	AA,C	AN
125.	1	M	C	AA,C	AN	129.	2	E	C	F	AN	133.	4	E	C	AA	AN
126.	1	E	C	F	AN	130.	3	M	C	AA	AN	134.	4	M	C	AA	AN
127.	1	H	E	F	AN	131.	3	M	C	AA	AN						
CPA Questions																	
135.	1	M	C	AA	AN	137.	3,4	H	AN	AA	AN	139.	4	M	AN	AA	AN
136.	3	M	AN	AA	AN	138.	4	M	C	AA	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension
CPA: AA = Audit & Assurance C = Communication
AACSB: AN = Analytic

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	8.	TF	33.	MC	40.	MC	47.	MC	54.	MC	103.	Ex
2.	TF	9.	TF	34.	MC	41.	MC	48.	MC	97.	Ex	123.	Ma
3.	TF	10.	TF	35.	MC	42.	MC	49.	MC	98.	Ex	124.	SAE
4.	TF	29.	MC	36.	MC	43.	MC	50.	MC	99.	Ex	125.	SAE
5.	TF	30.	MC	37.	MC	44.	MC	51.	MC	100.	Ex	126.	SAE
6.	TF	31.	MC	38.	MC	45.	MC	52.	MC	101.	Ex	127.	SAE
7.	TF	32.	MC	39.	MC	46.	MC	53.	MC	102.	Ex	135.	CP
Learning Objective 2													
11.	TF	15.	TF	58.	MC	62.	MC	101.	Ex	128.	SAE		
12.	TF	55.	MC	59.	MC	63.	MC	102.	Ex	129.	SAE		
13.	TF	56.	MC	60.	MC	64.	MC	104.	Ex				
14.	TF	57.	MC	61.	MC	65.	MC	123.	Ma				
Learning Objective 3													
16.	TF	66.	MC	74.	MC	82.	MC	105.	Ex	113.	Ex	123.	Ma
17.	TF	67.	MC	75.	MC	83.	MC	106.	Ex	114.	Ex	130.	SAE
18.	TF	68.	MC	76.	MC	84.	MC	107.	Ex	115.	Ex	131.	SAE
19.	TF	69.	MC	77.	MC	85.	MC	108.	Ex	116.	Ex	132.	SAE
20.	TF	70.	MC	78.	MC	86.	MC	109.	Ex	117.	Ex	136.	CP
21.	TF	71.	MC	79.	MC	87.	MC	110.	Ex	118.	Ex	137.	CP
22.	TF	72.	MC	80.	MC	88.	MC	111.	Ex	119.	Ex		
23.	TF	73.	MC	81.	MC	103.	Ex	112.	Ex	120.	Ex		
Learning Objective 4													
24.	TF	28.	TF	92.	MC	96.	MC	123.	Ma	138.	CP		
25.	TF	89.	MC	93.	MC	104.	Ex	133.	SAE	139.	CP		
26.	TF	90.	MC	94.	MC	121.	Ex	134.	SAE				
27.	TF	91.	MC	95.	MC	122.	Ex	137.	CP				

Note: TF = True-False; MC = Multiple Choice; Ma = Matching
Ex = Exercise; SAE = Short-Answer Essay; CP = CPA Questions

CHAPTER LEARNING OBJECTIVES

1. ***Identify and describe the components of a good internal control system, including its limitations.*** Internal control systems have the following components: the control environment, risk assessment, control activities, information and communication, and monitoring activities. Control activities include assignment of responsibility, segregation of duties, documentation, physical controls, and review and reconciliation. Internal controls help to minimize the opportunity for fraud to occur or to detect it when it has. However, internal controls have some limitations, including cost/benefit constraints, human error, collusion, and management override. The three main factors that contribute to fraudulent activity are opportunity, financial pressure, and rationalization.

2. ***Apply the key control activities to cash receipts and payments.*** Control activities over cash receipts include (a) designating only personnel such as cashiers to handle cash; (b) assigning the duties of receiving cash, recording cash, and custody of cash to different individuals; (c) obtaining remittance advices for mail receipts, cash register tapes for over-the-counter receipts, and deposit slips or confirmations for bank deposits; (d) using company safes and banks to store cash, with access limited to authorized personnel, and using cash registers in executing over-the-counter receipts; (e) depositing all cash intact daily in the bank account or using EFT; and (f) making independent daily counts of register receipts and daily comparisons of total receipts with total deposits.
   Control activities over cash payments include (a) making all payments by cheque or by EFT; (b) having only specified individuals authorized to sign cheques; (c) assigning to different individuals the duties of approving items for payment, paying the items, and recording the payments; (d) using prenumbered cheques and accounting for all cheques; (e) storing blank cheques in a safe with access restricted to authorized personnel, and using electronic methods to print amounts on cheques; (f) comparing each cheque or EFT payment with the approved invoices before initiating payments; and (g) making monthly reconciliations of bank and book balances.

3. ***Prepare a bank reconciliation.*** In reconciling the bank account, the cash balance per the company's books is reconciled with the cash balance reported by the bank on the bank statement. There can be differences between the company's books and the bank due to timing differences and errors. Reconciling items for the bank include deposits in transit, outstanding cheques, and any errors made by the bank. Reconciling items for the company include EFT receipts, interest, EFT payments, service charges, NSF cheques, and any errors made by the company. Journal entries must be made for all items required to adjust the balance per books to the reconciled cash balance.

4. ***Explain the reporting and management of cash.*** Cash and cash equivalents are usually the first current asset listed on the statement of financial position. Cash inflows and outflows are reported on the statement of cash flows. The ending cash balance reported on the statement of cash flows agrees with the cash and cash equivalents reported on the statement of financial position. Cash equivalents are highly liquid investments with maturities of three months or less that are subject to an insignificant risk of changes in value. The six principles of cash management are to (a) collect receivables quicker, (b)

keep inventory levels low, (c) delay the payment of liabilities, (d) plan the timing of major expenditures, (e) invest idle cash, and (f) prepare a cash budget.

TRUE-FALSE STATEMENTS

1. Fraud is an unintentional act to misappropriate (steal) assets or misstate financial statements.

2. Errors give rise to unintentional misstatements in the financial statements.

3. The responsibility for keeping the records for an asset should be separate from the physical custody of that asset.

4. The person responsible for making credit sales should be the vice-president of finance.

5. External auditors report on whether or not the company's financial statements fairly present its financial position and results of operations.

6. External auditors are usually employees of the company.

7. An effective control activity results when at least two individuals are assigned to one cash drawer so that each can serve as check on the other.

8. The responsibility for ordering, receiving, and paying for merchandise should be assigned to different individuals.

9. Segregation of duties among employees eliminates the possibility of collusion.

10. All documents should be prenumbered.

11. The use of a bank account makes internal control over cash more difficult.

12. The use of electronic funds transfers normally results in better control over cash.

13. Control over cash disbursements is improved if all expenditures are paid by cheque or through use of electronic funds transfers.

14. An example of segregation of duties is having a cheque signer record cash disbursements.

15. An authorized signing officer should sign a cheque only after reviewing the appropriate supporting documentation.

16. To obtain maximum benefit from a bank reconciliation, the reconciliation should be prepared by the person authorized to sign cheques.

17. Electronic funds transfers *never* have to be recorded.

18. All reconciling items in determining the reconciled cash balance per books require the depositor to make adjusting journal entries to the Cash account.

19. NSF cheques received from customers are debited by the bank to the depositor's account.

20. A bank reconciliation is generally prepared by the bank and sent to the depositor along with cancelled cheques.

21. An NSF cheque that was received is recorded as an account receivable.

22. NSF cheques received are accounted for by adding them to the cash balance per books.

23. Deposits in transit require an adjustment to the cash balance per books.

24. Management only needs to know how much cash is available at the end of the month (when the bank reconciliation is prepared).

25. Debt investments due within three months are normally classified as cash equivalents.

26. Equity Investments (in common shares) are normally classified as cash equivalents.

27. When the cash account has a credit balance in the general ledger, it is reported as a non-current liability.

28. Idle cash should not be reported as cash and cash equivalents.

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	6.	F	11.	F	16.	F	21.	T	26.	F
2.	T	7.	F	12.	T	17.	F	22.	F	27.	F
3.	T	8.	T	13.	T	18.	T	23.	F	28.	F
4.	F	9.	F	14.	F	19.	T	24.	F		
5.	T	10.	T	15.	T	20.	F	25.	T		

CHAPTER 8

REPORTING AND ANALYZING RECEIVABLES

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	K	F	AN	11.	2	M	C	F	AN	21.	3	E	C	F	AN
2.	1	E	K	F	AN	12.	2	M	C	F	AN	22.	3	E	C	F	AN
3.	1	E	K	F	AN	13.	2	E	C	F	AN	23.	3	E	C	F	AN
4.	1	E	C	F	AN	14.	2	E	K	F	AN	24.	3	M	K	F	AN
5.	1	E	C	F	AN	15.	2	M	K	F	AN	25.	4	E	K	F	AN
6.	1	E	K	F	AN	16.	2	E	C	F	AN	26.	4	E	K	F	AN
7.	1	E	C	F	AN	17.	2	E	K	F	AN	27.	5	E	K	F	AN
8.	2	E	C	F	AN	18.	3	E	K	F	AN	28.	5	E	K	F	AN
9.	2	E	C	F	AN	19.	3	E	K	F	AN	29.	5	E	C	F	AN
10.	2	M	C	F	AN	20.	3	M	K	F	AN						
Multiple Choice Questions																	
30.	1	M	C	F	AN	59.	2	E	K	F	AN	88.	3	E	K	F	AN
31.	1	M	C	F	AN	60.	2	E	C	F	AN	89.	3	E	C	F	AN
32.	1	M	C	F	AN	61.	2	E	K	F	AN	90.	3	E	AP	F	AN
33.	1	H	K	F	AN	62.	2	E	C	F	AN	91.	3	E	AP	F	AN
34.	1	M	K	F	AN	63.	2	E	C	F	AN	92.	3	E	AP	F	AN
35.	1	E	K	F	AN	64.	2	H	C	F	AN	93.	3	E	K	F	AN
36.	1	E	K	F	AN	65.	2	M	C	F	AN	94.	3	M	C	F	AN
37.	1	E	K	F	AN	66.	2	E	K	F	AN	95.	3	M	K	F	AN
38.	1	E	K	F	AN	67.	2	M	C	F	AN	96.	3	M	AP	F	AN
39.	2	E	K	F	AN	68.	2	M	C	F	AN	97.	3	M	AP	F	AN
40.	2	H	C	F	AN	69.	2	E	C	F	AN	98.	3	M	AP	F	AN
41.	2	H	C	F	AN	70.	2	M	C	F	AN	99.	3	M	AP	F	AN
42.	2	E	K	F	AN	71.	2	E	C	F	AN	100.	3	E	AP	F	AN
43.	2	E	C	F	AN	72.	2	M	AP	F	AN	101.	3	M	C	F	AN
44.	2	E	K	F	AN	73.	2	E	C	F	AN	102.	3	M	C	F	AN
45.	2	E	C	F	AN	74.	2	M	C	F	AN	103.	3	M	AP	F	AN
46.	2	M	C	F	AN	75.	2	E	K	F	AN	104.	3	E	K	F	AN
47.	2	E	K	F	AN	76.	2	M	AP	F	AN	105.	3	E	C	F	AN
48.	2	M	C	F	AN	77.	2	M	AP	F	AN	106.	4	E	K	F	AN
49.	2	M	C	F	AN	78.	2	M	AP	F	AN	107.	4	E	C	F	AN
50.	2	M	C	F	AN	79.	2	M	AP	F	AN	108.	5	E	C	F	AN
51.	2	M	C	F	AN	80.	2	E	C	F	AN	109.	5	E	K	F	AN
52.	2	E	C	F	AN	81.	2	E	C	F	AN	110.	5	E	C	F	AN
53.	2	M	C	F	AN	82.	3	E	K	F	AN	111.	5	E	K	F	AN
54.	2	M	C	F	AN	83.	3	E	K	F	AN	112.	5	E	K	F	AN
55.	2	M	C	F	AN	84.	3	E	K	F	AN	113.	5	E	AP	F	AN
56.	2	E	C	F	AN	85.	3	E	C	F	AN	114.	5	E	AP	F	AN
57.	2	E	C	F	AN	86.	3	E	C	F	AN	115.	5	M	K	F	AN
58.	2	E	K	F	AN	87.	3	E	K	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
116.	1	H	AP	F	AN	126.	2	H	AP	F	AN	136.	3	E	AP	F	AN
117.	1	H	AP	F	AN	127.	2	M	AP	F	AN	137.	4	E	C	F	AN
118.	1	E	C	F	AN	128.	2	E	AP	F	AN	138.	4	M	AP	F	AN
119.	1	M	AP	F	AN	129.	2	M	AP	F	AN	139.	5	M	AP	F	AN
120.	1,2	E	AP	F	AN	130.	2,4	E	AP	F	AN	140.	5	E	AP	F	AN
121.	1,2	M	AP	F	AN	131.	3	M	AP	F	AN	141.	5	M	AP	F	AN
122.	1,2	H	AP	F	AN	132.	3	M	AP	F	AN	142.	5	M	C	F	AN
123.	1,3	H	AP	F	AN	133.	3	H	AP	F	AN	143.	5	H	AP	F	AN
124.	1–4	H	AP	F	AN	134.	3	E	AP	F	AN						
125.	2	M	AP	F	AN	135.	3	E	AP	F	AN						
Matching																	
144.	1–3,5	E	K	F	AN												
Short-Answer Essay																	
145.	1	M	C	F	AN	148.	2	E	C	F,C	AN,C	151.	5	M	C	F,C	AN,C
146.	2	M	C	F	AN	149.	2	E	C	F	AN						
147.	2	M	C	F,C	AN,C	150.	5	M	C	F,C	AN,C						
Objective Format Questions																	
152.	1,2	M	C	F	AN	154.	4	M	C	F	AN	156.	5	M	AN	F	AN
153.	2–4	M	C	F	AN	155.	4	M	AN	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting C = Communication
AACSB: AN = Analytic C = Communication

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	5.	TF	31.	MC	35.	MC	116.	Ex	120.	Ex	124.	Ex
2.	TF	6.	TF	32.	MC	36.	MC	117.	Ex	121.	Ex	144.	Ma
3.	TF	7.	TF	33.	MC	37.	MC	118.	Ex	122.	Ex	145.	SAE
4.	TF	30.	MC	34.	MC	38.	MC	119.	Ex	123.	Ex	152.	OF
Learning Objective 2													
8.	TF	39.	MC	49.	MC	59.	MC	69.	MC	79.	MC	128.	Ex
9.	TF	40.	MC	50.	MC	60.	MC	70.	MC	80.	MC	129.	Ex
10.	TF	41.	MC	51.	MC	61.	MC	71.	MC	81.	MC	130.	Ex
11.	TF	42.	MC	52.	MC	62.	MC	72.	MC	120.	Ex	144.	Ma
12.	TF	43.	MC	53.	MC	63.	MC	73.	MC	121.	Ex	146.	SAE
13.	TF	44.	MC	54.	MC	64.	MC	74.	MC	122.	Ex	147.	SAE
14.	TF	45.	MC	55.	MC	65.	MC	75.	MC	124.	Ex	148.	SAE
15.	TF	46.	MC	56.	MC	66.	MC	76.	MC	125.	Ex	149.	SAE
16.	TF	47.	MC	57.	MC	67.	MC	77.	MC	126.	Ex	152.	OF
17.	TF	48.	MC	58.	MC	68.	MC	78.	MC	127.	Ex	153.	OF
Learning Objective 3													
18.	TF	24.	TF	87.	MC	93.	MC	99.	MC	105.	MC	134.	Ex
19.	TF	82.	MC	88.	MC	94.	MC	100.	MC	123.	Ex	135.	Ex
20.	TF	83.	MC	89.	MC	95.	MC	101.	MC	124.	Ex	136.	Ex
21.	TF	84.	MC	90.	MC	96.	MC	102.	MC	131.	Ex	144.	Ma
22.	TF	85.	MC	91.	MC	97.	MC	103.	MC	132.	Ex	153.	OF
23.	TF	86.	MC	92.	MC	98.	MC	104.	MC	133.	Ex		
Learning Objective 4													
25.	TF	106.	MC	124.	Ex	137.	Ex	153.	OF	155.	OF		
26.	TF	107.	MC	130.	Ex	138.	Ex	154.	OF				
Learning Objective 5													
27.	TF	108.	MC	111.	MC	114.	MC	140.	Ex	143.	Ex	151.	SAE
28.	TF	109.	MC	112.	MC	115.	MC	141.	Ex	144.	Ma	156.	OF
29.	TF	110.	MC	113.	MC	139.	Ex	142.	Ex	150.	SAE		

Note: TF = True-False MC = Multiple Choice Ma = Matching
Ex = Exercise SAE = Short-Answer Essay OF = Objective Format

CHAPTER LEARNING OBJECTIVES

1. ***Identify the types of receivables and record accounts receivable transactions.*** Receivables can include accounts receivable, notes receivable, and other types of receivables. Accounts and notes resulting from sales transactions are called trade receivables. Other receivables include nontrade receivables such as interest receivable, loans to company officers, advances to employees, sales tax recoverable, and income tax receivable.
   Accounts receivable arising from sales or services on credit are recorded at the transaction price. The accounts receivable subsidiary ledger is used to keep track of the account balances of each customer. Accounts Receivable is a control account, meaning it controls the accounts receivable subsidiary ledger. Any entry to the control account must also be made in the subsidiary ledger, and any entry in the subsidiary ledger must also be made in the control account. Normally a single entry is made to the control account for the total of all the entries made to the individual customer accounts in the subsidiary ledger. It is essential that the total of the customer account information in the subsidiary ledger equal the balance in the control account.
   When interest is charged on a past-due receivable, interest is added to the Accounts Receivable balance and is realized as interest income.

