Test Bank for Financial Accounting CDN 8th Libby

Financial Accounting Edition 8 by Libby

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) Qualitative characteristics of accounting information are not part of the conceptual framework of accounting.
   - ◎ true
   - ◎ false

2) If you trade your computer plus cash for a new car, the cost of the new car is equal to the cash paid plus the market value of the computer.
   - ◎ true
   - ◎ false

3) Faithful representation means information must be free from material error, neutral and complete.
   - ◎ true
   - ◎ false

4) The unit-of-measure assumption states that financial information is reported in the national monetary unit.
   - ◎ true
   - ◎ false

5) The separate-entity assumption assumes a stable monetary unit (not affected by inflation or deflation).
   - ◎ true
   - ◎ false

6) Three of the four basic assumptions that underlie accounting measurement and reporting relate to the statement of financial position.
   - ◎ true
   - ◎ false

7) The amount shown on the statement of financial position as shareholders' equity represents the current market value of the owners' residual claim against the company.
   - ◎ true
   - ◎ false

8) Prepaid expenses and cash are both listed as current assets.
   - ◎ true
   - ◎ false

9) Assets are economic resources owned and controlled by an entity as a result of past transactions or events and for which future economic benefits may be obtained.
- ⦾ true
- ⦾ false

10) A dividend payment will reduce net income for the period.
- ⦾ true
- ⦾ false

11) Liability accounts are reported on the statement of financial position.
- ⦾ true
- ⦾ false

12) The basic system of recording transactions has withstood the test of time, and has been in use for more than 500 years.
- ⦾ true
- ⦾ false

13) An individual accounting record for a specific asset, liability or shareholders' equity item is called an account.
- ⦾ true
- ⦾ false

14) Long-term investments appear in the property, plant, and equipment section of the balance sheet.
- ⦾ true
- ⦾ false

15) On the income statement, assets should always equal liabilities plus shareholders' equity.
- ⦾ true
- ⦾ false

16) All transactions have a dual economic effect on the fundamental accounting model.
- ⦾ true
- ⦾ false

17) The payment of a liability in cash will decrease shareholders' equity.
- ⦾ true
- ⦾ false

18) It is possible for a recording mistake to exist even if the accounting equation balances.
- ⊙ true
- ⊙ false

19) If the correct accounts have been identified and the appropriate direction of the effect on each account has been determined, then the equation should remain in balance.
- ⊙ true
- ⊙ false

20) The purchase of a delivery truck for cash increases assets and shareholders' equity.
- ⊙ true
- ⊙ false

21) Recording the borrowing of cash with a note payable requires immediate recording of interest expense on the income statement.
- ⊙ true
- ⊙ false

22) When a business owner invests cash in the business, the investment causes shareholders' equity to increase.
- ⊙ true
- ⊙ false

23) When a business pays a previously recorded bill, the liabilities of the business decrease.
- ⊙ true
- ⊙ false

24) The objective of transaction analysis is to determine the economic effects of each transaction in terms of the accounting model.
- ⊙ true
- ⊙ false

25) If a company has assets of $60,000 and shareholders' equity of $30,000, then its liabilities must be $90,000.
- ⊙ true
- ⊙ false

26) The recording of every transaction must include at least one debit and one credit.
- ⊙ true
- ⊙ false

Financial Accounting Edition 8 by Libby

27) A debit increases an account and a credit decreases an account.
   - ⊚ true
   - ⊚ false

28) A T-account shows total debits of $25,000 and total credits of $22,000; therefore, it has a $3,000 credit balance.
   - ⊚ true
   - ⊚ false

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

30) For each transaction, the sum of debits may be different from the sum of credits.
   - ⊚ true
   - ⊚ false

31) A T-account is an accounting method of expressing the effects of a single transaction in a debits-equal-credits format.
   - ⊚ true
   - ⊚ false

32) Normally, asset accounts will have credit balances and liability accounts will have debit balances.
   - ⊚ true
   - ⊚ false

33) "Debit" is the designation for the left side of an account, and "credit" is the designation for the right side of an account.
   - ⊚ true
   - ⊚ false

34) Some legal contracts, such as the signing of a contract to hire a new employee, are not recorded in the accounting system.
   - ⊚ true
   - ⊚ false

Financial Accounting Edition 8 by Libby

35) Contributed capital results when a company buys a new delivery truck.
- ⦾ true
- ⦾ false

36) Retained earnings is increased by profits and decreased by losses and dividends.
- ⦾ true
- ⦾ false

37) When new shares are issued, the contributed capital account decreases.
- ⦾ true
- ⦾ false

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

39) By themselves, journal entries do not provide the balances in accounts.
- ⦾ true
- ⦾ false

40) Calculating financial ratios can give clues to underlying conditions that may not be noticed by examining each financial statement item separately.
- ⦾ true
- ⦾ false

41) The current ratio takes into account the composition of current assets.
- ⦾ true
- ⦾ false

42) The sale of land for cash would be classified as a cash inflow from an investing activity.
- ⦾ true
- ⦾ false

43) The activity from the balance sheet to be presented in the financing activities section of the cash flow statement is based on an analysis of shareholders' equity only.
- ⦾ true
- ⦾ false

Financial Accounting Edition 8 by Libby

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

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

45) Shareholders' equity
- A) is the difference between assets and retained earnings.
- B) includes retained earnings and contributed capital.
- C) represents the fair value of now much the company is worth.
- D) is usually equal to cash on hand.

46) It is assumed that the activities of Metro Inc. can be distinguished from those of Sobeys Inc. because of the
- A) continuity assumption.
- B) separate-entity assumption.
- C) unit-of-measure assumption.
- D) periodicity assumption.

