

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

6) The balance sheet measures how well the company performed during the year. 6) _____

Answer: True False

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

7) The amount of net income shown on the income statement also appears on the: 7) _____

- A) statement of retained earnings B) statement of assets
C) balance sheet D) statement of financial position

Answer: A

8) The payment of the chief financial officer's salary would appear: 8) _____

- A) on the balance sheet with the current liabilities
B) on the income statement with the revenues
C) on the income statement as part of cost of goods sold
D) on the cash flow statement with the operating activities

Answer: D

9) Suppose The Fruit Group buys a kiwi for \$.10 and sells the kiwi for \$.50. The cost of goods sold would be: 9) _____

- A) \$.10 B) \$.05 C) \$.40 D) \$.50

Answer: A

10) All of the following are factors that influence business and accounting decisions *except*: 10) _____

- A) economic B) ethical
C) legal D) operational inefficiency

Answer: D

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

11) For business purposes, dividend payments are classified as expenses. 11) _____

Answer: True False

12) One benefit of organizing a business as a proprietorship is that the proprietor is not required to pay income tax on the business' earnings. 12) _____

Answer: True False

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

13) The statement that presents a summary of the revenues and expenses of an entity is called the: 13) _____

- A) balance sheet B) cash flow statement
C) income statement D) statement of retained earnings

Answer: C

14) Which financial statement must be prepared before the others? 14) _____

- A) cash flow statement B) retained earnings statement
C) income statement D) balance sheet

Answer: C

- 15) The _____ assumption assumes that the organization will continue operating normally for the foreseeable future. 15) _____
A) stable monetary unit B) cost
C) entity D) going-concern

Answer: D

- 16) Gains and losses appear on which of the financial statements listed below? 16) _____
A) the retained earnings statement B) the income statement
C) the balance sheet D) the cash flow statement

Answer: B

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

- 17) Expenses are increases in retained earnings that result from operations. 17) _____
Answer: True False

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

- 18) The cash flow statement is divided into three categories relating to cash flows from operating, investing, and: 18) _____
A) strategic positioning activities B) financing activities
C) management planning activities D) marketing activities

Answer: B

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

- 19) Net income is calculated by taking a company's earnings less their dividends paid out. 19) _____
Answer: True False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 20) Accounting is often referred to as "the language of business." Why is accounting described this way? How is accounting different from bookkeeping?

Answer: Accounting is the system that measures business activities, processes that information into reports, and communicates the results to decision makers. Accounting, as an information system, provides the elements necessary for management and others to make decisions and estimate how well a company may perform in the future. Accounting is the common "language" used by managers, investors, and others to communicate information about a business.

Bookkeeping is simply the procedural element of accounting that processes the accounting data. Accounting is an information system, of which bookkeeping is a component.

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

- 21) The accounting concept that maintains that each organization or section of an organization stands apart from other organizations and individuals is known as the: 21) _____
A) monetary unit assumption B) entity assumption
C) going-concern assumption D) reliability principle

Answer: B

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

22) The following alphabetical listing shows the assets, liabilities, and shareholders' equity for Zap Ltd. as of December 31, 2020. Prepare a balance sheet dated December 31, 2020.

Accounts payable	\$12,200	Inventory	\$23,500
Accounts receivable	21,000	Note payable	11,000
Cash	21,600	Retained earnings	17,100
Common shares	50,600	Salary payable	2,300
Equipment	24,600	Supplies	2,500

Answer:

Zap Ltd.			
Balance Sheet			
December 31, 2020			
Assets		Liabilities	
Cash	\$21,600	Accounts payable	\$12,200
Accounts receivable	21,000	Note payable	11,000
Inventory	23,500	Salary payable	<u>2,300</u>
Supplies	2,500	Total liabilities	<u>25,500</u>
Equipment	<u>24,600</u>		
		Shareholders' equity	
		Common shares	50,600
		Retained earnings	<u>17,100</u>
		Total shareholders' equity	<u>67,700</u>
Total assets	<u>\$93,200</u>	Total liabilities and	
		shareholders' equity	<u>\$93,200</u>

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

- 23) When a repurchase of shares is done by a company it: 23) _____
- A) decreases the amount of total liabilities B) increases the amount of owners' equity
- C) decreases the amount of owners' equity D) increases the amount of total liabilities

Answer: C

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

- 24) The application of IFRS and ASPE frequently requires the use of professional judgment. 24) _____

Answer: True False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

25) There are several types of decision makers who use accounting information. List five of these users of accounting information and give an example of a decision each would make.