2. ***Account for bad debts.*** The allowance method, using a percentage of receivables, is used to ensure that the carrying amount of accounts receivable reflects management's best estimate of the amount that will ultimately be collected. It also results in bad debts expense being recorded in the same period when the revenue from the related credit sale was earned.
   Because the specific customer accounts that will become uncollectible are not known at the time the bad debt estimate is made, no entry can be made to Accounts Receivable because it would not be possible to make an entry to the subsidiary ledger. Instead, Allowance for Doubtful Accounts, a contra asset account, is used to record the estimated uncollectible receivables.
   A percentage of total receivables, or an aging schedule applying percentages to different age groupings of receivables, is used to estimate the uncollectible accounts (which is also the ending balance in Allowance for Doubtful Accounts). When a specific account receivable is determined to be uncollectible, it is written off and the allowance account reduced. When an account that has previously been written off is collected, the write off is reversed and then the collection is recorded. Bad debts expense is the difference between the estimated total uncollectible accounts (required balance in the allowance account) and the unadjusted balance in the allowance account.

3. ***Account for notes receivable.*** Notes receivable are recorded at their principal amount. Interest is earned from the date the note is issued until it matures and is recorded in a separate interest receivable account.
   Notes can be held to maturity, at which time the principal plus any unpaid interest is due and the note is removed from the accounts when paid (honoured). In some situations, the maker of the note dishonours the note (defaults). If eventual collection is expected, an account receivable replaces the note receivable and any unpaid interest. If the amount is not expected to be repaid, the note is written off.

4. ***Explain the statement presentation of receivables.*** Each major type of receivable should be identified in the statement of financial position, with supplemental detail included in the statement or supporting notes. Companies must report the carrying amount of their receivables on the statement of financial position. The gross amount of receivables and allowance for doubtful accounts can be reported directly on the statement or in the notes. Bad debts expense is reported in the statement of income as an operating expense, and interest income is shown in the non-operating section of the statement.

5. ***Apply the principles of sound accounts receivable management.*** To properly manage receivables, management must (a) determine whom to extend credit to, (b) establish a payment period, (c) monitor collections, and (d) evaluate the liquidity of receivables by calculating the receivables turnover and average collection period.
   The receivables turnover is calculated by dividing credit sales by average gross accounts receivable. The average collection period converts the receivables turnover into days, dividing 365 days by the receivables turnover ratio. A higher receivables turnover or a lower average collection period indicates that the company is doing a good job collecting its accounts and is not experiencing collection issues.

TRUE-FALSE STATEMENTS

1. Other receivables include nontrade receivables such as loans to company officers.

2. Advances to employees are a type of accounts receivable.

3. Receivables are considered financial assets.

4. Both accounts receivable and notes receivable represent claims that are expected to be collected in cash.

5. Accounts receivable can be the result of either cash or credit sales.

6. When posting is up-to-date, the balance in the accounts receivable subsidiary ledger must equal the balance in the general ledger.

7. Interest income is *never* earned on accounts receivable.

8. An aging of accounts receivable schedule is based on the premise that the longer the period an account remains unpaid, the greater the probability that it will eventually be collected.

9. Uncollectible accounts must be estimated because it is *not* possible to know which accounts will *not* be collected.

10. The percentage of receivables basis of estimating uncollectible accounts ignores the existing balance in the allowance account when the bad debts adjusting entry is recorded.

11. Under the aging method of estimating the allowance for doubtful accounts, the balance in the allowance account must be considered prior to adjusting for estimated uncollectible accounts.

12. It is possible for the allowance account to have a debit balance before the year-end adjusting entry is recorded.

13. Allowance for Doubtful Accounts is credited when an account is determined to be uncollectible.

14. Allowance for Doubtful Accounts is a contra account that is deducted from Accounts Receivable on the statement of financial position.

15. The Allowance for Doubtful Accounts is a liability account and has a normal credit balance.

16. The carrying amount of Accounts Receivable is determined by adding the Allowance for Doubtful Accounts to Accounts Receivable.

17. Bad Debts Expense is a contra account to the Sales account.

18. A note receivable is a written promise by the maker to the payee to pay a specified amount of money at a definite time.

19. The two key parties to a note are the maker and the payee.

20. Atlas Inc. borrowed money from a bank; therefore, it is regarded as the payee.

21. When the due date of a note is stated in months, the time factor in calculating interest, if it is due monthly, is the number of months divided by 12.

22. Interest on a 3-month, 3%, $20,000 note is calculated by multiplying $20,000 × 3% × 3.
Solution: ($20,000 X 3%) X 3/12 = $150

23. Uncollectible notes receivable should be estimated at year end and recorded as a debit to Bad Debts Expense and a credit to Notes Receivable.

24. If eventual collection is expected after a note has been dishonoured an accounts receivable replaces the note including any unpaid interest.

25. Both the gross amount of receivables and the Allowance for Doubtful Accounts must be reported either in the statement of financial position or notes to the financial statements.

26. Receivables are generally valued and reported in the statement of financial position at their gross amount less the allowance for doubtful accounts.

27. A critical part of managing receivables is determining who should be extended credit and who should *not*.

28. The average collection period is frequently used to assess the effectiveness of a company's credit and collection policies.

29. The receivables turnover should be analyzed in conjunction with other ratios such as the current ratio and inventory turnover.

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	6.	T	11.	T	16.	F	21.	T	26.	T
2.	F	7.	F	12.	T	17.	F	22.	F	27.	T
3.	T	8.	F	13.	F	18.	T	23.	F	28.	T
4.	T	9.	T	14.	T	19.	T	24.	T	29.	T
5.	F	10.	F	15.	F	20.	F	25.	T		

CHAPTER 9

REPORTING AND ANALYZING LONG-LIVED ASSETS

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	K	F	AN	15.	2	E	C	F	AN	29.	4	E	K	F	AN
2.	1	M	C	F	AN	16.	2	E	K	F	AN	30.	4	E	K	F	AN
3.	1	E	C	F	AN	17.	2	E	C	F	AN	31.	4	E	K	F	AN
4.	1	E	C	F	AN	18.	2	E	C	F	AN	32.	4	E	K	F	AN
5.	1	E	C	F	AN	19.	2	E	C	F	AN	33.	4	E	K	F	AN
6.	1	E	C	F	AN	20.	2	E	C	F	AN	34.	4	E	K	F	AN
7.	1	E	C	F	AN	21.	2	E	K	F	AN	35.	4	E	K	F	AN
8.	1	E	C	F	AN	22.	2	E	K	F	AN	36.	4	E	K	F	AN
9.	2	E	C	F	AN	23.	2	E	C	F	AN	37.	5	E	K	F	AN
10.	2	E	C	F	AN	24.	3	E	K	F	AN	38.	5	E	C	F	AN
11.	2	E	C	F	AN	25.	3	E	C	F	AN	39.	6	E	K	F	AN
12.	2	E	C	F	AN	26.	3	E	C	F	AN	40.	6	E	K	F	AN
13.	2	E	C	F	AN	27.	3	E	C	F	AN	41.	6	E	C	F	AN
14.	2	E	C	F	AN	28.	3	E	C	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting P = Professional and Ethical Behaviour C = Communication
AACSB: AN = Analytic E = Ethics

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Multiple Choice Questions																	
42.	1	E	C	F	AN	80.	2	E	K	F	AN	118.	3	M	AP	F	AN
43.	1	M	AP	F	AN	81.	2	M	AP	F	AN	119.	3	M	AP	F	AN
44.	1	E	K	F	AN	82.	2	M	AP	F	AN	120.	3	E	C	F	AN
45.	1	M	C	F	AN	83.	2	M	AP	F	AN	121.	4	E	K	F	AN
46.	1	E	C	F	AN	84.	2	E	K	F	AN	122.	4	E	C	F	AN
47.	1	E	C	F	AN	85.	2	M	C	F	AN	123.	4	E	C	F	AN
48.	1	E	C	F	AN	86.	2	M	AP	F	AN	124.	4	E	C	F	AN
49.	1	E	C	F	AN	87.	2	M	AP	F	AN	125.	4	E	C	F	AN
50.	1	M	C	F	AN	88.	2	M	AP	F	AN	126.	4	E	C	F	AN
51.	1	M	AP	F	AN	89.	2	M	AP	F	AN	127.	4	M	AP	F	AN
52.	1	M	C	F	AN	90.	2	M	AP	F	AN	128.	4	E	K	F	AN
53.	1	M	AP	F	AN	91.	2	M	AP	F	AN	129.	4	E	K	F	AN
54.	1	M	AP	F	AN	92.	2	M	AP	F	AN	130.	4	H	K	F	AN
55.	1	E	C	F	AN	93.	2	M	AP	F	AN	131.	4	E	K	F	AN
56.	1	E	K	F	AN	94.	2	M	AP	F	AN	132.	4	E	C	F	AN
57.	1	M	C	F	AN	95.	2	M	AP	F	AN	133.	4	E	K	F	AN
58.	1	M	AP	F	AN	96.	2	M	AP	F	AN	134.	4	E	K	F	AN
59.	1	M	K	F	AN	97.	2	M	AP	F	AN	135.	4	E	K	F	AN
60.	1	M	K	F	AN	98.	2	M	C	F	AN	136.	4	E	K	F	AN
61.	1	M	C	F	AN	99.	2	E	C	F	AN	137.	4	E	K	F	AN
62.	1	E	K	F	AN	100.	2	M	AP	F	AN	138.	4	E	C	F	AN
63.	2	M	C	F	AN	101.	2	M	AP	F	AN	139.	4	E	C	F	AN
64.	2	E	C	F	AN	102.	2	E	K	F	AN	140.	5	E	K	F	AN
65.	2	E	K	F	AN	103.	2	E	C	F	AN	141.	5	E	C	F	AN
66.	2	M	C	F	AN	104.	2	E	K	F	AN	142.	5	E	K	F	AN
67.	2	M	K	F	AN	105.	2	E	K	F	AN	143.	5	E	K	F	AN
68.	2	E	K	F	AN	106.	2	M	K	F	AN	144.	5	E	K	F	AN
69.	2	E	C	F	AN	107.	2	M	AP	F	AN	145.	5	M	AP	F	AN
70.	2	E	K	F	AN	108.	2	E	C	F	AN	146.	5	E	K	F	AN
71.	2	M	C	F	AN	109.	3	E	C	F	AN	147.	5	E	C	F	AN
72.	2	E	K	F	AN	110.	3	E	C	F	AN	148.	5	E	K	F	AN
73.	2	E	C	F	AN	111.	3	M	AP	F	AN	149.	6	M	C,K	F	AN
74.	2	M	K	F	AN	112.	3	M	AP	F	AN	150.	6	M	AP	F	AN
75.	2	M	AP	F	AN	113.	3	M	AP	F	AN	151.	6	M	AP	F	AN
76.	2	M	AP	F	AN	114.	3	E	C	F	AN	152.	6	M	AP	F	AN
77.	2	M	AP	F	AN	115.	3	E	C	F	AN	153.	6	E	C	F	AN
78.	2	M	AP	F	AN	116.	3	E	C	F	AN	154.	6	E	C	F	AN
79.	2	M	AP	F	AN	117.	3	M	AP	F	AN	155.	6	E	K	F	AN

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting P = Professional and Ethical Behaviour C = Communication
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SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
156.	1	M	AP	F	AN	173.	2	M	AP	F	AN	190.	3	M	C	F	AN
157.	1	E	K	F	AN	174.	2	M	AP	F	AN	191.	4	E	C,K	F	AN
158.	1	E	K	F	AN	175.	2	M	AP	F	AN	192.	4	M	AP	F	AN
159.	1	M	AP	F	AN	176.	2	M	AP	F	AN	193.	4	M	AP	F	AN
160.	1	E	C	F	AN	177.	2	M	AP	F	AN	194.	4	M	AP	F	AN
161.	1	E	C	F	AN	178.	2	M	AP	F	AN	195.	4	M	AP	F	AN
162.	1	E	C,K	F	AN	179.	2	M	AP	F	AN	196.	4	E	C	F	AN
163.	1,2	M	AP	F	AN	180.	2,3	M	AP	F	AN	197.	4	M	AP	F	AN
164.	1,2	M	AP	F	AN	181.	2,3	M	AP	F	AN	198.	5	E	K	F	AN
165.	2	M	C	F	AN	182.	2,3	M	AP	F	AN	199.	5	M	AP	F	AN
166.	2	M	AP	F	AN	183.	2,3,5	M	AP	F	AN	200.	6	M	AP	F	AN
167.	2	M	AP	F	AN	184.	2,4	E	K	F	AN	201.	6	M	AP	F	AN
168.	2	M	AP	F	AN	185.	3	M	AP	F	AN	202.	6	M	AP	F	AN
169.	2	M	AP	F	AN	186.	3	M	AP	F	AN	203.	6	M	AP	F	AN
170.	2	M	AP	F	AN	187.	3	M	AP	F	AN						
171.	2	M	AP	F	AN	188.	3	M	AP	F	AN						
172.	2	M	AP	F	AN	189.	3	M	AP	F	AN						
Matching																	
204.	1,2	E	K	F	AN	205.	2–4,6	M	C	F	AN						
Short-Answer Essay																	
206.	1	E	C	F	AN	210.	2	M	C	F	AN	214.	4	M	K	F	AN
207.	1	E	C	F	AN	211.	2	M	C	F	AN	215.	4	H	C	F,P,C	AN,E
208.	2	E	C	F	AN	212.	2	M	C	F	AN	216.	5	H	K	F	AN
209.	2	E	C	F	AN	213.	4	E	C	F	AN	217.	6	M	C	F	AN
Objective Format Questions																	
218.	1-4	H	AN	F	AN	220.	2	M	C	F	AN	222.	6	H	AN	F	AN
219.	2	M	C	F	AN	221.	4	M	C	F	AN						

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SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	7.	TF	46.	MC	52.	MC	58.	MC	157.	Ex	163.	Ex
2.	TF	8.	TF	47.	MC	53.	MC	59.	MC	158.	Ex	164.	Ex
3.	TF	42.	MC	48.	MC	54.	MC	60.	MC	159.	Ex	204.	Ma
4.	TF	43.	MC	49.	MC	55.	MC	61.	MC	160.	Ex	206.	SAE
5.	TF	44.	MC	50.	MC	56.	MC	62.	MC	161.	Ex	207.	SAE
6.	TF	45.	MC	51.	MC	57.	MC	156.	Ex	162.	Ex	218.	OF
Learning Objective 2													
9.	TF	23.	TF	76.	MC	90.	MC	104.	MC	172.	Ex	205.	Ma
10.	TF	63.	MC	77.	MC	91.	MC	105.	MC	173.	Ex	208.	SAE
11.	TF	64.	MC	78.	MC	92.	MC	106.	MC	174.	Ex	209.	SAE
12.	TF	65.	MC	79.	MC	93.	MC	107.	MC	175.	Ex	210.	SAE
13.	TF	66.	MC	80.	MC	94.	MC	108.	MC	176.	Ex	211.	SAE
14.	TF	67.	MC	81.	MC	95.	MC	163.	Ex	177.	Ex	212.	SAE
15.	TF	68.	MC	82.	MC	96.	MC	164.	Ex	178.	Ex	218.	OF
16.	TF	69.	MC	83.	MC	97.	MC	165.	Ex	179.	Ex	219.	OF
17.	TF	70.	MC	84.	MC	98.	MC	166.	Ex	180.	Ex	220.	OF
18.	TF	71.	MC	85.	MC	99.	MC	167.	Ex	181.	Ex		
19.	TF	72.	MC	86.	MC	100.	MC	168.	Ex	182.	Ex		
20.	TF	73.	MC	87.	MC	101.	MC	169.	Ex	183.	Ex		
21.	TF	74.	MC	88.	MC	102.	MC	170.	Ex	184.	Ex		
22.	TF	75.	MC	89.	MC	103.	MC	171.	Ex	204.	Ma		
Learning Objective 3													
24.	TF	28.	TF	112.	MC	116.	MC	120.	MC	183.	Ex	188.	Ex
25.	TF	109.	MC	113.	MC	117.	MC	180.	Ex	185.	Ex	189.	Ex
26.	TF	110.	MC	114.	MC	118.	MC	181.	Ex	186.	Ex	190.	Ex
27.	TF	111.	MC	115.	MC	119.	MC	182.	Ex	187.	Ex	218.	OF
Learning Objective 4													
29.	TF	35.	TF	125.	MC	131.	MC	137.	MC	193.	Ex	214.	SAE
30.	TF	36.	TF	126.	MC	132.	MC	138.	MC	194.	Ex	215.	SAE
31.	TF	121.	MC	127.	MC	133.	MC	139.	MC	195.	Ex	218.	OF
32.	TF	122.	MC	128.	MC	134.	MC	184.	Ex	196.	Ex	221.	OF
33.	TF	123.	MC	129.	MC	135.	MC	191.	Ex	197.	Ex		
34.	TF	124.	MC	130.	MC	136.	MC	192.	Ex	213.	SAE		
Learning Objective 5													
37.	TF	140.	MC	142.	MC	145.	MC	147.	MC	183.	Ex	199.	Ex
38.	TF	141.	MC	143.	MC	146.	MC	148.	MC	198.	Ex	216.	SAE
Learning Objective 6													
39.	TF	149.	MC	152.	MC	155.	MC	202.	Ex	222.	OF		
40.	TF	150.	MC	153.	MC	200.	Ex	203.	Ex				
41.	TF	151.	MC	154.	MC	201.	Ex	217.	SAE				