47) Abe Cox is the sole owner and manager of Cox Auto Repair Shop Inc. In 20X6, Cox purchased a new apple computer for personal use and continued to use the Dell computer in the business. Which of the following fundamentals prevents Cox from recording the cost of the new apple computer as an asset to the business?
- A) Separate-entity assumption
- B) Revenue principle
- C) Full disclosure
- D) Historical cost principle

48) The financial statement prepared by a company cannot be used to
- A) compare a company's performance with its competitors if they are prepared under different accounting standards.
- B) meet the needs of the major shareholder
- C) provide information that is useful to individuals making investment and credit decisions.
- D) predict the future performance of a company

Financial Accounting Edition 8 by Libby

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

50) The adoption of International Financial Reporting Standards can be viewed as an application of which of the following quality enhancing characteristics?
   A) Timeliness
   B) Representational faithfulness
   C) Verifiability
   D) Comparability

51) The dominating criteria by which accounting information can be judged is that of
   A) freedom from bias.
   B) comparability.
   C) timeliness.
   D) usefulness for decision making.

52) The assumption that the accounting information prepared by a Canadian company should be measured and reported in Canadian dollars is known as the
   A) monetary unit assumption.
   B) economic entity assumption.
   C) going concern assumption.
   D) conservatism assumption.

53) Accounting information is considered relevant when it
   A) can be depended on to represent the economic conditions and events that it is intended to represent.
   B) is capable of making a difference in a decision.
   C) is understandable by reasonably informed users of accounting information.
   D) is verifiable and neutral.

54) During the lifetime of an entity, accountants produce financial statements at arbitrary points in time in accordance with which accounting concept?
   A) Periodicity
   B) Cost/benefit relationship
   C) Comparability
   D) Monetary unit assumption

Financial Accounting Edition 8 by Libby

55) If Ken Auto Shop earned $1,000 from Wood Trucking Company in the repair of its truck, and Wood has not yet paid for the services, where would Ken Auto Shop reflect this?
   A) Statement of Retained Earnings only.
   B) Income statement and statement of financial position.
   C) Statement of cash flows only.
   D) Statement of financial position only.

56) Which of the following is not correct about assets?
   A) Probable future economic benefits owned by an entity as a result of past transactions.
   B) Unearned heir is an example of an asset.
   C) Current assets are assets that can be transformed into cash within the next year.
   D) Intangible assets have no physical substance but has a long life.

57) Which of the following is correct about liabilities?
   A) Provisions are accounted for as current liabilities only.
   B) Accrued liabilities are usually long-term liabilities.
   C) There is no need to record any environmental liabilities unless the costs of cleaning up the hazardous waste is known.
   D) Liabilities are defined as Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.

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

59) Liabilities are generally classified on a statement of financial position as
   A) small liabilities and large liabilities.
   B) Present liabilities and future liabilities.
   C) Tangible liabilities and intangible liabilities.
   D) Current liabilities and non-current liabilities.

60) The asset that results when a customer buys goods or services on credit is
   A) notes receivable.
   B) Accounts payable.
   C) Cash.
   D) Accounts receivable.

Financial Accounting Edition 8 by Libby

61) Air Canada will record the cash you pay when you book the flight ticket as
  A) short term investments.
  B) Prepaid expenses.
  C) Accounts receivable.
  D) Inventory.

62) Which of the following is not considered an element of ESG reporting?
  A) Financial and non-financial performance indicators that measure heir progress in meeting heir ESG goals.
  B) Warranty costs associated with products sold
  C) Labour practices
  D) Community engagement

63) How are goods purchased for resale recorded in the financial statements?
  A) As prepaid expenses
  B) As cost of goods sold
  C) As inventory
  D) As operating expenses

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

65) Which of the following is *not* considered a liability?
  A) Accounts Payable
  B) Dividend
  C) Provisions
  D) Mortgage

66) Which of the following liability accounts is usually not satisfied by payment of cash?
  A) Trade payables.
  B) Unearned revenues.
  C) Taxes payable.
  D) Short-term borrowings.

Financial Accounting Edition 8 by Libby

67) Which of the following is not an example of ESG initiatives?
- A) A waste recycling program
- B) Adopt fair wages and employee engagement program.
- C) Adopt policies that promote equity diversity and inclusion within the company
- D) Adopt IFRS to ensure consistency and accuracy in financial reporting

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

69) When a new business is just starting up, which of the following must be done <u>first</u>?
- A) Generate positive cash flow through successful operations.
- B) Acquire the assets both long-lived and short-lived so they can operate.
- C) Acquire financing from issuance of shares and borrowing from creditors.
- D) Hire an industry expert to run the business.

70) An account is a part of the financial information system and is described by all except which one of the following?
- A) An account has a debit and credit side
- B) An account consists of three parts
- C) An account has a title
- D) An account is a source document

71) If total liabilities decreased by $14,000, and shareholders' equity increased by $6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)
- A) $20,000 increase.
- B) $8,000 decrease.
- C) $8,000 increase.
- D) $14,000 decrease.

72) Collection of a $1600 accounts receivable
- A) increases an asset by $1600; decreases a liability by $1600.
- B) decreases a liability by $1600; increases shareholders' equity by $1600.
- C) decreases an asset by $1600; decreases a liability by $1600.
- D) Has no effect on total assets.

Financial Accounting Edition 8 by Libby

73) 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.

74) Assume a company's January 1, 20X6, financial position was: Assets, $40,000 and Liabilities, $15,000. During January 20X6, the company completed the following transactions: (a) paid on a note payable, $4,000 (no interest); (b) collected *trade* receivables, $6,000; (c) paid *trade* payables, $2,000; and (d) purchased a truck, $1,000 cash, and signed a note payable, $8,000. What is the company's January 31, 20X6 financial position?

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

- A) Choice A
- B) Choice B
- C) Choice C
- D) Choice D

75) Lawson Inc. reports total assets and total liabilities of $325,000 and $200,000, respectively, at the end of its first year of business. The company earned $150,000 during the first year and distributed $105,000 in dividends. What was the corporation's contributed capital?
- A) $125,000
- B) $95,000
- C) $80,000
- D) $50,000

76) Which one of the following represents the expanded basic accounting equation?
- A) Assets = Liabilities + Contributed capital + Retained Earnings
- B) Assets + Liabilities = Dividends + Expenses + Contributed capital + Revenues
- C) Assets - Liabilities - Dividends = Contributed capital + Revenues - Expenses
- D) Assets = Revenues + Expenses - Liabilities

Financial Accounting Edition 8 by Libby

77) The collection of a trade receivable from a customer would do which of the following?
- A) Increase liabilities.
- B) Decrease liabilities.
- C) Not affect liabilities.
- D) Decrease shareholders' equity.