Answer: Individuals

- to manage bank accounts
- to evaluate job prospects
- to make investments
- to decide whether to rent or buy a home

Managers of businesses

- to set goals for the organization
- to evaluate progress toward those goals
- to decide how much inventory to keep on hand
- to decide how much cash to borrow

Investors and creditors

- to decide whether or not to invest in a new company
- to determine whether or not to make a loan

Government regulatory agencies (e.g., Ontario Securities Commission)

- to make sure that the company is abiding by federal or provincial regulations

Taxing authorities

- to determine the amount of tax due

Non-profit organizations

- to set goals for the organization
- to evaluate progress toward those goals
- to decide how much cash to borrow

Labour unions

- to determine wage demands

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

26) The statement of retained earnings discloses the amount of dividends declared during the year. 26) _____

Answer: True False

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

27) The stable-monetary-unit assumption is the basis for ignoring: 27) _____

- A) the effect of inflation in the accounting records
- B) the difference between the appraised value and the actual cost when recording an asset at its historical cost
- C) the possibility that the value of inventory might drop below its historical cost
- D) fluctuations in the value of the Canadian dollar relative to foreign currencies

Answer: A

28) Claims held by the shareholders (owners) of a corporation are referred to as: 28) _____

- A) share capital plus retained earnings
- B) share capital
- C) share capital minus retained earnings
- D) retained earnings

Answer: A

29) Assets appear on the: 29) _____

- A) income statement
- B) retained earnings statement
- C) balance sheet
- D) cash flow statement

Answer: C

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

30) Shareholders' equity is often referred to as "net assets" and represents the residual amount of business assets that can be claimed by the owners. 30) _____

Answer: True False

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

31) If assets increase \$120,000 during a given period and liabilities decrease \$25,000 during the same period, shareholders' equity must: 31) _____

- A) decrease \$95,000
- B) increase \$95,000
- C) increase \$145,000
- D) decrease \$145,000

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

32) Snow Inc. gathered together the following information regarding the asset, liability, shareholders' equity, revenue, and expense accounts as of the end of its first year in operations, July 31, 2020:

Rent expense	\$7,500	Dividends	\$10,200
Truck	14,600	Accounts payable	6,700
Supplies	2,500	Service revenue	45,500
Salary expense	19,400	Salary payable	1,200
Accounts receivable	8,200	Utilities expense	5,000
Note payable	11,000	Interest expense	1,500
Common shares	25,000	Cash	20,800

Prepare an income statement for Snow Inc. for the year ended July 31, 2020.

Answer: Snow Inc.
Income Statement
For the Year Ended July 31, 2020

Revenues:			
	Service revenue		\$45,500
Expenses:			
	Salary expense	\$19,400	
	Rent expense	7,500	
	Utilities expense	5,000	
	Interest expense	<u>1,500</u>	<u>33,400</u>
Net income			<u>\$12,100</u>

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

33) Decreases in shareholders' equity result from: 33) _____

- A) a net loss during the period
- B) owner investments and a net loss during the period
- C) a net income during the period
- D) owner investments

Answer: A

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

34) Dividends are a form of expenses. 34) _____

Answer: True False

35) Since they are both the same activities, the terms "accounting" and "bookkeeping" are synonymous and can be used interchangeably. 35) _____

Answer: True False

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

36) Accounts payable would appear on the: 36) _____

- A) retained earnings statement with the dividends
- B) balance sheet with the current assets
- C) income statement with the expenses
- D) balance sheet with the current liabilities

Answer: D

37) Which of the following statements should be prepared right before the balance sheet? 37) _____

- A) income statement
- B) statement of retained earnings
- C) cash flow statement
- D) statement of financial position

Answer: B

38) Which of the following financial statements shows the net increase or decrease in cash during the period? 38) _____

- A) statement of retained earnings
- B) cash flow statement
- C) income statement
- D) balance sheet

Answer: B

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

39) The Cash Flow Statement is organized in terms of the organization's operating, investing, and financing activities. 39) _____

Answer: True False

40) Revenues are increases in retained earnings from the delivery of goods or services. 40) _____

Answer: True False

41) The income statement measures the company's financial position at the end of the year. 41) _____

Answer: True False

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

42) All of the following are considered standard financial statements *except* the: 42) _____

- A) cash flow statement
- B) statement of assets
- C) statement of retained earnings
- D) statement of earnings

Answer: B

- 43) Which of the following best describes a liability? 43) _____
- A) Liabilities are a form of share capital.
 - B) Liabilities are future economic benefits to which a company is entitled.
 - C) Liabilities are economic obligations to creditors to be paid at some future date by the company.
 - D) Liabilities are accounts receivable of the company.

Answer: C

- 44) Income taxes owed to the federal government would be classified as a: 44) _____
- A) financing activity on the cash flow statement
 - B) current liability on the balance sheet
 - C) current asset on the balance sheet
 - D) non-current asset on the balance sheet

Answer: B

- 45) Equipment would appear on the: 45) _____
- A) income statement with the operating expenses
 - B) income statement with the revenues
 - C) balance sheet with the current assets
 - D) balance sheet with the non-current assets

Answer: D

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

46) Tap Corporation gathered together the following information regarding the asset, liability, shareholders' equity, revenue, and expense accounts as of the end of its first year in operations, August 31, 2020:

Rent expense	\$ 7,500	Dividends	\$10,200
Truck	23,600	Accounts payable	6,700
Supplies	2,500	Service revenue	45,600
Salary expense	19,400	Salary payable	12,200
Accounts receivable	8,200	Utilities expense	5,000
Note payable	10,000	Interest expense	1,200
Common shares	25,000	Cash	21,900

Prepare a balance sheet for Tap Corporation dated August 31, 2020.