Note: TF = True/False MC = Multiple Choice Ma = Matching
Ex = Exercise SAE = Short-Answer Essay OF = Objective Format

CHAPTER LEARNING OBJECTIVES

1. ***Determine the cost of property, plant, and equipment.*** The cost of land, land improvements, buildings, equipment, and natural resources includes all expenditures that are necessary to acquire these assets and make them ready for their intended use. After acquisition, costs incurred that benefit future periods (capital expenditures) are also included in the cost of the asset, whereas costs that benefit only the current period (operating expenditures) are expensed. When applicable, cost also includes asset retirement costs. If a company leases an asset for more than one year, under IFRS, a company will capitalize a right-of-use asset and record a lease liability. The right-of-use asset will be depreciated, and interest expense will be recorded in relation to the lease liability. Under ASPE, such an asset may also be capitalized based on criteria covered in more advanced courses. If a lease is not capitalized under ASPE, it is known as an operating lease.

2. ***Explain and calculate depreciation..*** Depreciation is the process of allocating the cost of a long-lived asset over the asset's useful (service) life in a systematic way. There are three commonly used depreciation methods: straight-line, diminishing-balance, and units-of-production.

Method	Annual Depreciation Pattern	Calculation
Straight-line	Constant amount	(Cost – residual value) ÷ estimated useful life (in years)
Diminishing-balance	Diminishing amount	Carrying amount at beginning of year × depreciation rate (straight-line rate × multiplier)
Units-of-production	Varying amount	(Cost – residual value) ÷ estimated total units of activity × actual activity during the year

Other accounting issues related to depreciation include (1) identifying significant components of a long-lived asset for which different depreciation methods or rates may be appropriate; (2) capital cost allowance (CCA) used for income tax purposes; (3) testing long-lived assets for impairment; (4) accounting for property, plant, and equipment using the cost or revaluation model; and (5) circumstances under which a revision of depreciation is required. Similar to recording depreciation, depletion is recorded on natural resource assets, usually using the units-of-production method. Like property, plant and equipment, impairments can also arise on natural resources.

3. ***Account for derecognition of property, plant, and equipment.*** The procedure for accounting for the disposal of property, plant, and equipment through sale or retirement is:

Step 1: Update unrecorded depreciation for any partial period.

Step 2: Calculate the carrying amount.

Step 3: Calculate any gain (proceeds less carrying amount). If the carrying amount is greater than proceeds then there is a loss on disposal.

Step 4: Derecognize (remove) the asset and accumulated depreciation accounts related to the sold or retired asset. Record the proceeds received and the gain or loss (if any).

4. ***Identify the basic accounting issues for intangible assets and goodwill.*** Intangible assets (which we have assumed are accounted for under the cost model) are initially reported at cost, which includes all expenditures that are necessary to prepare the asset for its intended use. An intangible asset with a finite life is amortized over the shorter of its useful life or legal life, usually on a straight-line basis. Like property, plant, and equipment, intangible assets with finite lives are tested for impairment only if indicators of impairment are present. Intangible assets with indefinite lives are not amortized and must be tested for impairment annually under IFRS but only when indicators (events and circumstances) of impairment are present under ASPE. Impairment losses can be reversed under IFRS but not under ASPE.
   Goodwill, which is the difference between the price paid for a business and the fair value of the identifiable assets less liabilities of the business, is not considered an intangible asset because it is not separately "identifiable." Only purchased, not internally generated goodwill can be recorded. Goodwill has an indefinite life and is not amortized. Impairment tests for goodwill are similar to those for intangibles with indefinite lives. Goodwill impairment losses are never reversed.

5. ***Illustrate how non-current assets are reported in the financial statements.*** In the statement of financial position, land, land improvements, buildings, and equipment are usually combined and shown under the heading "Property, Plant, and Equipment." Intangible assets with finite and indefinite lives are sometimes combined under the heading "Intangible Assets" or are listed separately. Goodwill must be presented separately.
   Either on the statement of financial position or in the notes to the financial statements, the cost of the major classes of long-lived assets is presented. The depreciation and amortization methods and rates must also be described in the notes to the statements. The accumulated depreciation and amortization of depreciable/amortizable assets and carrying amount by major classes is also disclosed, including a reconciliation of the carrying amount at the beginning and end of each period for companies reporting under IFRS. The company's impairment policy and any impairment losses should be described and reported. The company must disclose whether it is using the cost or revaluation model.
   Depreciation and amortization expense, any gain or loss on disposal, and any impairment losses are reported as operating expenses in the statement of income. In the statement of cash flows, any cash flows from the purchase or sale of long-lived assets are reported as investing activities.

6. ***Describe the methods for evaluating the use of assets.*** The use of assets may be analyzed using the return on assets and asset turnover ratios. Return on assets (net income ÷ average total assets) indicates how well assets are used to generate net income. Return on assets can be determined by multiplying two ratios: asset turnover (net sales ÷ average total assets), which indicates how efficiently assets are used to generate revenue, and profit margin (net income ÷ net sales), which measures the net income made on each sale.

TRUE-FALSE STATEMENTS

1. All property, plant, and equipment must be depreciated for accounting purposes.

2. When purchasing land, the costs for clearing, draining, filling, and grading should be charged to a Land Improvements account.

3. When purchasing a delivery truck, the cost of painting the company logo on the side should be debited to the Vehicles account.

4. Land improvements are generally debited to the Land account.

5. If land is purchased with a building on it that is to be demolished, proceeds from any salvaged materials are reported in the Other Income and Expenses section of the statement of income.

6. Under an operating lease, both the leased asset and the related lease obligation are shown on the statement of financial position.

7. Under a capital lease, both the leased asset and the related lease obligation are shown on the statement of financial position.

8. Leasehold improvements are depreciated over the remaining life of the lease or the useful life of the improvements, whichever is longer.

9. Recording depreciation on equipment affects both the statement of financial position and the statement of income.

10. The depreciable amount of property, plant, and equipment is its original cost minus the depreciation for the current year.

11. The Accumulated Depreciation account represents a cash fund available to replace property, plant, and equipment.

12. In calculating depreciation, cost, useful life, and residual value are all based on estimates.

13. Carrying amount is used in determining the amount that the diminishing-balance rate is applied to.

14. Using the units-of-production method of depreciation for equipment will generally result in more depreciation expense being recorded over the life of the asset than if the straight-line method had been used.

15. Using the diminishing-balance method results in higher expense in the early years, resulting in lower net income.

16. Canada Revenue Agency requires a company to use the same depreciation method on its income tax return that is used in preparing financial statements.

17. Under IFRS, companies *must* account for their property, plant, and equipment using the revaluation model, where depreciable assets are re-valued upward to their fair values.

18. The carrying amount of an asset is the original cost less anticipated residual value.

19. When an impairment loss is recorded for a depreciable asset, the offsetting credit is recorded in accumulated depreciation.

20. An item of property, plant, and equipment is considered to be impaired if its carrying amount exceeds its recoverable amount.

21. When a company has a piece of property, plant, or equipment that has different components that depreciate at different rates, the total cost should be allocated to each component and each component should be depreciated separately.

22. A change in the estimated residual value of property, plant, and equipment requires a restatement of prior years' depreciation.

23. When a change in estimate is made, there is no correction of previously recorded depreciation expense.

24. Normally, businesses only dispose of property, plant, and equipment by either sale or exchange.

25. If the proceeds from the sale of equipment exceed its carrying amount, a gain on disposal is reported.

26. When an asset is retired, a gain or loss must be recorded.

27. A tangible asset must be fully depreciated before it can be removed from the books.

28. A loss on disposal results if the cash proceeds received from the asset sale are less than the asset's carrying amount.

29. Intangible assets involve rights, privileges, and/or competitive advantages that result from ownership of identifiable assets that do *not* possess physical substance.

30. The cost of a patent should be amortized over its legal life or useful life; whichever, is shorter.

31. If an acquired franchise or licence is for an indefinite time period, then the cost of the asset should *not* be amortized.

32. An intangible asset must be identifiable.

33. If a trademark is developed internally, it *cannot* be recognized as an intangible asset on the statement of financial position.

34. When an entire business is purchased, goodwill is the excess of the purchase price over the carrying amount of the net identifiable assets acquired.

35. All research costs should be capitalized when incurred.

36. Impairment losses on goodwill are *never* reversed.

37. If a building is sold at a gain, the gain on disposal should be reported in the non-operating section of the statement of income.

38. The cash flows from the purchase and sale of long-lived assets are reported in the operating activities section of the cash flow statement.

39. The asset turnover ratio is calculated as net sales divided by ending total assets.

40. Profit margin can be determined by multiplying the asset turnover by the return on assets.

41. The asset turnover indicates how efficiently a company uses its assets.

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	7.	T	13.	T	19.	T	25.	T	31.	T	37.	F
2.	F	8.	F	14.	F	20.	T	26.	F	32.	T	38.	F
3.	T	9.	T	15.	T	21.	T	27.	F	33.	T	39.	F
4.	F	10.	F	16.	F	22.	F	28.	T	34.	F	40.	F
5.	F	11.	F	17.	F	23.	T	29.	T	35.	F	41.	T
6.	F	12.	F	18.	F	24.	F	30.	T	36.	T		

MULTIPLE CHOICE QUESTIONS

42. Asset retirement costs are
(a) added to the cost of a depreciable asset.
(b) treated as a separate asset.
(c) deducted from the cost of a depreciation asset.
(d) have no effect on a depreciable asset.

43. A company purchased land for $120,000 cash; $7,000 was spent to demolish an old building on the land before construction of a new building could start; and $1,500 was received for material salvaged from the old building. The cost of the land would be recorded at
(a) $120,000.
(b) $125,500.
(c) $127,000.
(d) $128,500.
Solution: $120,000 + $7,000 – $1,500 = $125,500

44. Which of the following should *not* be classified as property, plant and equipment?
(a) building used as a factory
(b) land used in ordinary business operations
(c) a truck held for resale by an automobile dealership
(d) land improvements, such as parking lots and fences

45. A characteristic of property, plant, and equipment is that it is
(a) intangible.
(b) used in the operations of a business.
(c) held for sale in the ordinary course of the business.
(d) not currently used in the business but held for future use.

46. Which one of the following items is *not* considered to be a part of the cost of a truck purchased for business use?
(a) insurance during transit
(b) motor vehicle licence
(c) freight charges incurred when acquiring the truck
(d) cost of lettering on the side of the truck

47. Which of the following would *not* be included in the Equipment account?
(a) installation costs
(b) freight costs
(c) cost of trial runs
(d) electricity used by the machine

48. Which of the following assets does *not* decline in service potential over the course of its

CHAPTER 10

REPORTING AND ANALYZING LIABILITIES

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	M	C	F	AN	11.	1	E	K	F	AN	21.	3	M	K	F	AN
2.	1	E	K	F	AN	12.	1	M	K	F	AN	22.	3	M	K	F	AN
3.	1	M	C	F	AN	13.	2	E	K	F	AN	*23.	4	M	C	F	AN
4.	1	E	C	F	AN	14.	2	M	K	F	AN	*24.	4	M	K	F	AN
5.	1	M	K	F	AN	15.	2	M	K	F	AN	*25.	4	M	C	F	AN
6.	1	M	C	F	AN	16.	2	M	K	F	AN	*26.	4	M	C	F	AN
7.	1	M	K	F	AN	17.	2	M	K	F	AN	*27.	4	H	C	F	AN
8.	1	M	K	F	AN	18.	3	M	C	F	AN	*28.	4	E	K	F	AN
9.	1	E	K	F	AN	19.	3	M	K	F	AN						
10.	1	M	K	F	AN	20.	3	E	K	F	AN						
Multiple Choice Questions																	
29.	1	H	C	F	AN	51.	1	E	K	F	AN	73.	3	M	K	F	AN
30.	1	M	K	F	AN	52.	1,3	H	K	F	AN	74.	3	H	K	F	AN
31.	1	H	AP	F	AN	53.	1,3	H	K	F	AN	75.	3	H	AP	F	AN
32.	1	H	AP	F	AN	54.	2	M	C	F	AN	*76.	4	E	K	F	AN
33.	1	M	K	F	AN	55.	2	M	C	F	AN	*77.	4	H	C	F	AN
34.	1	M	K	F	AN	56.	2	M	C	F	AN	*78.	4	M	AP	F	AN
35.	1	H	C	F	AN	57.	2	E	K	F	AN	*79.	4	M	AP	F	AN
36.	1	H	AP	F	AN	58.	2	M	K	F	AN	*80.	4	E	K	F	AN
37.	1	M	C	F	AN	59.	2	M	C	F	AN	*81.	4	M	AP	F	AN
38.	1	M	C	F	AN	60.	2	M	AP	F	AN	*82.	4	M	C	F	AN
39.	1	E	AP	F	AN	61.	2	H	AP	F	AN	*83.	4	M	AP	F	AN
40.	1	M	AP	F	AN	62.	2	M	AP	F	AN	*84.	4	H	K	F	AN
41.	1	H	AP	F	AN	63.	2	M	K	F	AN	*85.	4	M	K	F	AN
42.	1	M	AP	F	AN	64.	2	H	C	F	AN	*86.	4	M	C	F	AN
43.	1	M	AP	F	AN	65.	2	E	K	F	AN	*87.	4	E	C	F	AN
44.	1	M	AP	F	AN	66.	2	M	K	F	AN	*88.	4	M	K	F	AN
45.	1	M	C	F	AN	67.	2	E	K	F	AN	*89.	4	M	AP	F	AN
46.	1	M	AP	F	AN	68.	3	E	K	F	AN	*90.	4	M	AP	F	AN
47.	1	E	AP	F	AN	69.	3	M	K	F	AN	*91.	4	H	AP	F	AN
48.	1	M	AP	F	AN	70.	3	M	K	F	AN	*92.	4	H	AP	F	AN
49.	1	E	K	F	AN	71.	3	E	C	F	AN	*93.	4	M	AP	F	AN
50.	1	H	K	F	AN	72.	3	E	K	F	AN						

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*This topic is dealt with in an Appendix to the chapter.