78) The following amounts are reported in the ledger of Pete's Company:

Assets	$25,000 (debit)
Liabilities	15,000 (credit)
Retained earnings	5,000 (debit)

What is the balance in the contributed capital account?
- A) $5,000 credit.
- B) $5,000 debit.
- C) $15,000 credit.
- D) $15,000 debit.

79) The payment of an income tax expense
- A) increases assets and shareholders' equity.
- B) increases assets and liabilities.
- C) decreases assets and increases liabilities.
- D) has no effect on total liabilities

80) Which of the following will not result in recording a transaction?
- A) Payment for cleaning services performed
- B) Hiring of a full-time employee
- C) Selling shares to investors.
- D) Buying equipment and issuing a note payable and paying interest at the end of a year.

81) Which of the following transactions will cause both the left and right side of the equation to <u>increase</u>?
- A) We collect cash from a customer who owed us money
- B) We pay a supplier for inventory we previously bought on account
- C) We borrow money from the bank
- D) We purchase equipment for cash

Financial Accounting Edition 8 by Libby

82) When a company buys equipment for $60,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?
   A) Cash decreases by $60,000.
   B) Equipment increases by $20,000.
   C) Liabilities increase by $40,000.
   D) Total assets increase by $60,000.

83) The payment of a liability
   A) decreases assets and shareholders' equity.
   B) increases assets and decreases liabilities.
   C) decreases assets and increases liabilities.
   D) decreases assets and liabilities.

84) If total liabilities increased by $25,000 and shareholders' equity increased by $5,000 during a given period of time, then the total assets during that period must have registered a
   A) $20,000 decrease.
   B) $25,000 increase.
   C) $30,000 increase.
   D) $20,000 increase.

85) A new company signed a lease for office space during their first month of business. At that time, they paid a total of $16,000 for first and second months' rent. At the end of the first month of operations, the financial statements would show:
   A) $16,000 rent expense
   B) $8,000 rent expense and $8,000 prepaid rent
   C) $16,000 prepaid rent
   D) $8000 prepaid rent

86) Which of the following statements is true?
   A) The normal balance is always on the side of the T account that is decreasing.
   B) The normal balance is always on the side of the T account that is increasing.
   C) The normal balance is always on the debit side of the T account.
   D) The normal balance is always on the credit side of the T account.

87) The classification and normal balance of the dividend account is
   A) revenue with a credit balance.
   B) an expense with a debit balance.
   C) a liability with a credit balance.
   D) shareholders' equity with a debit balance.

Financial Accounting Edition 8 by Libby

88) Which of the following will result in a credit to Shareholder's Equity?
   A) Salary expense of $ 20,000
   B) declaration of dividends.
   C) Issuance of shares to investors
   D) The company incurred a loss

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

90) A debit increases all of the following accounts except for
   A) Cash
   B) Revenue
   C) Prepaid expense
   D) Salary expense

91) To record a transaction, an accountant debits cash for $500, debits accounts receivable $1,000 and credits sales to customer A for $200. Which of the following could complete the recording of this transaction?
   A) Debiting a sales discount of $1,300
   B) Crediting sales to Customer B for $1,300
   C) Crediting sales to Customer B for $1,500
   D) Debiting a sales discount of $1,500.

92) Borrowing $100,000 of cash from a Chartered Canadian Bank, signing a note to be paid, would do which of the following?
   A) Increase cash by a credit.
   B) Increase notes payable by a debit.
   C) Increase notes payable by a credit.
   D) Decrease cash by a debit.

Financial Accounting Edition 8 by Libby

93) Jet Corporation was organized on March 1, 20X6. Jet Corporation issued shares to the six owners and each owner paid a total of $3,000 cash. On the basis of transaction analysis, the following entry should be recorded in the accounts (dr = debit and cr = credit)

A) Cash (dr), $3,000; Revenue (cr), $3,000.
B) Cash (cr), $3,000; Shareholders' equity (dr), $3,000.
C) Cash (dr), $18,000; Contributed capital (cr), $18,000.
D) Cash (cr), $18,000; Contributed capital (dr), $18,000.

94) Gilmore Company repaid a note payable of $20,000 (interest had previously been paid). This transaction should be recorded as follows on the payment date.

A)	Accounts payable	20,000	
	Cash		20,000
B)	Cash	20,000	
	Note payable		20,000
C)	Note payable	20,000	
	Cash		20,000
D)	Loan expense	20,000	
	Cash		20,000

A) Choice A
B) Choice B
C) Choice C
D) Choice D

95) A T account is

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

Financial Accounting Edition 8 by Libby

96) An accountant has debited an inventory account for $500 and credited the accounts payable account for $1,000. What can be done to complete the recording of the transaction?
- A) Nothing further must be done.
- B) Debit a revenue account for $500.
- C) Debit an expense account for $500.
- D) Credit a different asset account for $500.

97) The trade payables account has a beginning balance of $1,000 and we purchased $3,000 of inventory on credit during the month. The ending balance was $800. How much did we pay our creditors during the month?
- A) $1,200
- B) $2,200
- C) $3,200
- D) $4,800

98) When recording transactions in T-account format, we must add an additional step to the transaction analysis process. Which of the following is the additional step?
- A) Determine what accounts and elements in the equation are affected by the transaction.
- B) Determine if the affected accounts are increased or decreased by the transaction.
- C) We must have equal debits and credits once the entry is recorded in the accounts.
- D) The accounting equation must remain in balance after each transaction.

99) Assets normally show
- A) credit balances.
- B) debit balances.
- C) debit and credit balances.
- D) debit or credit balances.