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
94.	1	E	AP	F	AN	104.	2	M	AP	F	AN	*114.	4	E	K	F	AN
95.	1	M	AP	F	AN	105.	2	M	AP	F	AN	*115.	4	E	AP	F	AN
96.	1	M	AP	F	AN	106.	2	H	AP	F	AN	*116.	4	M	AP	F	AN
97.	1	E	AP	F	AN	107.	3	E	AP	F	AN	*117.	4	M	AP	F	AN
98.	1	H	AP	F	AN	108.	3	M	AP	F	AN	*118.	4	M	AP	F	AN
99.	1	E	K	F	AN	109.	3	M	AN	F	AN	*119.	4	M	AP	F	AN
100.	2	E	K	F	AN	110.	3	E	C	F	AN	*120.	4	M	AP	F	AN
101.	2	M	AP	F	AN	111.	3	M	AP	F	AN	*121.	4	M	AP	F	AN
102.	2	E	AP	F	AN	112.	3	H	AP	F	AN	*122.	4	M	AP	F	AN
103.	2	M	AP	F	AN	113.	3	E	C	F	AN						
Matching																	
*123.	1-4	M	K	F	AN												
Short-Answer Essay																	
124.	1	M	E	F, P	AN,E	*127.	4	E	C	F	AN	*130.	4	M	C	F	AN,CM
125.	1	H	AN	F	AN	*128.	4	H	C	F,CM	AN	*131.	4	H	E	F	AN
126.	2	E	C	F,CM	AN,CM	*129.	4	M	C	F	AN						
Objective Format Questions																	
132.	1	M	C	F	AN	134.	3	M	AN	F	AN	*136.	4	H	AN	F	AN
133.	1	H	AN	F	AN	*135.	4	M	K	F	AN						

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Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
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SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1											
1.	TF	9.	TF	33.	MC	41.	MC	49.	MC	97.	Ex
2.	TF	10.	TF	34.	MC	42.	MC	50.	MC	98.	Ex
3.	TF	11.	TF	35.	MC	43.	MC	51.	MC	99.	Ex
4.	TF	12.	TF	36.	MC	44.	MC	52.	MC	123.	Ma
5.	TF	29.	MC	37.	MC	45.	MC	53.	MC	124.	SAE
6.	TF	30.	MC	38.	MC	46.	MC	94.	Ex	125.	SAE
7.	TF	31.	MC	39.	MC	47.	MC	95.	Ex	132.	OF
8.	TF	32.	MC	40.	MC	48.	MC	96.	Ex	133.	OF
Learning Objective 2											
13.	TF	54.	MC	59.	MC	64.	MC	101.	Ex	106.	Ex
14.	TF	55.	MC	60.	MC	65.	MC	102.	Ex	123.	Ma
15.	TF	56.	MC	61.	MC	66.	MC	103.	Ex	126.	SAE
16.	TF	57.	MC	62.	MC	67.	MC	104.	Ex		
17.	TF	58.	MC	63.	MC	100.	Ex	105.	Ex		
Learning Objective 3											
18.	TF	22.	TF	69.	MC	73.	MC	108.	Ex	112.	Ex
19.	TF	51.	MC	70.	MC	74.	MC	109.	Ex	113.	Ex
20.	TF	52.	MC	71.	MC	75.	MC	110.	Ex	123.	Ma
21.	TF	68.	MC	72.	MC	107.	Ex	111.	Ex	134.	OF
Learning Objective 4											
*23.	TF	*77.	MC	*84.	MC	*91.	MC	*118.	Ex	*128.	SAE
*24.	TF	*78.	MC	*85.	MC	*92.	MC	*119.	Ex	*129.	SAE
*25.	TF	*79.	MC	*86.	MC	*93.	MC	*120.	Ex	*130.	SAE
*26.	TF	*80.	MC	*87.	MC	*114.	Ex	*121.	Ex	*131.	SAE
*27.	TF	*81.	MC	*88.	MC	*115.	Ex	*122.	Ex	*135.	OF
*28.	TF	*82.	MC	*89.	MC	*116.	Ex	*123.	Ma	*136.	OF
*76.	MC	*83.	MC	*90.	MC	*117.	Ex	*127.	SAE		

Type: TF = True-False MC = Multiple Choice Ma = Matching
Ex = Exercise SAE = Short-Answer Essay OF = Objective Format

*This topic is dealt with in an Appendix to the chapter.

CHAPTER LEARNING OBJECTIVES

1. ***Account for current liabilities***. A current liability is a debt that will be paid (1) from existing current assets or through the creation of other current liabilities, and (2) within one year or operating cycle. An example of a current liability is an operating line of credit that results in bank indebtedness. Current liabilities also include sales taxes, payroll deductions, and employee benefits, all of which the company collects on behalf of third parties. Other examples include deferred revenues, refund liabilities, short-term notes payable, property tax payable, and interest payable on notes or loans payable, that accrues until paid. Another current liability is the portion of debt that is due within the next year.
   All of the above are “certain” or determinable liabilities. Provisions are “uncertain” liabilities that companies record because their outcome is probable and measurable. A contingent liability is an uncertain liability that a company does not record because it does not meet the two conditions necessary for recognition as a provision (probable and measurable). The terms and nature of each recorded provision and contingent liability are described in the notes accompanying the financial statements unless the probability of an outflow of resources arising from a contingent liability is remote, in which case, no provision is recorded and no note disclosure is made.

2. ***Account for interest bearing liabilities with principal due at maturity or on an instalment basis.*** Creditors issue notes payable or obtain bank loans to obtain more time to pay suppliers or to borrow money. Notes and bank loans can be current or non-current and normally require the payment of both interest and principal on the maturity date of the note or loan. Non-current notes (or mortgages) payable and bank loans are usually repayable in a series of equal instalment payments. Each payment consists of (1) interest on the unpaid balance of the loan or note, and (2) a reduction of the principal balance. Over time, the interest portion of these instalment payments decreases as the loan is paid down while the remaining portion of the payment allocated to principal will increase.
   Companies often grow by using debt, as long as the rate of return on borrowed funds exceeds the interest charged on this type of financing. By using debt, shareholders' interests are not diluted, and companies can deduct interest expense on income tax returns when determining taxable income.

3. ***Identify the requirements for the financial statement presentation and analysis of liabilities.*** In the statement of income, interest expense (finance cost) is reported under “other revenues and expenses.” In the statement of financial position, current liabilities are usually reported first, followed by non-current liabilities. Within the current liability section, items are listed in the order they fall due. Typically, bank indebtedness (operating lines of credit) is listed first, followed by accounts payable and other types of payables, followed by deferred revenue and the current portions of any long-term debt.
   The liquidity of a company may be analyzed by calculating the current ratio, in addition to the receivables and inventory turnover ratios. The solvency of a company may be analyzed by calculating the debt to total assets and times interest earned ratios. Considering the relationship between these two ratios is necessary to see if a company is taking advantage of, or being disadvantaged by, its use of debt.

4. ***Account for bonds payable (Appendix 10A).*** When issuing bonds, the Cash account is debited and the Bonds Payable account is credited for the issue price of the bonds. Bond prices can be determined by calculating the present value of the bond's cash outflows using the market interest rate when issuing the bond.
   Bond discounts and bond premiums represent the difference between the face value and the price received for the bonds at their date of issue. They are amortized to interest expense over the life of the bonds using the effective-interest method of amortization. Amortization is calculated as the difference between the interest paid and the interest expense. Interest paid is calculated by multiplying the face value of the bonds by the coupon interest rate. Interest expense is calculated by multiplying the carrying amount of the bonds (which is equal to their present value at that time) at the beginning of the interest period by the market interest rate when the bonds were issued. The amortization of a bond discount increases interest expense and the bond's carrying amount. The amortization of a bond premium decreases interest expense and the bond's carrying amount.
   When bonds are retired at maturity, Bonds Payable is debited and Cash is credited. There is no gain or loss at retirement.

TRUE-FALSE STATEMENTS

1. Amounts available to be drawn in the future from an operating line of credit improve a company's liquidity.

2. Property tax payable is classified as a non-current liability because it is related to property, which is a non-current asset.

3. If a company's fiscal year is the same as the calendar year used for property tax purposes, there should be no prepaid property tax on its year-end financial statements but there may be a property tax liability.

4. If drawing on an operating line of credit results in a negative cash balance, a current liability known as bank indebtedness results.

5. Interest expense on a bank loan payable is only recorded at maturity.

6. When a business sells an item and collects Harmonized Sales Tax (HST) on it, a current liability arises.

7. Payroll liabilities include the employer's share of CPP contributions and EI premiums.

8. Provisions are liabilities of uncertain timing or amount, along with some uncertainty as to whether the liability will have to be paid.

9. A contingent liability may materialize in the future because of something that happened in the past.

10. Under IFRS, contingent liabilities should be recorded in the accounts if there is a remote possibility that the contingency will occur.

11. A financial liability means there is a contractual obligation to pay cash in the future.

12. Deferred revenue is a financial liability.

13. While short-term notes are generally repayable in full at maturity, most long-term notes are repayable in a series of periodic payments called instalments.

14. Long-term notes payable can only have floating interest rates.

15. Secured notes are often also referred to as mortgages.

16. Unsecured notes are issued against the general credit of the borrower.

17. Instalment payments consist of a mix of interest on the unpaid balance of the loan and a reduction of the loan principal.

18. The classification of a liability as current or non-current is important because it may affect the evaluation of a company's liquidity.

19. The debt to total assets ratio measures the percentage of the total assets provided by creditors.

20. Interest (finance) expenses are separately reported in the "other gain and revenues" section of the statement of income.

21. The terms of an operating line of credit and a notes (loans) payable are disclosed in the notes to the financial statements.

22. Detailed information such as a list showing the amounts of non-current debt that is scheduled to be paid off in each of the next five years should be disclosed in the notes to the financial statements.

*23. The face value of a bond is the amount of principal and interest due at the maturity date.

*24. All transactions between bondholders and other investors must be recorded by the issuing corporation.

*25. If the market interest rate at the date of a bond issue is greater than the coupon interest rate, the bond will be issued at a premium.

*26. If bonds are issued at a discount, the issuing corporation will pay a principal amount that is less than the face amount of the bonds on the maturity date.

*27. Amortization of a bond premium decreases interest expense recorded by the issuer.

*28. The effective-interest method is required for companies reporting under IFRS, but optional for companies using ASPE if other methods do not result in material differences.

CHAPTER 11

REPORTING AND ANALYZING SHAREHOLDERS' EQUITY

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	C	F	AN	13.	2	E	C	F	AN	25.	4	E	C	F	AN
2.	1	M	C	F	AN	14.	2	M	K	F	AN	26.	4	E	K	F	AN
3.	1	E	K	F	AN	15.	2	M	K	F	AN	27.	4	E	K	F	AN
4.	1	E	K	F	AN	16.	2	E	K	F	AN	28.	4	E	K	F	AN
5.	1	E	K	F	AN	17.	2	E	K	F	AN	29.	4	E	K	F	AN
6.	1	E	C	F	AN	18.	3	E	C	F	AN	30.	4	M	K	F	AN
7.	1	E	K	F	AN	19.	3	M	C	F	AN	31.	5	M	K	F	AN
8.	1	E	K	F	AN	20.	3	E	C	F	AN	32.	5	M	K	F	AN
9.	1	E	K	F	AN	21.	3	M	C	F	AN	33.	5	M	K	F	AN
10.	1	H	K	F	AN	22.	3	M	C	F	AN	34.	5	E	K	F	AN
11.	1	M	C	F	AN	23.	3	E	K	F	AN	35.	5	E	K	F	AN
12.	2	M	K	F	AN	24.	4	E	C	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Multiple Choice Questions																	
36.	1	M	C	F	AN	72.	2	M	K	F	AN	108.	3	E	C	F	AN
37.	1	M	C	F	AN	73.	2	H	K	F	AN	109.	3	E	C	F	AN
38.	1	E	K	F	AN	74.	2	H	K	F	AN	110.	3	H	C	F	AN
39.	1	M	K	F	AN	75.	3	E	K	F	AN	111.	3	E	C	F	AN
40.	1	M	K	F	AN	76.	3	M	C	F	AN	112.	3	M	AP	F	AN
41.	1	E	K	F	AN	77.	3	E	C	F	AN	113.	3	E	AP	F	AN
42.	1	E	K	F	AN	78.	3	M	C	F	AN	114.	3	H	C	F	AN
43.	1	M	K	F	AN	79.	3	E	C	F	AN	115.	3	E	C	F	AN
44.	1	E	C	F	AN	80.	3	E	C	F	AN	116.	3	H	C	F	AN
45.	1	M	C	F	AN	81.	3	H	C	F	AN	117.	3	E	C	F	AN
46.	1	M	K	F	AN	82.	3	E	C	F	AN	118.	3	E	C	F	AN
47.	1	E	K	F	AN	83.	3	H	C	F	AN	119.	4	E	K	F	AN
48.	1	M	K	F	AN	84.	3	M	C	F	AN	120.	4	H	C	F	AN
49.	1	E	K	F	AN	85.	3	E	K	F	AN	121.	4	E	C	F	AN
50.	1	M	K	F	AN	86.	3	E	K	F	AN	122.	4	M	K	F	AN
51.	1	M	K	F	AN	87.	3	M	C	F	AN	123.	4	E	C	F	AN
52.	1	M	K	F	AN	88.	3	E	C	F	AN	124.	4	M	C	F	AN
53.	1	H	K	F	AN	89.	3	E	C	F	AN	125.	4	E	C	F	AN
54.	1	H	K	F	AN	90.	3	E	K	F	AN	126.	4	H	AP	F	AN
55.	1	M	C	F	AN	91.	3	M	C	F	AN	127.	4	M	K	F	AN
56.	1	E	K	F	AN	92.	3	M	K	F	AN	128.	4	E	K	F	AN
57.	1	M	K	F	AN	93.	3	M	K	F	AN	129.	4	E	K	F	AN
58.	1	E	K	F	AN	94.	3	E	K	F	AN	130.	4	E	K	F	AN
59.	1	E	K	F	AN	95.	3	E	K	F	AN	131.	4	E	K	F	AN
60.	2	E	C	F	AN	96.	3	E	K	F	AN	132.	4	M	AP	F	AN
61.	2	M	C	F	AN	97.	3	M	C	F	AN	133.	4	M	K	F	AN
62.	2	E	C	F	AN	98.	3	E	K	F	AN	134.	5	E	K	F	AN
63.	2	E	C	F	AN	99.	3	E	C	F	AN	135.	5	E	K	F	AN
64.	2	M	K	F	AN	100.	3	E	AP	F	AN	136.	5	E	K	F	AN
65.	2	M	K	F	AN	101.	3	E	AP	F	AN	137.	5	M	C	F	AN
66.	2	H	K	F	AN	102.	3	M	C	F	AN	138.	5	M	C	F	AN
67.	2	E	K	F	AN	103.	3	H	AP	F	AN	139.	5	E	AP	F	AN
68.	2	H	K	F	AN	104.	3	E	K	F	AN	140.	5	M	C	F	AN
69.	2	E	AP	F	AN	105.	3	E	K	F	AN	141.	5	M	AP	F	AN
70.	2	E	C	F	AN	106.	3	M	K	F	AN						
71.	2	M	K	F	AN	107.	3	M	C	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
142.	1	E	K	F	AN	154.	2,3	E	AP	F	AN	166.	4	E	AP	F	AN
143.	1	E	K	F	AN	155.	2,3	H	AP	F	AN	167.	4	H	AP	F	AN
144.	1	M	K	F	AN	156.	2,4	M	AP	F	AN	168.	4	H	AP	F	AN
145.	2	M	AP	F	AN	157.	2,4	M	AP	F	AN	169.	4	E	AP	F	AN
146.	2	E	C	F	AN	158.	3	M	AP	F	AN	170.	4	E	AP	F	AN
147.	2	E	AP	F	AN	159.	3	E	AP	F	AN	171.	4	M	AP	F	AN
148.	2	E	AP	F	AN	160.	3	M	AP	F	AN	172.	5	M	AP	F	AN
149.	2	H	AP	F	AN	161.	3	H	C	F	AN	173.	5	E	AP	F	AN
150.	2	E	AP	F	AN	162.	3,4	H	AP	F	AN	174.	5	M	C	F	AN
151.	2	M	AP	F	AN	163.	4	M	AP	F	AN	175.	5	H	AP	F	AN
152.	2,3	E	AP	F	AN	164.	4	M	AP	F	AN						
153.	2,3	H	AP	F	AN	165.	4	M	AP	F	AN						
Matching																	
176.	1–5	M	K	F	AN												
Short-Answer Essay																	
177.	1,2	H	K	F	AN	180.	3	H	C	F	A	183.	5	H	C	F,C	AN,C
178.	2	E	C	F	AN	181.	3	M	C	F	AN	184.	5	H	C	F,C	AN,C
179.	2,3	M	C	F,E	AN,E	182.	4	E	C	F	AN						
Objective Format Questions																	
185.	1	M	C	F	AN	187.	2	M	C	F	AN	189.	4	M	AN	F	AN
186.	1,4,5	M	K	F	AN	188.	3	M	C	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: C = Communication E = Professional and Ethical Behaviour F = Financial Reporting
AACSB: AN = Analytic C = Communication E = Ethics

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	7.	TF	37.	MC	43.	MC	49.	MC	55.	MC	143.	Ex
2.	TF	8.	TF	38.	MC	44.	MC	50.	MC	56.	MC	144.	Ex
3.	TF	9.	TF	39.	MC	45.	MC	51.	MC	57.	MC	176.	Ma
4.	TF	10.	TF	40.	MC	46.	MC	52.	MC	58.	MC	177.	SAE
5.	TF	11.	TF	41.	MC	47.	MC	53.	MC	59.	MC	185.	OF
6.	TF	36.	MC	42.	MC	48.	MC	54.	MC	142.	Ex	186.	OF
Learning Objective 2													
12.	TF	60.	MC	66.	MC	71.	MC	147.	Ex	153.	Ex	177.	SAE
13.	TF	61.	MC	67.	MC	72.	MC	148.	Ex	154.	Ex	178.	SAE
14.	TF	62.	MC	68.	MC	73.	MC	149.	Ex	155.	Ex	179.	SAE
15.	TF	63.	MC	69.	MC	74.	MC	150.	Ex	156.	Ex	187.	OF
16.	TF	64.	MC	70.	MC	145.	Ex	151.	Ex	157.	Ex		
17.	TF	65.	MC	71.	MC	146.	Ex	152.	Ex	176.	Ma		
Learning Objective 3													
18.	TF	79.	MC	89.	MC	99.	MC	109.	MC	152.	Ex	179.	SAE
19.	TF	80.	MC	90.	MC	100.	MC	110.	MC	153.	Ex	180.	SAE
20.	TF	81.	MC	91.	MC	101.	MC	111.	MC	154.	Ex	181.	SAE
21.	TF	82.	MC	92.	MC	102.	MC	112.	MC	155.	Ex	188.	OF
22.	TF	83.	MC	93.	MC	103.	MC	113.	MC	158.	Ex		
23.	TF	84.	MC	94.	MC	104.	MC	114.	MC	159.	Ex		
75.	MC	85.	MC	95.	MC	105.	MC	115.	MC	160.	Ex		
76.	MC	86.	MC	96.	MC	106.	MC	116.	MC	161.	Ex		
77.	MC	87.	MC	97.	MC	107.	MC	117.	MC	162.	Ex		
78.	MC	88.	MC	98.	MC	108.	MC	118.	MC	176.	Ma		
Learning Objective 4													
24.	TF	30.	TF	124.	MC	130.	MC	162.	Ex	168.	Ex	186.	OF
25.	TF	119.	MC	125.	MC	131.	MC	163.	Ex	169.	Ex	189.	OF
26.	TF	120.	MC	126.	MC	132.	MC	164.	Ex	170.	Ex		
27.	TF	121.	MC	127.	MC	133.	MC	165.	Ex	171.	Ex		
28.	TF	122.	MC	128.	MC	156.	Ex	166.	Ex	176.	Ma		
29.	TF	123.	MC	129.	MC	157.	Ex	167.	Ex	182.	SAE		
Learning Objective 5													
31.	TF	34.	TF	135.	MC	138.	MC	141.	MC	174.	Ex	183.	SAE
32.	TF	35.	TF	136.	MC	139.	MC	172.	Ex	175.	Ex	184.	SAE
33.	TF	134.	MC	137.	MC	140.	MC	173.	Ex	176.	Ma	186.	OF

Note: TF = True-False; MC = Multiple Choice; Ma = Matching; Ex = Exercise; SAE = Short-Answer Essay; OF = Objective Format

CHAPTER LEARNING OBJECTIVES

1. ***Identify and discuss the major characteristics of a corporation.*** The major characteristics of a corporation are separate legal existence, limited liability of shareholders, transferable ownership rights, the ability to acquire capital, continuous life, separation of corporation management from ownership, increased cost and complexity of government regulations, and the possibility of reduced corporate income tax. Some of these characteristics may differ depending on the size of the corporation.
   Corporations issue shares for sale to investors. The proceeds received from the issue of shares become the company's legal capital. Shares then trade among investors on the secondary stock market and do not affect the company's financial position.

2. ***Record share transactions.*** If only one class of shares is issued, they are considered to be common shares. Common shareholders have the right to vote and, as such, are the "owners" of the company. When shares are issued for noncash goods or services in a company using IFRS, the fair value of the goods or services received is used to record the transaction if it can be reliably determined. If not, the fair value of the common shares is used. For a private company following ASPE, the more reliable of the two fair values should be used, which is usually also the fair value of the goods or services received.
   When shares are repurchased, the Common Shares (or Preferred Shares) account is reduced by the average cost of these shares immediately prior to the repurchase. If the price paid to repurchase the shares is lower than their average cost, the difference is recorded as an increase to the Contributed Surplus account. If the price paid to repurchase the shares is greater than their average cost, the difference is first applied to any Contributed Surplus previously recorded from acquisitions of shares of the same class and any remaining difference is then applied to reduce the Retained Earnings account.
   The accounting for preferred shares is similar to the accounting for common shares. Preferred shares do not have the right to vote—only common shares have voting rights—but have contractual provisions that give them preference over common shares for dividends and assets in the event of liquidation. Dividends are quoted at an annual rate per share (such as $5 preferred), but are normally paid quarterly (such as $1.25 per quarter). In addition, preferred shares may have other preferences, such as the right to redeem or to periodically reset dividend rates based on changes in interest rates.

3. ***Prepare the entries for cash dividends, stock dividends, and stock splits, and understand their financial impact.*** Entries for both cash and stock dividends are required at the declaration date and the payment or distribution date. There is no entry (other than a memo entry) for a stock split. The overall impact of a cash dividend is to reduce assets (cash) and shareholders' equity (retained earnings). Stock dividends increase common shares and decrease retained earnings but do not affect assets, liabilities, or shareholders' equity in total. Stock splits also have no impact on assets, liabilities, or shareholders' equity. The number of shares increases with both stock dividends and stock splits.

4. ***Indicate how shareholders' equity is presented in the financial statements.*** In the shareholders' equity section of the statement of financial position for companies using IFRS, share capital, contributed surplus, retained earnings, and accumulated other

comprehensive income, if any, are reported separately. A statement of changes in equity explains the changes in each shareholders' equity account, and in total, for the reporting period. Notes to the financial statements explain details about authorized and issued shares, restrictions on retained earnings, and dividends in arrears, if there are any.
For private companies reporting using ASPE, comprehensive income is not reported and a statement of changes in equity is not required. Instead, a statement of retained earnings is prepared that explains the changes in the Retained Earnings account for the reporting period. Changes to share capital and any other equity items are disclosed in the notes to the statements.

5. ***Evaluate dividend and earnings performance.*** A company's dividend record can be evaluated by looking at the dividend payout ratio (cash dividends declared divided by net income), which measures what percentage of net income it chooses to pay out in dividends, and by the dividend yield ratio (dividends per share divided by the share price), which measures dividends as a percentage of the share price.
Earnings performance can be measured by two profitability ratios: basic earnings per share (net income less preferred dividends divided by the weighted average number of common shares) and the return on common shareholders' equity ratio (net income less preferred dividends divided by average common shareholders' equity).
The return on shareholders' equity is affected by the extent to which a company uses debt or equity to finance the acquisition of its assets. Taking on more debt is risky because the company is legally bound to make principal and interest payments on debt, but on the other hand, the ownership interests of existing shareholders are not diluted when greater debt is assumed. Furthermore, any excess income generated from assets financed with debt accrues to the shareholders, not the creditors.

TRUE-FALSE STATEMENTS

1. The trading of a corporation's shares on the secondary market has no impact on the corporation's financial position.

2. A company can control the market value of its shares.

3. Most companies in Canada have an unlimited number of authorized shares.

4. A corporation is *not* an entity that is separate and distinct from its owners.

5. The liability of a shareholder is usually limited to the shareholder's investment in the corporation.

6. The sale of shares in a corporation by one shareholder to another affects the total capital of the corporation.

7. A corporation acts under its' own name rather than in the name of its shareholders.

8. A shareholder owning common shares has the right to vote in the election of the board of directors.

9. An initial public offering occurs the first time a corporation sells shares to the public.

10. The market capitalization of a company is calculated by multiplying the number of shares authorized by the share price at any given date.

11. The number of common shares authorized can *never* be greater than the number of shares issued.

12. Share capital is the amount shareholders paid or contributed to the corporation in exchange for shares of ownership.

13. The issue of common shares affects both share capital and retained earnings.

14. One of the reasons a company may repurchase its own shares is to reduce the market value

to make the shares more affordable.

15. Preferred shares have a contractual preference over common shares in certain areas, but do *not* have the right to vote.

16. Preferred shares are generally issued to appeal to a larger segment of potential investors.

17. When preferred shares are cumulative, preferred dividends *not* declared in a given period are called dividends in arrears.

18. Cash dividends are *not* a liability of the corporation until they are declared by the board of directors.

19. The liability for a cash dividend is recorded on the date of record, because it is on that date that the shareholders who will receive the dividend are identified.

20. Declaration and distribution of a stock dividend does *not* affect the total amount of shareholders' equity.

21. Stock Dividends Distributable is reported as a liability on the statement of financial position.

22. A stock split results in a transfer at market value from retained earnings to share capital.

23. The main purpose of a stock split is to increase the marketability of the shares.

24. Retained earnings represents the amount of cash available for dividends.

25. If a corporation reports a net income, it should be closed to retained earnings. If it reports a loss, it should be closed to the contributed surplus account.

26. A debit balance in the Retained Earnings account is called a deficit.

27. Retained earnings that are restricted are unavailable for dividends.

28. The statement of changes in equity discloses changes in total shareholders' equity for the period as well as changes in each shareholders' equity account.

29. Corporations reporting under IFRS have the option of preparing either a statement of changes in equity or a statement of retained earnings.

30. Accumulated other comprehensive income is reported in the shareholders' equity section of the statement of financial position for a publicly-traded company.

31. The payout ratio is calculated by dividing the cash dividends paid on common shares by retained earnings.

32. Return on common shareholders' equity is calculated by dividing net income by ending shareholders' equity.

33. Investors tend to buy shares with low payout ratios and dividend yields if they are looking for more capital appreciation from the shares.

34. Basic earnings per share is calculated by dividing the net income available to common shareholders by the number of common shares issued at year end.

35. Companies reporting under ASPE must disclose basic earnings per share, but companies reporting under IFRS do *not*.

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	6.	F	11.	F	16.	T	21.	F	26.	T	31.	F
2.	F	7.	T	12.	T	17.	T	22.	F	27.	T	32.	F
3.	T	8.	T	13.	F	18.	T	23.	T	28.	T	33.	T
4.	F	9.	T	14.	F	19.	F	24.	F	29.	F	34.	F
5.	T	10.	F	15.	T	20.	T	25.	F	30.	T	35.	F

CHAPTER 12

REPORTING AND ANALYZING INVESTMENTS

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	M	C	F	AN	12.	2	E	K	F	AN	23.	4	M	K	F	AN
2.	1	M	K	F	AN	13.	2	M	K	F	AN	24.	4	M	K	F	AN
3.	1	M	K	F	AN	14.	2	M	C	F	AN	25.	4	H	C	F	AN
4.	1	M	C	F	AN	15.	3	E	K	F	AN	*26.	5	E	C	F	AN
5.	1	E	K	F	AN	16.	3	E	C	F	AN	*27.	5	M	C	F	AN
6.	1	M	K	F	AN	17.	3	E	K	F	AN	*28.	5	M	K	F	AN
7.	1	M	K	F	AN	18.	3	M	C	F	AN	*29.	5	M	C	F	AN
8.	1	M	K	F	AN	19.	3	M	K	F	AN	*30.	5	H	C	F	AN
9.	2	E	K	F	AN	20.	4	M	K	F	AN	*31.	5	M	K	F	AN
10.	2	H	C	F	AN	21.	4	M	K	F	AN						
11.	2	M	C	F	AN	22.	4	M	K	F	AN						
Multiple Choice Questions																	
32.	1	M	C	F	AN	61.	3	E	K	F	AN	90.	4	M	C	F	AN
33.	1	M	K	F	AN	62.	3	M	C	F	AN	91.	4	M	C	F	AN
34.	1	M	K	F	AN	63.	3	E	K	F	AN	92.	4	M	K	F	AN
35.	1	E	K	F	AN	64.	3	H	C	F	AN	93.	4	M	C	F	AN
36.	1	M	K	F	AN	65.	3	M	C	F	AN	94.	4	M	C	F	AN
37.	1	E	K	F	AN	66.	3	E	K	F	AN	95.	4	M	AP	F	AN
38.	1	E	K	F	AN	67.	3	E	C	F	AN	96.	4	H	AP	F	AN
39.	1	M	K	F	AN	68.	3	E	C	F	AN	97.	4	E	K	F	AN
40.	1	M	K	F	AN	69.	3	M	AP	F	AN	98.	4	H	C	F	AN
41.	1	E	K	F	AN	70.	3	H	AP	F	AN	*99.	5	M	C	F	AN
42.	1	E	K	F	AN	71.	3	H	AP	F	AN	*100.	5	M	K	F	AN
43.	1	E	C	F	AN	72.	3	H	AP	F	AN	*101.	5	H	C	F	AN
44.	2	E	K	F	AN	73.	3	H	AP	F	AN	*102.	5	H	C	F	AN
45.	2	M	C	F	AN	74.	3	E	C	F	AN	*103.	5	E	AP	F	AN
46.	2	H	K	F	AN	75.	3	M	K	F	AN	*104.	5	E	AP	F	AN
47.	2	E	K	F	AN	76.	3	H	K	F	AN	*105.	5	E	AP	F	AN
48.	2	E	K	F	AN	77.	3	H	C	F	AN	*106.	5	M	AP	F	AN
49.	2	H	C	F	AN	78.	3	M	C	F	AN	*107.	5	H	AP	F	AN
50.	2	M	AP	F	AN	79.	3	E	C	F	AN	*108.	5	E	AP	F	AN
51.	2	M	AP	F	AN	80.	3	M	C	F	AN	*109.	5	E	AP	F	AN
52.	2	M	AP	F	AN	81.	3	M	C	F	AN	*110.	5	H	AP	F	AN
53.	2	E	C	F	AN	82.	3	E	C	F	AN	*111.	5	E	C	F	AN
54.	2	E	C	F	AN	83.	3	E	K	F	AN	*112.	5	M	C	F	AN
55.	2	E	C	F	AN	84.	3	E	K	F	AN	*113.	5	M	C	F	AN
56.	2	H	C	F	AN	85.	3	M	C	F	AN	*114.	5	M	AP	F	AN
57.	2	M	C	F	AN	86.	3	M	C	F	AN	*115.	5	M	AP	F	AN
58.	2	M	AP	F	AN	87.	3	E	C	F	AN	*116.	5	M	AP	F	AN
59.	3	M	C	F	AN	88.	4	E	C	F	AN	*117.	5	M	AP	F	AN
60.	3	H	C	F	AN	89.	4	H	C	F	AN	*118.	5	E	C	F	AN

LOD: E = Easy M = Medium H = Hard
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

*This topic is dealt with in an Appendix to the chapter.

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
119.	1	E	K	F	AN	127.	2,3	M	AP	F	AN	135.	3	E	AP	F	AN
120.	1	E	C	F	AN	128.	2,3	H	AP	F	AN	136.	3	E	AP	F	AN
121.	1–3	M	C	F	AN	129.	2,4	M	AP	F	AN	137.	3,4	E	AP	F	AN
122.	2	E	AP	F	AN	130.	2,4	M	AP	F	AN	138.	4	E	C	F	AN
123.	2	M	AP	F	AN	131.	2,4	M	AP	F	AN	*139.	5	M	AP	F	AN
124.	2	E	AP	F	AN	132.	2,4	M	AP	F	AN	*140.	5	M	AP	F	AN
125.	2	M	AP	F	AN	*133.	2,5	H	AP	F	AN	*141.	5	M	AP	F	AN
126.	2,3	M	AP	F	AN	134.	3	E	K	F	AN	*142.	5	M	AP	F	AN
Matching																	
143.	1–4	M	K	F	AN												
Short-Answer Essay																	
144.	1	E	C	F	AN	146.	2,4	M	C	F	AN	148.	3,4	E	C	F	AN
145.	2,3,4	M	C	F,E	AN, E	147.	2,4	M	C	F,C	AN,C	149.	4	H	E	F	AN
Objective Format Questions																	
150.	2	M	C	F	AN	152.	4	M	K	F	AN	*154.	5	M	C	F	AN
151.	3	M	C	F	AN	*153.	5	H	AN	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: C = Communication E = Professional and Ethical Behaviour F = Financial Reporting
AACSB: AN = Analytic C = Communication E = Ethics

*This topic is dealt with in an Appendix to the chapter.