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

101) In a Statement of Cash Flow, Issuance of common shares for cash is an example of what kind of activity?
- A) Financing activity
- B) Investing activity
- C) Operating activity
- D) Extraordinary activity

Financial Accounting Edition 8 by Libby

102) Which of the following would be an example of a financing transaction listed in the Statement of Cash Flow?

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

103) Investing activities within a Statement of Cash Flow include

A) Receiving cash dividend on shares of a company purchased last year.
B) obtaining cash from creditors.
C) obtaining capital from owners.
D) repaying money previously borrowed.

104) Which of the following would cause an inflow of cash?

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

105) Tyler Company reports a net use of cash for investing activities of $2.4 million and a net source of cash provided by financing of $2 million. What was the effect on the cash balance?

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

106) Which of the following expenses has no effect on the cash flow of a firm?

A) Salaries expense
B) Interest expense
C) Depreciation expense
D) Cost of goods sold

107) Which of the following reflects the impact of a transaction where $380,000 cash was invested by shareholders in exchange for shares?

A) Shareholders' equity and revenues each increased $380,000.
B) Assets and revenues each increased $380,000.
C) Assets and retained earnings each increased $380,000.
D) Shareholder' equity and assets each increased $380,000.

Financial Accounting Edition 8 by Libby

108) A company's January 1, 2022 statement of financial position reported total assets of $166,000 and total liabilities of $68,000. During January 2022, the company completed the following transactions: (A) paid a note payable using $18,000 cash (no interest was paid); (B) collected a $17,000 accounts receivable; (C) paid a $6,600 accounts payable; and (D) purchased a truck for $6,600 cash and by signing a $28,000 note payable from a bank. The company's January 31, 2022 statement of financial position would report which of the following?

A)

Assets	Liabilities	Shareholders' Equity
$194,000	$127,200	$66,800

B)

Assets	Liabilities	Shareholders' Equity
$166,000	$68,000	$98,000

C)

Assets	Liabilities	Shareholders' Equity
$176,000	$89,400	$86,600

D)

Assets	Liabilities	Shareholders' Equity
$169,400	$71,400	$98,000

109) A company's January 1, 2022 statement of financial position reported total assets of $132,000 and total liabilities of $48,000. During January 2022, the following transactions occurred: (A) the company issued shares and collected cash totaling $42,000; (B) the company paid an account payable of $7,200; (C) the company purchased supplies for $3,200 with cash; (D) the company purchased land for $62,000, paying $22,000 with cash and signing a note payable for the balance. What is total shareholders' equity after the transactions above?

A) $236,800
B) $84,000
C) $126,000
D) $42,000

110) Blankenship Company has $85,000 in total assets, $33,500 in total liabilities, and a $15,000 credit balance in retained earnings. What is the balance in the contributed capital accounts?

A) $51,500
B) $48,500
C) $36,500
D) $66,500

Financial Accounting Edition 8 by Libby

111) When a company buys equipment for $164,000 and pays for one half in cash and the other one half is financed by a note payable, which of the following are the effects on the accounting equation?

A) Total liabilities decrease $82,000.
B) Total liabilities increase $164,000.
C) Total assets increase $164,000.
D) Total assets increase $82,000.

112) Trane Company purchases a delivery van by paying $5,500 cash and by signing a $25,500 note payable. Which of the following correctly describes the recording of the delivery van purchase?

A) Cash is debited for $5,500.
B) Notes payable is debited for $25,500.
C) The delivery van account is debited for $31,000.
D) The delivery van account is debited for $25,500.

113) Cadet Company paid an accounts payable of $1,100. This transaction should be recorded on the payment date as follows:

A)

Account Title	Debit	Credit
Cash	1,100	
Accounts payable		1,100

B)

Account Title	Debit	Credit
Accounts payable	1,100	
Cash		1,100

C)

Account Title	Debit	Credit
Notes payable	1,100	
Cash		1,100

D)

Account Title	Debit	Credit
Cash	1,100	
Cost of goods sold		1,100

Financial Accounting Edition 8 by Libby

114) Centex, Incorporated issued 57,000 shares of its $1 par value common share for $20 per share. The journal entry to record the share issue would include which of the following?

A) A credit to cash for $1,140,000
B) A credit to common share for $57,000
C) A credit to retained earnings for $1,140,000
D) A credit to retained earnings for $57,000

115) Which of the following journal entries is correct when a business entity purchases land costing $45,000 by signing a one-year note payable?

A)

Account Title	Debit	Credit
Land	45,000	
Notes payable		45,000

B)

Account Title	Debit	Credit
Cash	45,000	
Notes payable		45,000

C)

Account Title	Debit	Credit
Notes payable	45,000	
Land		45,000

D)

Account Title	Debit	Credit
Land	45,000	
Accounts payable		45,000

Financial Accounting Edition 8 by Libby

116) The Pioneer Company has provided the following account balances:

Cash $38,900;
Short-term investments $4,900;
Accounts receivable $52,500;
Supplies $6,900;
Long-term notes receivable $2,900;
Equipment $100,500;
Factory Building $189,000;
Intangible assets $6,900;
Accounts payable $29,100;
Accrued liabilities payable $3,550;
Short-term notes payable $15,800;
Long-term notes payable $96,500;
Common share $189,000;
Retained earnings $68,550.

What are Pioneer's total current assets?

A) $50,700
B) $43,800
C) $103,200
D) $53,600

Financial Accounting Edition 8 by Libby

117) The Pioneer Company has provided the following account balances:

Cash $39,600;

Short-term investments $5,600;

Accounts receivable $7,600;

Supplies $56,000;

Long-term notes receivable $3,600;

Equipment $104,000;

Factory Building $196,000;

Intangible assets $7,600;

Accounts payable $28,400;

Accrued liabilities payable $3,200;

Short-term notes payable $17,200;

Long-term notes payable $100,000;

Common share $196,000;

Retained earnings $75,200.

What are Pioneer's total current liabilities?