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	5.	TF	32.	MC	36.	MC	40.	MC	119.	Ex	144.	SAE
2.	TF	6.	TF	33.	MC	37.	MC	41.	MC	120.	Ex		
3.	TF	7.	TF	34.	MC	38.	MC	42.	MC	121.	Ex		
4.	TF	8.	TF	35.	MC	39.	MC	43.	MC	143.	Ma		
Learning Objective 2													
9.	TF	44.	MC	50.	MC	56.	MC	124.	Ex	130.	Ex	146.	SAE
10.	TF	45.	MC	51.	MC	57.	MC	125.	Ex	131.	Ex	147.	SAE
11.	TF	46.	MC	52.	MC	58.	MC	126.	Ex	132.	Ex	150.	OF
12.	TF	47.	MC	53.	MC	121.	Ex	127.	Ex	*133.	Ex		
13.	TF	48.	MC	54.	MC	122.	Ex	128.	Ex	143.	Ma		
14.	TF	49.	MC	55.	MC	123.	Ex	129.	Ex	145.	SAE		
Learning Objective 3													
15.	TF	61.	MC	68.	MC	75.	MC	82.	MC	126.	Ex	143.	Ma
16.	TF	62.	MC	69.	MC	76.	MC	83.	MC	127.	Ex	145.	SAE
17.	TF	63.	MC	70.	MC	77.	MC	84.	MC	128.	Ex	148.	SAE
18.	TF	64.	MC	71.	MC	78.	MC	85.	MC	134.	Ex	151.	OF
19.	TF	65.	MC	72.	MC	79.	MC	86.	MC	135.	Ex		
59.	MC	66.	MC	73.	MC	80.	MC	87.	MC	136.	Ex		
60.	MC	67.	MC	74.	MC	81.	MC	121.	Ex	137.	Ex		
Learning Objective 4													
20.	TF	25.	TF	92.	MC	97.	MC	132.	Ex	146.	SAE		
21.	TF	88.	MC	93.	MC	98.	MC	137.	Ex	147.	SAE		
22.	TF	89.	MC	94.	MC	129.	Ex	138.	Ex	148.	SAE		
23.	TF	90.	MC	95.	MC	130.	Ex	143.	Ma	149.	SAE		
24.	TF	91.	MC	96.	MC	131.	Ex	145.	SAE	152.	OF		
***Learning Objective 5**													
*26.	TF	*31.	TF	*103.	MC	*108.	MC	*113.	MC	*118.	MC	*142.	Ex
*27.	TF	*99.	MC	*104.	MC	*109.	MC	*114.	MC	*133.	Ex	*153.	OF
*28.	TF	*100.	MC	*105.	MC	*110.	MC	*115.	MC	*139.	Ex	*154.	OF
*29.	TF	*101.	MC	*106.	MC	*111.	MC	*116.	MC	*140.	Ex		
*30.	TF	*102.	MC	*107.	MC	*112.	MC	*117.	MC	*141.	Ex		

Note: TF = True-False MC = Multiple Choice Ma = Matching
Ex = Exercise SAE = Short-Answer Essay OF = Objective Format

*This topic is dealt with in an Appendix to the chapter.

CHAPTER LEARNING OBJECTIVES

1. ***Identify reasons to invest, and classify investments.*** *Corporations generally purchase investments in debt and equity securities for a variety of reasons. They may purchase investments for a strategic reason in order to influence or control the operations of another company. Alternatively, companies may purchase investments for non-strategic reasons. Non-strategic debt investments include those held for trading purposes or those held to receive interest payments until maturity. Non-strategic equity investments include those held for trading purposes or those held to earn dividend income. While strategic equity investments are held for the long term, companies may hold non-strategic equity investments for any length of time.*

2. ***Account for non-strategic investments.*** Non-strategic investments include investments in debt and equity securities. There are four major models that we can use to account for some of these investments. (1) The fair value through profit or loss model reports debt or equity investments at their fair values on the statement of financial position, while all related investment income, such as interest, dividends, and both unrealized and realized gains and losses, are reported in the statement of income under other revenues and expenses. (2) The fair value through other comprehensive income model is very similar to the above except that companies report both unrealized gains and losses in other comprehensive income rather than on the statement of income. Depending on whether the investment is a debt or equity security, companies will treat realized gains and losses and previously recorded unrealized gains and losses in different ways under this model, which are covered in more advanced accounting courses. (3) The amortized cost model applies to debt investments that have premiums or discounts amortized over time. Under this model, companies record interest income in the statement of income, along with the effect of any premium or discount amortization. Users of this model do not adjust the investment to reflect fair value and consequently, they do not record unrealized gains or losses. Any realized gains and losses arising on the sale of the investment are recorded in the statement of income. (4) The cost model is identical to the amortized cost model but would be used on an equity investment rather than a debt investment and would not require amortization because discounts and premiums do not arise on equity investments.

3. ***Account for strategic investments****.* An investor company makes a strategic investment to influence or control an investee. An investor usually achieves significant influence when acquiring at least 20% of the investee's shares but less than 50% when control is achieved. However, qualitative factors (board representation, participation in investee's decisions, material transactions with investee, interchange of managerial personnel, and provision of technical information) are the major criteria used to determine the existence of significant influence. If the investor is not able to exert significant influence over the investee company, it will account for the investment as if it were a non-strategic equity investment. When significant influence exists, the investor will use the equity method to account for the investment. The equity method records investment income from an associate (a significantly influenced investee) based on the investor's proportion of the associate's income. If the investor receives dividends from the associate, it will reduce the carrying amount of the investment account because that investee's equity has fallen.

When the investor obtains control (usually more than 50% of the shares) of the investee, the investee is a subsidiary whose financial statements are normally consolidated into those of the parent company.

4. ***Explain how investments are reported in the financial statements.*** Realized gains and losses, unrealized gains and losses, dividend income, and interest income are shown in the statement of income as other revenues and expenses, with two exceptions. The first exception arises when using the equity method, where investors do not record dividend income in the statement of income but instead record it as a reduction to the investment account. The second exception applies to investments accounted for under the fair value through OCI model, where investors report unrealized and realized gains and losses in OCI rather than in the statement of income. (Realized gains and losses are then reclassified out of OCI, but this treatment goes beyond the scope of this textbook.)
Under both IFRS and ASPE, non-strategic equity investments held for trading purposes are shown in the current assets section of the statement of financial position using the fair value through profit or loss model. If a non-strategic equity investment is not held for trading, it may be shown as a long-term investment on the statement of financial position and can be accounted for using the fair value through OCI model under IFRS. (An option to use fair value through profit or loss is available.) Because ASPE does not report other comprehensive income, use of the fair value through OCI model is not available under ASPE. Companies will usually show debt investments held to earn interest income until maturity as current assets or long-term investments, depending on their maturity date. Under both IFRS and ASPE, investors will use the amortized cost model for these debt investments, although under IFRS, there is an option to use fair value through profit or loss if the investment is also held for trading purposes. Under ASPE or IFRS, if an investor cannot measure the fair value of an investment, it will use the cost model for equity investments or the amortized cost model for debt investments.
Investors will report strategic investments in significantly influenced associates as long-term investments. When accounting for these investments under IFRS, investors must use the equity method. However, under ASPE, investors can choose to use either the equity method or the fair value through profit or loss model if the investor can determine fair value. If fair value is not known, the investor can use the equity method or the cost model.
Under IFRS, when a company has a strategic investment in a subsidiary, it must prepare consolidated financial statements. When performing a consolidation, the investment account is replaced by the specific assets and liabilities of the subsidiary. Under ASPE, parent companies can choose to use consolidation or, if the fair value of the investment is known, they can account for the investment using the fair value through profit or loss model or the equity method. If the parent company does not know the fair value of the investment, then in addition to consolidating financial statements, the company could choose instead to account for the investment in the subsidiary using either the cost model or the equity method.
Changes in share capital, retained earnings, and accumulated comprehensive income are shown in the statement of changes in equity. The ending balances in each of these categories are equity accounts presented in the shareholders' equity section of the statement of financial position. Companies must prepare a closing journal entry to close other comprehensive income at the end of the year into accumulated other comprehensive income.

5. ***Compare the accounting for a bond investment and a bond payable (Appendix 12A).*** The accounting for a bond investment is similar to the accounting for a bond payable in that any premium or discount is amortized using the effective-interest method of amortization. Companies using ASPE can choose to use the straight-line method instead if the results do not materially differ from the effective-interest method. Most companies ignore the accounting

for premium and discount amortization for bonds held for trading purposes and would normally account for these bonds using the fair value through profit or loss model.

TRUE-FALSE STATEMENTS

1. Corporations purchase investments in debt or equity securities for the income tax write-off.

2. Strategic investments are debt or equity securities that are usually purchased to generate investment income.

3. Non-strategic investments can be classified as short or long-term investments.

4. Debt investments earn interest income over time and the borrower has an obligation to return the original amount of the investment on a fixed maturity date.

5. Non-strategic investments that are held for the purpose of earning capital gains are called Trading Investments.

6. The degree of influence determines how a strategic investment is classified.

7. Preferred shares are often purchased as strategic investments.

8. Equity securities are always classified as long-term investments.

9. At acquisition, non-strategic investments are recorded at purchase cost.

10. Under both the fair value model and the amortized cost model, investments are adjusted upwards or downwards to reflect their fair value at year end.

11. No unrealized gains and losses are recorded when using the amortized cost model.

12. Using the fair value through profit or loss model, both unrealized and realized gains and losses would be reported in the statement of income.

13. Only debt investments can be accounted for using the fair value through other comprehensive income model.

14. If the fair value through other comprehensive income model is used, then unrealized gains and losses are not used to evaluate management.

15. When an investee can be significantly influenced, it is known as an associate.

16. Dividends received on investments are accounted for in the same way under the fair value through profit or loss model cost and the equity method.

17. Unless there is evidence to the contrary, an investor owning at least 20% of the shares of an investee is assumed to have significant influence.

18. Using the fair value through profit and loss model of accounting for an equity investment, the journal entry to record the receipt of dividends involves a credit to Dividend Income.

19. At acquisition, the investment account is debited for the cost of the shares under both the cost and equity methods of accounting for strategic investments.

20. Under both IFRS and ASPE, investors can use either the cost model or the equity method for significantly influenced investments.

21. Investments in associates are reported as current assets on the statement of financial position at fair value.

22. Both equity and debt investments are reported as current assets on the statement of financial position at fair value.

23. Realized gains and losses are always reported in the statement of income.

24. Debt investments held to earn interest income are reported at amortized cost in the statement of financial position.

25. Consolidated financial statements are appropriate when one company has significant influence over another company.

*26. When an investment in bonds is made, the investment account is debited for the face value of the bond less any premium or plus any discount.

*27. Premiums and discounts must be amortized on all bond investments.

*28. Short-term investments in bonds are accounted for using the fair value through profit or loss model.

*29. If there is a bond premium on a long-term bond investment, the carrying amount of the investment is reduced by the amount of the amortization.

*30. Interest income is calculated by multiplying the carrying amount of the bond investment by the market rate of interest when the bond was purchased prorated by the portion of the payment period covered during the year.

*31. Under both IFRS and ASPE, the investor must use the effective-interest method to amortize bond premium or discount.

CHAPTER 13

STATEMENT OF CASH FLOWS

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	K	F	AN	12.	1	M	K	F	AN	23.	3	M	K	F	AN
2.	1	M	K	F	AN	13.	1	M	K	F	AN	24.	4	E	K	F	AN
3.	1	M	K	F	AN	14.	1	E	K	F	AN	25.	4	E	K	F	AN
4.	1	E	K	F	AN	15.	1	E	K	F	AN	26.	5	M	C	F	AN
5.	1	E	K	F	AN	16.	1	E	K	F	AN	*27.	6	M	K	F	AN
6.	1	M	K	F	AN	17.	1	M	K	F	AN	*28.	6	H	C	F	AN
7.	1	M	K	F	AN	18.	2	E	C	F	AN	*29.	6	M	AP	F	AN
8.	1	M	K	F	AN	19.	2	H	K	F	AN	*30.	6	E	K	F	AN
9.	1	E	K	F	AN	20.	2	M	C	F	AN	*31.	6	M	C	F	AN
10.	1	M	K	F	AN	21.	3	E	K	F	AN	*32.	6	M	C	F	AN
11.	1	M	K	F	AN	22.	3	E	K	F	AN	*33.	6	M	C	F	AN

LOD: E = Easy M = Medium H = Hard
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

*This topic is dealt with in an Appendix to the chapter.

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Multiple Choice Questions																	
34.	1	M	C	F	AN	65.	2	H	C	F	AN	96.	3	E	C	F	AN
35.	1	E	K	F	AN	66.	2	M	C	F	AN	97.	3	M	K	F	AN
36.	1	E	K	F	AN	67.	2	M	C	F	AN	98.	4	E	C	F	AN
37.	1	E	C	F	AN	68.	2	M	AP	F	AN	99.	4	E	C	F	AN
38.	1	E	K	F	AN	69.	2	M	C	F	AN	100.	4	M	K	F	AN
39.	1	E	C	F	AN	70.	2	M	C	F	AN	101.	4	M	C	F	AN
40.	1	E	K	F	AN	71.	2	M	C	F	AN	102.	5	M	C	F	AN
41.	1	E	K	F	AN	72.	2	M	AP	F	AN	103.	5	M	K	F	AN
42.	1	M	K	F	AN	73.	2	H	AP	F	AN	104.	5	M	C	F	AN
43.	1	M	C	F	AN	74.	2	E	K	F	AN	105.	5	M	K	F	AN
44.	1	M	K	F	AN	75.	2	E	C	F	AN	106.	5	M	AP	F	AN
45.	1	M	K	F	AN	76.	2	E	C	F	AN	107.	5	E	K	F	AN
46.	1	E	C	F	AN	77.	2	M	C	F	AN	108.	5	E	K	F	AN
47.	1	E	K	F	AN	78.	2	H	C	F	AN	*109.	6	E	C	F	AN
48.	1	E	C	F	AN	79.	2	H	C	F	AN	*110.	6	M	AP	F	AN
49.	1	H	C	F	AN	80.	2	M	C	F	AN	*111.	6	M	AP	F	AN
50.	1	M	K	F	AN	81.	2	H	C	F	AN	*112.	6	M	AP	F	AN
51.	1	M	K	F	AN	82.	2	H	C	F	AN	*113.	6	M	AP	F	AN
52.	1	E	K	F	AN	83.	2	H	C	F	AN	*114.	6	M	AP	F	AN
53.	1	M	K	F	AN	84.	2	M	C	F	AN	*115.	6	M	AP	F	AN
54.	1	M	C	F	AN	85.	2	H	AP	F	AN	*116.	6	M	C	F	AN
55.	1	M	C	F	AN	86.	2	H	AP	F	AN	*117.	6	M	AP	F	AN
56.	1	E	K	F	AN	87.	2	H	AP	F	AN	*118.	6	E	C	F	AN
57.	1	E	C	F	AN	88.	2	M	C	F	AN	*119.	6	M	AP	F	AN
58.	2	E	C	F	AN	89.	2	M	C	F	AN	*120.	6	M	AP	F	AN
59.	2	E	K	F	AN	90.	3	E	C	F	AN	*121.	6	E	C	F	AN
60.	2	M	K	F	AN	91.	3	M	C	F	AN	*122.	6	M	AP	F	AN
61.	2	H	C	F	AN	92.	3	E	C	F	AN	*123.	6	M	C	F	AN
62.	2	E	C	F	AN	93.	3	M	AP	F	AN	*124.	6	M	AP	F	AN
63.	2	E	C	F	AN	94.	3	M	AP	F	AN	*125.	6	M	K	F	AN
64.	2	H	C	F	AN	95.	3	M	AP	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

*This topic is dealt with in an Appendix to the chapter.

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
126.	1	M	C	F	AN	138.	2	H	AP	F	AN	150.	5	M	AP	F	AN
127.	1	M	C	F	AN	139.	2	H	AP	F	AN	151.	5	M	AP	F	AN
128.	1	E	C	F	AN	140.	2	M	AP	F	AN	152.	5	M	AP	F	AN
129.	1	E	C	F	AN	141.	2-4	M	AP	F	AN	153.	5	M	AP	F	AN
130.	2	M	AP	F	AN	142.	2-4	H	AP	F	AN	*154.	6	M	AP	F	AN
131.	2	E	C	F	AN	*143.	2-4,6	M	AP	F	AN	*155.	6	E	AP	F	AN
132.	2	E	AP	F	AN	144.	3	M	AP	F	AN	*156.	6	E	AP	F	AN
133.	2	M	AP	F	AN	*145.	3,4,6	H	AP	F	AN	*157.	6	E	AP	F	AN
134.	2	M	AP	F	AN	*146.	3,4,6	H	AP	F	AN	*158.	6	M	AP	F	AN
135.	2	H	AP	F	AN	*147.	3,4,6	M	AP	F	AN	*159.	6	M	AP	F	AN
136.	2	M	AP	F	AN	*148.	3,4,6	M	AP	F	AN	*160.	6	M	AP	F	AN
137.	2	M	C	F	AN	149.	4	M	AP	F	AN	*161.	6	H	AP	F	AN
Matching																	
162.	2	E	C	F	AN	*163.	6	M	C	F	AN						
Short-Answer Essay																	
164.	1	M	C	F	AN	*167.	2,6	E	K	F	AN	170.	5	M	C	F,E	AN,E
*165.	1,2,6	M	C	F	AN	*168.	2,6	M	C	F	AN	171.	5	H	K	F	AN
166.	2	M	C	F	AN	*169.	2,6	E	C	F	AN	*172.	6	E	C	F	AN
CPA Questions																	
173.	1–4	M	C	F	AN	175.	2–5	M	AN	F	AN	*177.	6	M	AN	F	AN
174.	2	M	C	F	AN	*176.	6	M	K	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: E = Professional and Ethical Behaviour F = Financial Reporting
AACSB: AN = Analytic E = Ethics

*This topic is dealt with in an Appendix to the chapter.

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	8.	TF	15.	TF	38.	MC	45.	MC	52.	MC	127.	Ex
2.	TF	9.	TF	16.	TF	39.	MC	46.	MC	53.	MC	128.	Ex
3.	TF	10.	TF	17.	TF	40.	MC	47.	MC	54.	MC	129.	Ex
4.	TF	11.	TF	34.	MC	41.	MC	48.	MC	55.	MC	161.	CP
5.	TF	12.	TF	35.	MC	42.	MC	49.	MC	56.	MC	164.	SAE
6.	TF	13.	TF	36.	MC	43.	MC	50.	MC	57.	MC	*165.	SAE
7.	TF	14.	TF	37.	MC	44.	MC	51.	MC	126.	Ex	173.	CP
Learning Objective 2													
18.	TF	64.	MC	73.	MC	82.	MC	131.	Ex	140.	Ex	*169.	SAE
19.	TF	65.	MC	74.	MC	83.	MC	132.	Ex	141.	Ex	173.	CP
20.	TF	66.	MC	75.	MC	84.	MC	133.	Ex	142.	Ex	174.	CP
58.	MC	67.	MC	76.	MC	85.	MC	134.	Ex	*143.	Ex	175.	CP
59.	MC	68.	MC	77.	MC	86.	MC	135.	Ex	162.	Ma		
60.	MC	69.	MC	78.	MC	87.	MC	136.	Ex	*165.	SAE		
61.	MC	70.	MC	79.	MC	88.	MC	137.	Ex	166.	SAE		
62.	MC	71.	MC	80.	MC	89.	MC	138.	Ex	*167.	SAE		
63.	MC	72.	MC	81.	MC	130.	Ex	139.	Ex	*168.	SAE		
Learning Objective 3													
21.	TF	90.	MC	93.	MC	96.	MC	142.	Ex	*145.	Ex	*148.	Ex
22.	TF	91.	MC	94.	MC	97.	MC	*143.	Ex	*146.	Ex	173.	CP
23.	TF	92.	MC	95.	MC	141.	Ex	144.	Ex	*147.	Ex	175.	CP
Learning Objective 4													
24.	TF	99.	MC	141.	Ex	*145.	Ex	*148.	Ex	158.	SAE	175.	CP
25.	TF	100.	MC	142.	Ex	*146.	Ex	149.	Ex	159.	SAE		
98.	MC	101.	MC	*143.	Ex	*147.	Ex	173.	CP	173.	CP		
Learning Objective 5													
26.	TF	104.	MC	107.	MC	151.	Ex	*143.	Ex	170.	SAE		
102.	MC	105.	MC	108.	MC	152.	Ex	*144.	Ex	171.	SAE		
103.	MC	106.	MC	150.	Ex	153.	Ex	*145.	Ex	175.	CP		
***Learning Objective 6**													
*27.	TF	*109.	MC	*116.	MC	*123.	MC	*148.	Ex	*160.	Ex	*172.	SAE
*28.	TF	*110.	MC	*117.	MC	*124.	MC	*154.	Ex	*161.	Ex	*176.	CP
*29.	TF	*111.	MC	*118.	MC	*125.	MC	*155.	Ex	*163.	Ma	*177.	CP
*30.	TF	*112.	MC	*119.	MC	*143.	Ex	*156.	Ex	*165.	SAE		
*31.	TF	*113.	MC	*120.	MC	*145.	Ex	*157.	Ex	*167.	SAE		
*32.	TF	*114.	MC	*121.	MC	*146.	Ex	*158.	Ex	*168.	SAE		
*33.	TF	*115.	MC	*122.	MC	*147.	Ex	*159.	Ex	*169.	SAE		

Note: TF = True-False MC = Multiple Choice Ma = Matching
Ex = Exercise SAE = Short-Answer Essay CP = CPA Questions

*This topic is dealt with in an Appendix to the chapter.

CHAPTER LEARNING OBJECTIVES

1. ***Describe the content and format of the statement of cash flows*.** The statement of cash flows provides information about the cash receipts and cash payments resulting from the operating, investing, and financing activities of a company during a specific period.
Operating activities include the cash effects of transactions that create revenues and expenses used in the determination of net income. Operating activities related to net income items adjusted for noncash items and changes in certain current asset and current liability accounts in the statement of financial position. Investing activities measure cash flows resulting from changes in non-current asset items. Financing activities relate to cash flows resulting from changes in non-current liabilities and shareholders' equity items other than net income. These are general guidelines, to which there are a few exceptions.
The statement of cash flows begins with the operating activities section, which can be prepared using either the indirect or direct method. Both methods will determine the same net cash provided or used by operating activities but differ in the details presented. Investing and financing activities follow. The statement concludes by reporting the net change in cash for the period and reconciles it to the beginning and ending cash (or cash and cash equivalents) balances reported on the statement of financial position. Significant noncash transactions are reported in a note to the financial statements.

2. ***Prepare the operating activities section of a statement of cash flows using the indirect method*.** The first step in the preparation of a statement of cash flows is to determine the net cash provided (used) by operating activities. In the indirect method, net income is converted from an accrual basis to a cash basis. To do this, noncash expenses and losses, decreases in certain current asset accounts, and increases in certain current liability accounts are added back to net income. Noncash revenues and gains, increases in certain current asset accounts, and decreases in certain current liability accounts are deducted from net income.

3. Prepare the investing activities section of the statement of cash flows. The second step in the preparation of a statement of cash flows is to analyze the changes in certain non-current asset (and any relevant current asset) accounts and record them as investing activities, or disclose them as significant noncash transactions.

4. ***Prepare the financing activities section and complete the statement of cash flows.*** The third step is to analyze the changes in non-current liability and equity accounts not relating to net income and record them as financing activities, or disclose them as significant noncash transactions. With respect to liabilities, any related current portions of long-term debt and any other relevant current liability account should also be considered. With respect to equity, the Dividends Payable current liability account should be considered in determining the amount of dividends paid.
The fourth and final step in the preparation of a statement of cash flows is to determine the overall net cash flow for the year and add it to the opening amount of cash (and cash equivalents) to determine the ending amount. This result should agree to the cash (and cash equivalents) reported on the statement of financial position.

5. ***Use the statement of cash flows to evaluate a company*****.** When using the statement of cash flows to assess how a company is making cash receipts and payments, we must understand what phase of its corporate life cycle a company is in. In the introductory and growth phases, a company needs to receive financing cash flows to offset the cash used in operating and investing activities. However, by the time a company enters the maturity phase, operating cash flows exceed cash used in investing activities and this excess can begin to pay down debt and be used for other financing activities. When the company is in the decline phase, this trend continues but, as cash from operating activities declines, so does the amount of cash used in investing and financing activities.

Free cash flow (net cash provided or used by operating activities minus net capital expenditures minus dividends paid) is a measure of solvency. It indicates the amount of cash a company generated during the period that is available for increases in the payment of dividends, expansion, or the reduction of debt.

6. ***Prepare the operating activities section of a statement of cash flows using the direct method (Appendix 13A)*****.** In the direct method of determining net cash provided or used by operating activities, each individual revenue and expense account is converted from an accrual basis to a cash basis. These cash-based revenues and expenses are then combined into the major classes of cash receipts and cash payments and reported in the operating activities section.

TRUE-FALSE STATEMENTS

1. Cash flow information is useful in assessing a company's ability to generate future cash flows.

2. For external reporting, a company must prepare either an statement of income or a statement of cash flows, but *not* both.

3. Cash equivalents can include both short-term and long-term investments.

4. Operating activities include the cash effects of transactions that create revenues and expenses.

5. The activity from the statement of financial position to be presented in the financing activities section of the statement of cash flows is based on an analysis of shareholders' equity only.

6. Noncash investing and financing activities must be reported in the body of a statement of cash flows.

7. Noncash investing and financing transactions, such as the exchange of common shares to purchase assets, represent significant investing and financing activities and are reported in a note to the financial statements.

8. The acquisition of a building by issuing a mortgage payable would be considered an investing and financing activity that did *not* affect cash and would be reported in the notes to the financial statements.

9. The statement of cash flows classifies cash receipts and payments as operating, non-operating, and financial activities.

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

11. Cash flow provided (used) by investing activities is considered the most important category on the statement of cash flows because it is considered the best measure of expected net income.

12. Under IFRS, the receipt of dividends from equity investments may be classified as a cash receipt provided (used) by investing activities.

13. Under ASPE, the payment of interest on a mortgage payable may be classified as a cash payment from financing activities.

14. The statement of cash flows is a required statement for both public and private corporations.

15. Like the other financial statements, the statement of cash flows is prepared from an adjusted trial balance.

16. For a company using the direct method, both the operating activities and investing activities will report the same net amounts provided or used as the indirect method, but the amount reported under financing activities will be different.

17. If a company has combined cash equivalents with cash, it must disclose the components of the cash equivalents, with a reconciliation of the amounts reported on the statement of cash flows with those reported on the statement of financial position.

18. Cash provided by operating activities is generally the same as the net income reported on the statement of income.

19 A disadvantage of the indirect method of reporting cash flows provided (used) by operating activities is that the difference between the net amount of cash flows from operating activities and net income is *not* emphasized.

20. Under the indirect method, an increase in accounts payable during a period is deducted from net income in calculating cash provided by operating activities.

21. Investing activities affect non-current asset accounts.

22. In the investing activities section of the statement of cash flows, all the cash payments for purchase of non-current assets should be totalled and reported as one number.

23. A loss on sale of equipment is included in the investing activities on the statement of cash flows.

24. Preparing the financing activities section of the statement of cash flows requires the analysis of non-current liability and equity accounts, as well as any short-term loans incurred for lending purposes rather than trade.

25. If accumulated other comprehensive income increases or decreases during the year, the change must be reported in the financing activities section.

26. On the statement of cash flows of a growing company, the reader should expect to see cash provided by its financing activities, *not* cash used.

*27. The direct method is considered to be more informative and easier to compare with the other financial statements.

*28. Cost of goods sold + an increase in inventory + an increase in accounts payable = cash paid to suppliers during a period.

*29. During the year, Income Tax Expense was $22,000 and Income Tax Payable increased by $3,000; therefore, the cash paid for income tax was $19,000.
Solution: $(22,000) + $3,000 = $(19,000)

*30. In calculating cash flow provided (used) by operating activities using the direct method, each item in the statement of income is adjusted from the accrual basis to the cash basis.

*31. Under the direct method, an increase in inventory would be added to cost of goods sold to determine net purchases for the period.

*32. Under the direct method, as an adjustment to operating expenses per the statement of income, an increase in liabilities related to other operating expenses would be added to operating expenses to determine cash payments for operating expenses.

*33. Under the direct method, as an adjustment to operating expenses per the statement of income, a decrease in prepaid expenses would be added to operating expenses to determine cash payments for operating expenses.

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	6.	F	11.	F	16.	F	21.	T	26.	T	*31.	T
2.	F	7.	T	12.	T	17.	T	22.	F	*27.	T	*32.	F
3.	F	8.	T	13.	F	18.	F	23.	F	*28.	F	*33.	F
4.	T	9.	F	14.	T	19.	F	24.	T	*29.	T		
5.	F	10.	T	15.	F	20.	F	25.	F	*30.	T		

MULTIPLE CHOICE QUESTIONS

34. Which one of the following is *false?*
(a) The statement of cash flows can be prepared using cash and cash equivalents rather than just cash, as its base.
(b) The statement of cash flows reports the sources and uses of cash during a specific period.
(c) The statement of cash flows shows the effects on net income of a company's operating, investing, and financing activities for an accounting period.
(d) The statement of cash flows explains the difference between net income, as shown on the statement of income, and the net cash flows generated from operating activities.

35. The statement of cash flows
(a) must be prepared on a daily basis.
(b) summarizes the operating, financing, and investing activities of a company.
(c) is another name for the statement of income.
(d) is a special section of the statement of income.

36. The primary purpose of the statement of cash flows is to
(a) provide information about the investing and financing activities during a period.
(b) prove that revenues exceed expenses if there is a net income.
(c) provide information about cash receipts and cash payments during a period.
(d) report to Canada Revenue Agency.

37. If a company reports a loss, it
(a) may still have a net increase in cash.
(b) will not be able to pay cash dividends.
(c) will not be able to get a loan.
(d) will not be able to make capital expenditures.

38. The statement of cash flows will *not* report the
(a) amount of cheques outstanding at the end of the period.
(b) sources of cash in the current period.
(c) uses of cash in the current period.
(d) change in the cash balance for the current period.

39. The acquisition of land by issuing common shares is
(a) a cash transaction and would be reported in the body of a statement of cash flows.
(b) a noncash transaction that is not reported in the body of a statement of cash flows.
(c) a noncash transaction but would be reported in the body of a statement of cash flows.
(d) only reported if the statement of cash flows is prepared using the direct method.

40. The order of presentation of activities on the statement of cash flows is
(a) operating, investing, and financing.

(b) operating, financing, and investing.
(c) financing, operating, and investing.
(d) financing, investing, and operating.

41. Generally, the first category shown on the statement of cash flows is cash flows provided (used) by
(a) operating activities.
(b) investing activities.
(c) financing activities.
(d) significant noncash activities.

42. Under IFRS, cash receipts from interest and dividends are classified as
(a) operating activities.
(b) investing activities.
(c) either operating or investing activities.
(d) either financing or investing activities.

43. Significant noncash transactions would *not* include
(a) conversion of preferred shares into common shares.
(b) asset acquisition through issue of a note payable.
(c) loans to other companies.
(d) exchange of equipment.

44. In preparing a statement of cash flows, preferred shares issued in exchange for land would be reported in the
(a) financing activities section.
(b) investing activities section.
(c) operating activities section.
(d) notes to the financial statements.

45. In preparing a statement of cash flows, the conversion of bonds into common shares will be reported in the
(a) financing activities section.
(b) notes to the financial statements.
(c) investing activities section.
(d) shareholders' equity section.

46. Which one of the following transactions does *not* affect cash during a period?
(a) write-off of an uncollectible account receivable
(b) collection of an account receivable
(c) sale of common shares
(d) repayment of a bank loan

47. Which one of the following items is *not* generally used in preparing a statement of cash

flows?
(a) adjusted trial balance
(b) comparative statements of financial position
(c) current statement of income
(d) additional information

48. The indirect and direct methods of preparing the statement of cash flows are identical *except* for the
(a) significant noncash activity section.
(b) operating activities section.
(c) investing activities section.
(d) financing activities section.

49. In preparing a statement of cash flows,
(a) an increase in the Common Shares account during a period would be classified as an investing activity.
(b) the issue of debt should be reported separately from the retirement of debt.
(c) the net movement of loans and repayments are reported as a financing activity.
(d) the issue of shares to acquire land are reported as financing and investing, respectively.

Use the following information for questions 50–55.

Ingles Corp., a private company reporting under ASPE, engaged in the following transactions. For each transaction, indicate where, if at all, it would be classified on the statement of cash flows.