A) $31,600

B) $45,600

C) $148,800

D) $48,800

Financial Accounting Edition 8 by Libby

118) The Pioneer Company has provided the following account balances:
Cash $40,000;
Short-term investments $6,000;
Accounts receivable $8,000;
Supplies $58,000;
Long-term notes receivable $4,000;
Equipment $106,000;
Factory Building $200,000;
Intangible assets $8,000;
Accounts payable $28,000;
Accrued liabilities payable $3,000;
Short-term notes payable $18,000;
Long-term notes payable $102,000;
Common share $200,000;
Retained earnings $79,000.
What is Pioneer's current ratio?

A) 3.61
B) 2.43
C) 2.29
D) 1.10

119) At the beginning of April, Warren Corporation's assets totaled $252,000 and liabilities totaled $72,000. During April the following summarized transactions occurred:
Additional shares of share were sold for $26,000 cash.
A building costing $107,000 was purchased using $16,000 cash and by signing an $91,000 long-term note payable.
Short-term investments costing $10,200 were purchased using cash.
$11,200 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.
How much are Warren's total assets at the end of April?

A) $395,200
B) $369,000
C) $262,000
D) $262,200

Financial Accounting Edition 8 by Libby

120) At the beginning of April, Warren Corporation's assets totaled $241,000 and liabilities totaled $61,000. During April the following summarized transactions occurred:
Additional shares of share were sold for $20,500 cash.
A building costing $96,000 was purchased using $10,500 cash and by signing an $85,500 long-term note payable.
Short-term investments costing $9,100 were purchased using cash.
$10,100 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.
How much are Warren's total liabilities at the end of April?

A) $146,500
B) $167,100
C) $157,000
D) $136,400

121) Tiger Company's total shareholders' equity at the beginning of the year was $186,000. During the year Tiger reported the following:
Net income of $90,000.
Dividend declarations totaling $18,100.
Issued shares to shareholders in exchange for $47,500 cash.
Borrowed $12,100 from a shareholder.
What is Tiger's total shareholders' equity at the end of the year?

A) $299,400
B) $305,400
C) $317,500
D) $323,500

122) Surprise Company's total shareholders' equity at the beginning of the year was $700,000. During the year Surprise reported the following:
Net loss of $105,000.
Shares issued in exchange for land totaling $280,000.
Collections of accounts receivable $140,000.
Dividends declared and paid totaling $7,000.
What is Surprise's total shareholders' equity at the end of the year?

A) $1,008,000
B) $588,000
C) $868,000
D) $1,218,000

Financial Accounting Edition 8 by Libby

123) Regina Company's January 1, 2022 balance sheet reported total assets of $112,500 and total liabilities of $47,000. During January 2022, the following transactions occurred: (A) the company issued shares and collected cash totaling $39,000; (B) the company paid an account payable of $6,300; (C) the company purchased supplies for $950 with cash; (D) the company purchased land for $63,000, paying $9,500 with cash and signing a note payable for the balance. What is total shareholders' equity after the transactions above?

A) $65,500
B) $187,900
C) $104,500
D) $39,000

124) Ironwood Company purchased equipment for $213,900 and paid for one third in cash; the other two thirds is financed by a note payable. Which of the following are the effects on Ironwood’s accounting equation?

A) Total liabilities increase $213,900.
B) Total assets increase $213,900.
C) Total liabilities decrease $71,300.
D) Total assets increase $142,600.

125) Melrose Corporation has provided the following account balances:

Cash	$ 95,400
Short-term investments	$ 10,400
Accounts receivable	$ 120,400
Supplies	$ 15,400
Long-term notes receivable	$ 5,400
Equipment	$ 240,400
Factory Building	$ 450,400
Intangible assets	$ 15,400
Accounts payable	$ 75,800
Accrued liabilities payable	$ 10,800
Short-term notes payable	$ 35,400
Long-term notes payable	$ 231,600
Common share	$ 452,000
Retained earnings	$ 147,600

What are Melrose's total current assets?

A) $226,200
B) $105,800
C) $241,600
D) $120,400

Financial Accounting Edition 8 by Libby

126) Melrose Corporation has provided the following account balances:

Cash	$ 95,600
Short-term investments	$ 10,600
Accounts receivable	$ 120,600
Supplies	$ 15,600
Long-term notes receivable	$ 5,600
Equipment	$ 240,600
Factory Building	$ 450,600
Intangible assets	$ 15,600
Accounts payable	$ 76,200
Accrued liabilities payable	$ 11,200
Short-term notes payable	$ 35,600
Long-term notes payable	$ 232,400
Common share	$ 453,000
Retained earnings	$ 146,400

What are Melrose's total current liabilities?

A) $355,400

B) $87,400

C) $111,800

D) $123,000

Financial Accounting Edition 8 by Libby

127) Melrose Corporation has provided the following account balances:

Cash	$ 96,600
Short-term investments	$ 11,600
Accounts receivable	$ 121,600
Supplies	$ 16,600
Long-term notes receivable	$ 6,600
Equipment	$ 241,600
Factory Building	$ 451,600
Intangible assets	$ 16,600
Accounts payable	$ 78,200
Accrued liabilities payable	$ 13,200
Short-term notes payable	$ 36,600
Long-term notes payable	$ 236,400
Common share	$ 458,000
Retained earnings	$ 140,400

What is Melrose's current ratio?

A) 1.93
B) 2.11
C) 2.64
D) 0.95

128) At the beginning of October, Ingram Company’s assets totaled $288,100 and liabilities totaled $72,100. During October the following summarized transactions occurred:
Additional shares of share were sold for $24,100 cash.
A building costing $114,200 was purchased using $12,100 cash and by signing $102,100 long-term note payable.
Short-term investments costing $10,900 were purchased using cash.
$12,100 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.
How much are Ingram's total assets at the end of October?

A) $414,300
B) $299,000
C) $300,200
D) $402,200

Financial Accounting Edition 8 by Libby

129) At the beginning of October, Ingram Company's assets totaled $288,900 and liabilities totaled $72,900. During October the following summarized transactions occurred:

Additional shares of share were sold for $24,900 cash.

A building costing $115,800 was purchased using $12,900 cash and by signing a $102,900 long-term note payable.