50. Declaration and issue of a stock dividend:
(a) operating activities section
(b) investing activities section
(c) financing activities section
(d) does not represent a cash flow

51. Retirement of non-current debt (incurred for lending purposes) with cash:
(a) operating activities section
(b) investing activities section
(c) financing activities section
(d) does not represent a cash flow

52. Issue of preferred shares for cash:
(a) operating activities section
(b) investing activities section
(c) financing activities section
(d) does not represent a cash flow

CHAPTER 14

PERFORMANCE MEASUREMENT

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	M	K	F	AN	13.	2	E	K	F	AN	25.	4	M	AP	F	AN
2.	1	M	AP	F	AN	14.	2	E	C	F	AN	26.	4	M	C	F	AN
3.	1	M	AP	F	AN	15.	3	E	K	F	AN	27.	4	M	K	F	AN
4.	1	M	K	F	AN	16.	3	M	C	F	AN	28.	5	E	K	F	AN
5.	1	M	K	F	AN	17.	3	M	C	F	AN	29.	5	E	K	F	AN
6.	1	M	K	F	AN	18.	3	M	K	F	AN	30.	5	M	K	F	AN
7.	1	M	K	F	AN	19.	3	M	C	F	AN	31.	5	M	K	F	AN
8.	1	M	K	F	AN	20.	4	E	K	F	AN	32.	5	E	K	F	AN
9.	1	M	C	F	AN	21.	4	M	K	F	AN	33.	5	E	K	F	AN
10.	1	E	K	F	AN	22.	4	H	K	F	AN	34.	5	E	C	F	AN
11.	2	E	K	F	AN	23.	4	H	C	F	AN						
12.	2	M	K	F	AN	24.	4	M	K	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Multiple Choice Questions																	
35.	1	M	K	F	AN	67.	2	E	C	F	AN	99.	4	E	C	F	AN
36.	1	E	K	F	AN	68.	2	H	AP	F	AN	100.	4	E	C	F	AN
37.	1	M	C	F	AN	69.	2	M	AP	F	AN	101.	4	M	C	F	AN
38.	1	E	C	F	AN	70.	2	M	AP	F	AN	102.	4	M	C	F	AN
39.	1	E	K	F	AN	71.	2	M	AP	F	AN	103.	4	E	K	F	AN
40.	1	M	K	F	AN	72.	2	M	K	F	AN	104.	4	M	K	F	AN
41.	1	E	K	F	AN	73.	2	M	K	F	AN	105.	4	M	K	F	AN
42.	1	M	AP	F	AN	74.	2	M	C	F	AN	106.	4	M	AP	F	AN
43.	1	M	AP	F	AN	75.	2	M	C	F	AN	107.	4	M	AP	F	AN
44.	1	E	K	F	AN	76.	2	H	C	F	AN	108.	4	M	AP	F	AN
45.	1	M	C	F	AN	77.	2	E	K	F	AN	109.	4	M	AP	F	AN
46.	1	M	C	F	AN	78.	2	E	C	F	AN	110.	4	M	C	F	AN
47.	1	E	K	F	AN	79.	2	E	AP	F	AN	111.	4	M	AP	F	AN
48.	1	E	K	F	AN	80.	2	M	AP	F	AN	112.	4	E	C	F	AN
49.	1	E	K	F	AN	81.	2	H	C	F	AN	113.	4	M	AP	F	AN
50.	1	M	K	F	AN	82.	2	H	K	F	AN	114.	4	M	AP	F	AN
51.	1	E	K	F	AN	83.	2	M	AP	F	AN	115.	4	M	AP	F	AN
52.	1	E	K	F	AN	84.	2	H	C	F	AN	116.	4	M	AP	F	AN
53.	1	H	C	F	AN	85.	2	H	AP	F	AN	117.	4	M	AP	F	AN
54.	1	M	K	F	AN	86.	2	H	AP	F	AN	118.	4	M	AP	F	AN
55.	1	M	AP	F	AN	87.	2	M	AP	F	AN	119.	4	M	AP	F	AN
56.	1	E	AP	F	AN	88.	3	H	K	F	AN	120.	5	E	K	F	AN
57.	1	M	C	F	AN	89.	3	H	C	F	AN	121.	5	E	K	F	AN
58.	1	E	C	F	AN	90.	3	H	C	F	AN	122.	5	M	C	F	AN
59.	2	E	C	F	AN	91.	3	M	AP	F	AN	123.	5	M	K	F	AN
60.	2	M	C	F	AN	92.	3	M	K	F	AN	124.	5	M	C	F	AN
61.	2	E	K	F	AN	93.	3	E	C	F	AN	125.	5	M	K	F	AN
62.	2	M	K	F	AN	94.	4	E	C	F	AN	126.	5	M	C	F	AN
63.	2	M	K	F	AN	95.	4	E	C	F	AN	127.	5	E	C	F	AN
64.	2	E	K	F	AN	96.	4	M	C	F	AN	128.	5	E	C	F	AN
65.	2	M	C	F	AN	97.	4	E	C	F	AN						
66.	2	E	K	F	AN	98.	4	M	C	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting
AACSB: AN = Analytic

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
129.	1	E	AP	F	AN	141.	2	H	AP	F	AN	153.	3,4	M	AP	F	AN
130.	1	M	AP	F	AN	142.	2	H	AP	F	AN	154.	4	M	AP	F	AN
131.	1	M	AP	F	AN	143.	2	M	C	F	AN	155.	4	M	AP	F	AN
132.	1	M	AP	F	AN	144.	2	M	AP	F	AN	156.	4	M	AP	F	AN
133.	1	M	AP	F	AN	145.	2	H	AP	F	AN	157.	4	M	AP	F	AN
134.	1	M	AP	F	AN	146.	2,3	M	AP	F	AN	158.	4	M	AP	F	AN
135.	1	M	AP	F	AN	147.	2–4	H	AP	F	AN	159.	5	M	AP	F	AN
136.	1	M	AP	F	AN	148.	2–4	H	AP	F	AN	160.	5	M	AP	F	AN
137.	1	M	AP	F	AN	149.	2,4	M	AP	F	AN	161.	5	M	K	F	AN
138.	1	M	AP	F	AN	150.	3	M	AP	F	AN	162.	5	E	AP	F	AN
139.	2	M	AP	F	AN	151.	3	M	AP	F	AN						
140.	2	E	AP	F	AN	152.	3,4	M	AP	F	AN						
Matching																	
163.	2–4	E	K	F	AN	164.	2–4	E,M	K	F	AN						
Short-Answer Essay																	
165.	1	H	C	F	AN	168.	5	M	C	F	AN	171.	5	M	K	F	AN
166.	2–4	M	C	F,C	AN,C	169.	5	M	C	F,C	AN,C	172.	5	E	C	F	AN
167.	4,5	M	C	F	AN	170.	5	M	C	F,E	AN,E						
Objective Format Questions																	
173.	1	M	K	F	AN	175.	2	M	C	F	AN	177.	4	M	C	F	AN
174.	2	M	C	F	AN	176.	3,4	M	AN	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: C = Communication E = Professional and Ethical Behaviour F = Financial Reporting
AACSB: AN = Analytic C = Communication E = Ethics

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	8.	TF	39.	MC	46.	MC	53.	MC	130.	Ex	137.	Ex
2.	TF	9.	TF	40.	MC	47.	MC	54.	MC	131.	Ex	138.	Ex
3.	TF	10.	TF	41.	MC	48.	MC	55.	MC	132.	Ex	165.	SAE
4.	TF	35.	MC	42.	MC	49.	MC	56.	MC	133.	Ex	173.	OF
5.	TF	36.	MC	43.	MC	50.	MC	57.	MC	134.	Ex		
6.	TF	37.	MC	44.	MC	51.	MC	58.	MC	135.	Ex		
7.	TF	38.	MC	45.	MC	52.	MC	129.	Ex	136.	Ex		
Learning Objective 2													
11.	TF	62.	MC	69.	MC	76.	MC	83.	MC	141.	Ex	148.	Ex
12.	TF	63.	MC	70.	MC	77.	MC	84.	MC	142.	Ex	149.	Ex
13.	TF	64.	MC	71.	MC	78.	MC	85.	MC	143.	Ex	163.	Ma
14.	TF	65.	MC	72.	MC	79.	MC	86.	MC	144.	Ex	164.	Ma
59.	MC	66.	MC	73.	MC	80.	MC	87.	MC	145.	Ex	166.	SAE
60.	MC	67.	MC	74.	MC	81.	MC	139.	Ex	146.	Ex	174.	OF
61.	MC	68.	MC	75.	MC	82.	MC	140.	Ex	147.	Ex	175.	OF
Learning Objective 3													
15.	TF	18.	TF	89.	MC	92.	MC	147.	Ex	151.	Ex	163.	Ma
16.	TF	19.	TF	90.	MC	93.	MC	148.	Ex	152.	Ex	164.	Ma
17.	TF	88.	MC	91.	MC	146.	Ex	150.	Ex	153.	Ex	176.	OF
Learning Objective 4													
20.	TF	27.	TF	100.	MC	107.	MC	114.	MC	148.	Ex	157.	Ex
21.	TF	94.	MC	101.	MC	108.	MC	115.	MC	149.	Ex	158.	Ex
22.	TF	95.	MC	102.	MC	109.	MC	116.	MC	152.	Ex	163.	Ma
23.	TF	96.	MC	103.	MC	110.	MC	117.	MC	153.	Ex	164.	Ma
24.	TF	97.	MC	104.	MC	111.	MC	118.	MC	154.	Ex	166.	SAE
25.	TF	98.	MC	105.	MC	112.	MC	119.	MC	155.	Ex	167.	SAE
26.	TF	99.	MC	106.	MC	113.	MC	147.	Ex	156.	Ex	177.	OF
Learning Objective 5													
28.	TF	32.	TF	121.	MC	125.	MC	159.	Ex	167.	SAE	171.	SAE
29.	TF	33.	TF	122.	MC	126.	MC	160.	Ex	168.	SAE	172.	SAE
30.	TF	34.	TF	123.	MC	127.	MC	161.	Ex	169.	SAE		
31.	TF	120.	MC	124.	MC	128.	MC	162.	Ex	170.	SAE		

Note: TF = True-False; MC = Multiple Choice; Ma = Matching; Ex = Exercise; SAE = Short-Answer Essay; OF = Objective Format

CHAPTER LEARNING OBJECTIVES

1. ***Explain and apply comparative analysis.*** Horizontal analysis is a technique for evaluating a series of data, such as line items in a company's financial statements, by expressing them as percentage increases or decreases over two or more years (or periods of time). The horizontal percentage of a base-period amount is calculated by dividing the amount in a specific year (period) by a base-year (period) amount. This per-centage calculation normally covers multiple years (periods).
The horizontal percentage change for the period is calculated by dividing the dollar amount of the change between two years (or periods) by the prior-year (period) amount. This percentage calculation normally covers two years (or periods) only.
Vertical analysis is a technique for evaluating data within one year (or period) by expressing each item in a financial statement as a percentage of a relevant total (base amount) in that same financial statement. For example, the vertical percentage of a base amount can be determined by expressing each item on the statement of income as a percentage of revenue (or sales) or each item on the statement of financial position as a percentage of total assets by dividing the financial statement amount under analysis by the total asset base amount for that particular financial statement.

2. ***Calculate and interpret ratios that are used to analyze liquidity*. ** Liquidity ratios include working capital, the current ratio, receivables turnover and average collection period, and inventory turnover and days in inventory. The formula, what it measures, and desired result of each liquidity ratio are presented in Illustration 14.16.

3. ***Calculate and interpret ratios that are used to analyze solvency.*** Solvency ratios include debt to total assets, times interest earned, and free cash flow. The formula, what it measures, and desired result of each solvency ratio are presented in Illustration 14.20.

4. ***Calculate and interpret ratios that are used to analyze profitability.*** Profitability ratios include gross profit margin, profit margin, asset turnover, return on assets, return on common shareholders' equity, basic earnings per share, price-earnings, payout, and dividend yield. The formula, what it measures, and desired result of each profitability ratio are presented in Illustration 14.32.

5. ***Understand the limitations of financial analysis.*** The comparability of a company's financial results with those of its peers can be affected by the level of diversification undertaken by the com-pany, the accounting policies it has chosen from acceptable alternatives, and management's professional judgement when determining esti-mated amounts in financial statements. Companies using IFRS may report significant amounts of other comprehensive income in their financial statements while those using ASPE do not. Furthermore, accounting policy choices within IFRS may lead to differences in how or if other com-prehensive income is reported. Consequently, if other comprehensive income is significant, it should be taken into consideration when per-forming financial analysis. Gains or losses from discontinued operations are presented separately from continuing operations on the statement of income, net of income tax, to highlight their infrequent nature. Assets

and liabilities pertaining to these operations are also segregated on the statement of financial position. Normally, the effects of discontinued operations are ignored when undertaking financial analysis because they are not expected to be present in the future. When management believes that accounting standards do not produce effective amounts to measure performance or financial position, they will provide adjusted measures of selected financial statement items such as net income. These are called non-GAAP measures and will often exclude items that management believes are nonrecurring or not relevant.

TRUE-FALSE STATEMENTS

1. Comparisons of company data with industry averages provide information about a company's relative position within the industry.

2. If a company has sales of $100 in 2021 (the base period) and $560 in 2022 (the analysis period), the percentage of the base period is 460%.

3. If a company has sales of $220 in 2021 and $560 in 2022, the percentage increase in sales from 2021 to 2022 is 155%.
Solution: ($560 – $220) / 220 = 155%

4. In horizontal analysis, if an item has a negative amount in the base year, and a positive amount in the following year, the percentage change will exceed 100%.

5. When preparing a vertical analysis on an statement of income, sales are represented by 100%.

6. On a statement of income analyzed vertically, each item is expressed as a percentage of net income.

7. On a statement of financial position analyzed vertically, total assets are represented by 100%.

8. In the vertical analysis of a statement of financial position, the base for current liabilities is total liabilities.

9. Using vertical analysis on the statement of income, a company's net income as a percentage of sales is 15%; therefore, the cost of goods sold as a percentage of sales must be 85%.

10. The first step in any comprehensive analysis is to perform a horizontal and vertical analysis.

11. Liquidity ratios measure the ability of the company to survive over a long period of time.

12. The current ratio should *not* be interpreted on its own without also looking at the receivables turnover and inventory turnover ratios.

13. The receivables turnover ratio is useful in assessing the profitability of receivables.

14. An assessment of liquidity can be done based on only one ratio, such as the current ratio or the receivables ratio.

15. A solvency ratio measures the net income or operating success of a company for a given period of time.

16. From a creditor's point of view, the higher the debt to total assets ratio, the lower the risk that the company may be unable to pay its obligations.

17. Earnings before interest and tax (EBIT) is a proxy for the amount available to cover interest payments.

18. Free cash flow is the cash available after a company pays dividends.

19. Even if a company has a low debt to total assets ratio, it may have difficulty paying interest on debt if it also has a low times interest earned ratio.

20. Profitability ratios are frequently used as a basis for evaluating management's operating effectiveness.

21. Both the profit margin ratio and the asset turnover ratio affect a company’s return on assets.

22. Leveraging and return on common shareholders’ equity are closely related.

23. The return on common shareholders’ equity is affected by both the return on assets and debt to total assets ratios.

24. Comparisons of basic earnings per share with other companies and the industry averages are usually *not* very meaningful.

25. The price-earnings ratio reflects investors’ expectations about the future profitability of the company.

26. An investor interested in purchasing a company’s shares for their income potential would be more interested in the company’s dividend yield and payout ratios than its price-earnings ratio.

27. Dividend yield measures net income generated by each share, based on the market price per share.

28. One objective of the statement of income is to separate the results of continuing operations from those of discontinued operations.

29. When there is a disposal of a component of an entity, the statement of income should report both income from continuing operations and income (loss) from discontinued operations.

30. A component of an entity represents a separate major line of business.

31. Identifying discontinued items is important if a potential investor is going to use reported net income to estimate a company's value.

32. The gain (loss) on disposal of a discontinued operation is *not* reported on the statement of income.

~~33. Basic earnings per share must be reported separately for continuing operations and discontinued operations.~~

33. Many firms today are so diversified that they *cannot* be classified by industry.

34. Factors that may limit the usefulness of financial analysis include alternative accounting policies, professional judgement, other comprehensive income, diversification, inflation, and economic factors.

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	6.	F	11.	F	16.	F	21.	T	26.	T	31.	T
2.	F	7.	T	12.	T	17.	T	22.	T	27.	F	32.	F
3.	T	8.	F	13.	F	18.	F	23.	T	28.	T	33.	T
4.	T	9.	F	14.	F	19.	T	24.	T	29.	T	34.	T
5.	T	10.	T	15.	F	20.	T	25.	T	30.	T		

MULTIPLE CHOICE QUESTIONS

35. Comparisons of financial data made within a company are called
(a) intracompany comparisons.
(b) interior comparisons.
(c) intercompany comparisons.
(d) intramural comparisons.

36. Horizontal analysis is also called
(a) percentage analysis.
(b) trend analysis.
(c) vertical analysis.
(d) economic analysis.

37. In horizontal analysis, the percentage of a base-period amount is calculated by
(a) dividing the analysis period amount by the base period amount.
(b) dividing the dollar amount of the change since the base period by the base period amount.
(c) dividing the item under analysis by sales.
(d) dividing the item under analysis by total assets.

38. Under which of the following cases would a percentage change *not* be calculated?
(a) The trend of the amounts is decreasing but all amounts are positive.
(b) There is no amount in the base year.
(c) The trend of the amounts is decreasing but all amounts are negative.
(d) The trend of the amounts is increasing but all amounts are negative.

39. Horizontal analysis is a technique for evaluating a series of financial statement data over a period of time
(a) that has been arranged from the highest number to the lowest number.
(b) that has been arranged from the lowest number to the highest number.
(c) to determine which items are in error.
(d) to determine the amount and/or percentage increase or decrease that has taken place.

40. Horizontal analysis of comparative financial statements includes the
(a) development of vertically analyzed statements.
(b) calculation of liquidity ratios.
(c) calculation of dollar amount changes and percentage changes from the previous to the current year.
(d) evaluation of financial statement data that expresses each item in the current period’s financial statement as a percentage of a base amount.

41. Horizontal analysis is a technique for evaluating financial statement data
(a) within a period of time.