Short-term investments costing $11,700 were purchased using cash.

$12,900 was paid to an employee as a loan; the employee signed a six-month note in exchange for the loan.

How much are Ingram's total liabilities at the end of October?

A) $201,600

B) $162,900

C) $175,800

D) $188,700

130) Huron has provided the following year-end balances:

Cash, $22,000

Patents, $8,400

Accounts receivable, $9,400

Property, plant, and equipment, $99,400

Prepaid insurance, $5,100

Accumulated depreciation, $14,000

Inventory, $49,000

Retained earnings, 15,500

Trademarks, $14,100

Accounts payable, $8,000

Goodwill, $14,000

How much are Huron's current assets?

A) $118,700

B) $80,400

C) $99,500

D) $85,500

Financial Accounting Edition 8 by Libby

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

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

A. Credits
B. Share Capital
C. Cost principle
D. Transaction
E. Debits
F. Liability
G. Statement of financial position
H. Primary objective of external financial reporting
I. Separate-entity assumption
J. Retained earnings
K. As at December 31, 20X6
L. For the period ended December 31, 20X6
M. None of the above is correct

_____ 1. Increase assets and decreases shareholders' equity.
_____ 2. An exchange between an entity and another party.
_____ 3. Normal balances for unearned revenue.
_____ 4. To provide useful economic information about a business to help external parties make sound financial decisions.
_____ 5. Accounting assumption that requires assets to be recorded at their cash equivalent cost.
_____ 6. Cumulative earnings that have not been distributed to the owners.
_____ 7. A debt owed by the entity.
_____ 8. A statement that indicates the value of assets, liabilities and owner’s equity
_____ 9. Account for a business separate from its owners.
____ 10. Dating of the statement of financial position (20X6).

Financial Accounting Edition 8 by Libby

132) Why is the continuity assumption so important for statement of financial position reporting?

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

134) Why is the historical cost principle so important for statement of financial position reporting?

135) Classify the following statement of financial position accounts for Canada Goose Linen Co.

______	a. Investments in associates
______	b. Retained Earnings
______	c. Notes Payable due in 6 months
______	d. Land
______	e. Short-term investments
______	f. Bonds Payable
______	g. Supplies
______	h. Share Capital
______	i. Bank loan due in 5 years
______	j. Income Taxes Payable

Financial Accounting Edition 8 by Libby

136) For each of the following events, which ones result in an exchange transaction for the O'Brien Company? Place Y for yes and N for no beside each item.

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

137) For each item below, indicate whether the account will be debited or credited:

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

Financial Accounting Edition 8 by Libby

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

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

Financial Accounting Edition 8 by Libby

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

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

Financial Accounting Edition 8 by Libby

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

Transaction		Typical Balance	
		Debit	Credit
A	Supplies		
B	Salaries payable		
C	Retained earnings		
D	Accumulated Depreciation - Equipment		
E	Prepaid insurance		
F	Trade receivables		
G	Salaries expense		
H	Share capital		
I	Trade payables		

141) Explain why the general journal does not allow you to immediately see the balance in a particular account.

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

Financial Accounting Edition 8 by Libby

143) The accounts with identification letters for Wild World Inc. are listed below.
Letter Account Title

A. Cash.
B. Trade Receivables.
C. Office supplies.
D. Equipment.
E. Land.
F. Trade Payables.
G. Notes Payable.
H. Share Capital.
I. Retained Earnings.

During 20X9, the company completed the transactions given below. You are to indicate the appropriate journal entry for each transaction by giving the account letter and amount. Some entries may need three letters. The first transaction is given as an example.

Transaction		Debit		Credit	
		Letter	Amount	Letter	Amount
Ex.	Owners invested $30,000 cash for shares.	A	$30,000	H	$30,000
1	Borrowed $50,000 and signed a note.				
2	Purchased equipment for $50,000. Paid $20,000 in cash, signed a $30,000 note payable.				
3	Collected $16,000 trade receivables.				
4	Paid $8,000 of trade payables.				
5	Acquired a $80,000 piece of land by issuing capital shares.				
6	Purchased $2,000 of office supplies (an asset) on credit.				
7	Paid for the office supplies in (6).				

Financial Accounting Edition 8 by Libby

144) Analyze the effect of the following transactions using the basic accounting equation and the format provided below.

i. Bought land with an estimated fair value of $150,000 by issuing 100,000 shares.
ii. Issued 10,000 common shares for $15,000 cash.
iii. Purchased a 2-year insurance policy for $4,*800*.
iv. Paid rent of $3,000.
v. Bought equipment for $50,000. Paid 20% down in cash and the balance on a 5-year, 6% note payable.
vi. Purchased $9,000 of merchandise inventory on credit.
vii. Paid utilities bill for $750.
viii. *Sold* $8,000 of merchandise inventory for $16,000 cash.
ix. Paid $2,500 on merchandise inventory previously purchased.
x. Declared a $1,000 dividend.
xi. Recognized that 1 month of the insurance coverage had expired.

FORMAT:

ASSETS =							LIABILITIES+			SHAREHOLDERS' EQUITY	
Transaction	**Cash**	**A/R**	**Inventory**	**Prepaid expense**	**Land**	**Equipment**	**A/P**	**Dividend Payable**	**Long-term debt**	**Common shares**	**Retained Earnings**
Example											
					150,000					150,000	

Financial Accounting Edition 8 by Libby

Account totals											
TOTALS			$				$			$	

145) (A) Complete the following schedule for Taylor Company.

Transaction	Assets	Liabilities	Shareholders' Equity
Beginning financial position	$65,000	$15,000	$50,000
Borrowed $30,000 cash using a note payable, face amount $30,000			
Collected trade receivables for cash, $5,000			
Paid trade payables, $1,000 cash			
Purchased office supplies on credit, $1,000			
Sold shares to new investors for $5,000 of cash			
Paid a $15,000 note payable			
Ending financial position			

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

Financial Accounting Edition 8 by Libby

146) Scott, Kim and Koko organized the SKK Corporation on January 1 20X6. Each of these owners invested $40,000 cash and received shares. Below are selected transactions that were completed during January.

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

(1) Sold shares to the owners.
(2) Borrowed $100,000 on one-year note payable.
(3) Purchased land by signing a $20,000 note payable.
(4) Paid $5,000 of trade payables.
(5) Purchased two service vehicles, $21,000 each; paid cash.
(6) Accepted a promissory note of $1,000 from a customer.

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

Assets $
Liabilities $
Shareholders' equity $

147) On January 1, 20X6, Tom Wood started a new professional corporation, Wood, LLC., to practice law with an initial investment of $50,000. On June 30, 20X6 the accounting records contained the following amounts:

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

Prepare a statement of financial position at June 30, 20X1.

Financial Accounting Edition 8 by Libby

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

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

Financial Accounting Edition 8 by Libby

SECTION BREAK. Answer all the part questions.

149) A table showing statement of financial position of Kool Billiards Ltd.

KOOL BILLIARDS LTD.				
Statement of Financial Position				
December 31, 20X6				
Cash		$60,000	Accounts payable	$70,000
Accounts receivable		50,000	Salaries payable	10,000
Inventory		70,000	Mortgage payable	90,000
Prepaid insurance		40,000		$170,000
Land		190,000		
Building	100,000		Common shares	140,000
Less accumulated amortization	(20,000)	80,000	Retained earnings	250,000
Trademark net of amortization		70,000	Total shareholders' equity	$390,000
Total assets		$560,000	Total liabilities and shareholders' equity	$560,000

149.1) The total dollar amount of assets to be classified as current assets is:
A) $270,000
B) $220,000
C) $190,000
D) $170,000

149.2) The total dollar amount of assets to be classified as investments is:
A) $0
B) $150,000
C) $100,000
D) $180,000

149.3) Long-term liabilities total:
A) $90,000
B) $170,000
C) $390,000
D) $560,000

Financial Accounting Edition 8 by Libby

149.4) The total dollar amount of assets to be classified as property, plant, and equipment is:

A) $80,000

B) $340,000

C) $270,000

D) $190,000

149.5) The total amount of working capital is:

A) $140,000

B) $370,000

C) $40,000

D) $60,000

149.6) The current ratio is:

A) 1.75 to 1

B) 1.50 to 1

C) 3.25 to 1

D) 2.75 to 1

149.7) Earnings retained for use in the business are:

A) $80,000

B) $390,000

C) $250,000

D) $60,000

Financial Accounting Edition 8 by Libby

Answer Key

Test name: Chapter 02

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

Financial Accounting Edition 8 by Libby

38) TRUE
39) TRUE
40) TRUE
41) FALSE
42) TRUE
43) FALSE
44) B
45) B
46) B
47) A
48) A
49) C
50) D
51) D
52) A
53) B
54) A
55) B
56) B
57) A
58) D
59) D
60) D
61) B
62) B
63) C
64) C
65) B
66) B
67) D
68) B
69) C
70) D
71) B
72) D
73) B
74) D

Calculation: $40,000 - $4,000 + $6,000 - $6,000 - $2,000 - $1,000 + $9,000 = $42,000; $15,000 - $4,000 - $2,000 + $8,000 = $17,000; $42,000 - $17,000 = $25,000.

Financial Accounting Edition 8 by Libby

75) C
Calculation: $325,000 - $200,000 = $125,000;
$125,000 - ($150,000 - $105,000) = $80,000.

76) A
77) C
78) C
Calculation: $25,000 - $15,000 +$5,000 = $15,000.

79) D
80) B
81) C
82) C
83) D
84) C
Calculation: + $30,000 = + $25,000 + $5,000.

85) B
86) B
87) D
88) C
89) C
90) B
91) B
92) C
93) C
94) C
95) A
96) C
97) C
Calculation: $1,000 + $3,000 - $800 = $3,200.

98) C
99) B
100) B
101) A
102) C
103) A
104) B
105) B

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

106) C

107) D

Receiving $380,000 cash in exchange for shares increases assets (cash) and shareholders' equity (issuing shares).

108) D

Assets = $169,400 = $166,000 – $18,000 – $6,600 – $6,600 + $34,600
Liabilities = $71,400 = $68,000 – $18,000 – $6,600 + $28,000
Shareholders' equity = $98,000 = Assets ($169,400) – Liabilities ($71,400)

109) C

Beginning equity = $132,000 – $48,000 = $84,000.
Only transaction (A) affects shareholders' equity.
Therefore, shareholders' equity = $84,000 + $42,000 = $126,000.

110) C

Shareholders’ equity ($51,500) = Assets ($85,000) – Liabilities ($33,500). Shareholders’ equity ($51,500) = Common shares ($36,500) + Retained earnings ($15,000).

111) D

Equipment increases $164,000 and cash decreases $82,000 for a net asset increase of $82,000.

112) C

The cost of the asset is recorded at cash paid plus all noncash considerations. The delivery van account is debited for $31,000. ($5,500 + $25,500 = $31,000).

113) B

Accounts Payable is reduced with a debit, and cash is reduced with a credit.

114) B

Common share is credited for the par value of the shares issued.

115) A

The transaction results in the company receiving an asset, land, and incurring a liability, notes payable. This results in a debit to land to increase the land account, and a credit to notes payable to recognize and record the liability.

116) C

Current assets = $103,200 = $38,900 + $4,900 + $52,500 + $6,900.

117) D
Current liabilities = $48,800 = $28,400 + $3,200 + $17,200.

118) C
Current assets = $112,000 = $40,000 + $6,000 + $8,000 + $58,000. Current liabilities = $49,000 = $28,000 + $3,000 + $18,000. Current ratio = 2.29 = $112,000 ÷ $49,000.

119) B
Total assets = $369,000 = $252,000 + $26,000 + $107,000 – $16,000 (building payment).

120) A
Total liabilities = $146,500 = $61,000 + $85,500.

121) B
Total shareholders' equity = $305,400 = $186,000 + $90,000 – $18,100 + $47,500. Borrowing money affects cash and liabilities regardless of who is the lender.

122) C
$700,000 – $105,000 + $280,000 – $7,000 = $868,000 total shareholders' equity at the end of the year; collections of accounts receivable only affects cash and accounts receivable, but not equity.

123) C
Beginning equity = $112,500 − $47,000 = $65,500.
Only transaction (A) affects shareholders' equity.
Therefore, shareholders' equity = $65,500 + $39,000 = $104,500.

124) D
Equipment increases $213,900 and cash decreases $71,300 for a net asset increase of $142,600.

125) C
Current assets = $241,600 = $95,400 + $10,400 + $120,400 + $15,400.

126) D
Current liabilities = $123,000 = $76,200 + $11,200 + $35,600.

127) A

Financial Accounting Edition 8 by Libby

Current assets = $246,400 = $96,600 + $11,600 + $121,600 + $16,600. Current liabilities = $128,000 = $78,200 + $13,200 + $36,600. Current ratio = 1.93 = $246,400 ÷ $128,000.

128) A
Total assets = $414,300 = $288,100 + $24,100 + $114,200 − $12,100 (building payment).

129) C
Total liabilities = $175,800 = $72,900 + $102,900.

130) D
Huron's current assets ($85,500) include cash ($22,000), accounts receivable ($9,400), prepaid insurance ($5,100), and inventory ($49,000).

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

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

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

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

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

136) Short Answer

Financial Accounting Edition 8 by Libby

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

137) Short Answer
Please review the following information:

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

138) Short Answer
Please review the following information:

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

139) Short Answer

Financial Accounting Edition 8 by Libby

Please review the following information:

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

140) Short Answer
Please review the following information:

Transaction		Typical Balance	
		Debit	**Credit**
A	Supplies	X	
B	Salaries payable		X
C	Retained earnings		X
D	Accumulated Depreciation - Equipment		X
E	Prepaid insurance	X	
F	Trade receivables	X	
G	Salaries expense	X	
H	Share capital		X
I	Trade payables		X

141) Short Answer
Transactions are recorded in the journal in chronological order so you can revisit each transaction and the accounts affected by that transaction. It is the ledger which tracks the increases and decreases of each individual account. The ledger shows the aggregate effect of all recorded transactions on each account.

142) Short Answer

Financial Accounting Edition 8 by Libby

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

143) Short Answer
Please review the following information:

Transaction		Debit		Credit	
		Letter	Amount	Letter	Amount
1	Borrowed $50,000 and signed a note.	A	50,000	G	50,000
2	Purchased equipment for $50,000. Paid $20,000 in cash, signed a $30,000 note payable.	D	50,000	A G	20,000 30,000
3	Collected $16,000 trade receivables.	A	16,000	B	16,000
4	Paid $8,000 of trade payables.	F	8,000	A	8,000
5	Acquired a $80,000 piece of land by issuing capital shares.	E	80,000	H	80,000
6	Purchased $2,000 of office supplies (an asset) on credit.	C	2,000	F	2,000
7	Paid for the office supplies in (6).	F	2,000	A	2,000

144) Short Answer

Financial Accounting Edition 8 by Libby

Please review the following information:

ASSETS =							LIABILITIES +			SHAREHOLDERS' EQUITY	
Transaction	**Cash**	**A/R**	**Inventory**	**Prepaid expense**	**Land**	**Equipment**	**A/P**	**Dividend Payable**	**Long-term debt**	**Common shares**	**Retained Earnings**
					+150,000					+150,000	
	+15,000									+15,000	
	-4,*800*			+4,*800*							
	-3,000										-3,000
	-10,000					+50,000			+40,000		
			+9,000				+9,000				
	-750										-750
	+16,000		-8,000								+8,000
	-2,500						-2,500				
								+1,000			-1,000
				-200							-200
Account totals	+9,950	0.	+1,000	+4,600	+150,000	+50,000	+6,500	+1,000	+40,000	+165,000	+3,050
TOTALS						= $215,550					= $215,550

145) Short Answer

Financial Accounting Edition 8 by Libby

(A)

Transaction	Assets	Liabilities	Shareholders' Equity
Beginning financial position	$65,000	$15,000	$50,000
Borrowed $30,000 cash using a note payable, face amount $30,000	+30,000	+30,000	
Collected trade receivables for cash, $5,000	+5,000; -5,000		
Paid trade payables, $1,000 cash	-1,000	-1,000	
Purchased office supplies on credit, $1,000	+1,000	+1,000	
Sold shares to new investors for $5,000 of cash	+5,000		+5,000
Paid a $15,000 note payable	-15,000	-15,000	
Ending financial position	$85,000	$30,000	$55,000
(B) Cash increase, $24,000			
(+30,000 +5,000 -1,000 +5,000 -15,000)			

146) Short Answer

Financial Accounting Edition 8 by Libby

(A)

1.	Cash(40,000 × 3) (A)	120,000	
	Share capital (SE)		120,000
	Investment by owners		
2.	Cash (A)	100,000	
	Note payable (L)		100,000
	Borrowed $100,000 on a one-year note.		
3.	Land (A)	20,000	
	Note payable (L)		20,000
	Purchased land by signing a $20,000 note payable.		
4.	Trade payables (L)	5,000	
	Cash (A)		5,000
	Paid $5,000 of trade payables.		
5.	Equipment (A)	42,000	
	Cash (A)		42,000
	Purchased two service vehicles, $21,000 each (paid cash)		
6.	Notes receivable (A)	1,000	
	Cash (A)		1,000
	Accepted a $1,000 promissory note from a customer.		

(B)

Assets	$235,000
Liabilities	$115,000
Shareholders' equity	$120,000

Financial Accounting Edition 8 by Libby

147) Short Answer
Cliff Constable, LLC.
Statement of Financial Position
As of June 30, 20X6

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

148) Short Answer
Please review the following information:

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

149) Section Break
149.1) B
149.2) A
149.3) A
149.4) C
149.5) A
149.6) D
149.7) C