Answer:

		Tap Corporation Balance Sheet August 31, 2020	
Assets		Liabilities	
Cash	\$21,900	Accounts payable	\$6,700
Accounts receivable	8,200	Note payable	10,000
Supplies	2,500	Salary payable	<u>12,200</u>
Truck	<u>23,600</u>	Total liabilities	<u>28,900</u>
		Shareholders' equity	
		Common shares	25,000
		Retained earnings	<u>2,300</u> *
		Total shareholders' equity	27,300
		Total liabilities and	
Total assets	<u>\$56,200</u>	Shareholders' equity	<u>\$56,200</u>

* $\$2,300 = \$0 + \$12,500$ (net income) - $\$10,200$

Net income = $\$45,600 - \$7,500 - \$19,400 - \$5,000 - \$1,200 = \$12,500$

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

47) The balance sheet is sometimes also called the:

- A) statement of cash position
C) statement of financial position

- B) statement of operations
D) statement of income and expense

47) _____

Answer: C

48) Cost of goods sold is:

- A) added to sales on the income statement
B) deducted from sales on the income statement
C) added to sales on the retained earnings statement
D) deducted from sales on the balance sheet

48) _____

Answer: B

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 49) Choose the appropriate definition for the terms below.
- a. a business owned by a single owner
 - b. a statement summarizing the revenues and expenses for a given period
 - c. resources that provide future economic benefits to a business
 - d. claims by outsiders on the resources of a business
 - e. revenues less expenses
 - f. a business owned by shareholders
 - g. shows the net change in the cash account for a given period
 - h. a formal listing of the accounting equation on a specified date

- _____ 1. corporation
- _____ 2. cash flow statement
- _____ 3. income statement
- _____ 4. net income
- _____ 5. proprietorship
- _____ 6. balance sheet
- _____ 7. liabilities
- _____ 8. assets

- Answer: 1. f
2. g
3. b
4. e
5. a
6. h
7. d
8. c

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

- 50) What is one component of shareholders' equity? 50) _____
- A) notes payable
 - B) property, plant, and equipment
 - C) cash
 - D) common shares

Answer: D

- 51) Which financial statement is based on the accounting equation? 51) _____
- A) cash flow statement
 - B) balance sheet
 - C) income statement
 - D) statement of retained earnings

Answer: B

- 52) The relevant measure of value of the assets of a company that is going out of business is its: 52) _____
- A) historical cost
 - B) liquidation value
 - C) recorded value
 - D) carrying amount

Answer: B

- 53) The balance sheet contains: 53) _____
- A) the beginning balance in retained earnings
 - B) the amount of net income
 - C) the amount of dividends paid to shareholders
 - D) the ending balance in retained earnings

Answer: D

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

54) What are the three forms of business organizations? How do they differ?

Answer: A *proprietorship* has a single, or sole, owner who is responsible for the business and its operations. A *partnership* has two or more individuals who operate together as co-owners of the business. In both of these forms of organization, the owners are individually liable for the debts of the business. A *corporation* is a business owned by shareholders, who may or may not have a part in the day-to-day operations of the business. The shareholders of a corporation are not legally liable for the debts of the business.

It is easier to sell one's ownership of a corporation, since the ownership is evidenced by shares of stock, which can be traded. There are legal rules to be considered when a partner wishes to sell his or her interest in a partnership. Such rules make it more difficult to sell a partnership interest. A sole proprietor who sells his or her business may encounter difficulty since the business owner may be the business itself (such as a consultant or other independent contractor).

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

55) Increases in shareholders' equity arise from:

55) _____

- A) payment of dividends
- B) investments by the owner
- C) net income earned during the period
- D) both investments by the owner and net income earned during the period

Answer: D

56) The balance sheet contains information about:

56) _____

- A) assets, liabilities, and equity
- B) assets, revenues, and liabilities
- C) liabilities, equity, and expenses
- D) revenues, expenses, and equity

Answer: A

57) Retained earnings appear on which of the following financial statements?

57) _____

- A) statement of retained earnings and balance sheet, but not the income statement or cash flow statement
- B) statement of retained earnings and cash flow statement, but not the income statement or balance sheet
- C) statement of retained earnings, cash flow statement, and balance sheet, but not the income statement
- D) statement of retained earnings, cash flow statement, and income statement, but not the balance sheet

Answer: A

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

58) Fraudulent financial reporting is a type of fraud that impacts financial statements. Why do managers undertake this type of fraudulent activity?

Answer: Managers falsify financial reporting to deceive investors and creditors into loaning money to or investing in the company when they may not have done so otherwise.

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

59) Relevance and comparability are the two fundamental qualitative characteristics of accounting.

59) _____

Answer: True False

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

- 60) The accounting equation can be stated as: 60) _____
A) $\text{Assets} + \text{Liabilities} = \text{Shareholders' equity}$ B) $\text{Assets} = \text{Liabilities} + \text{Shareholders' equity}$
C) $\text{Assets} + \text{Shareholders' equity} = \text{Liabilities}$ D) $\text{Assets} = \text{Liabilities} - \text{Shareholders' equity}$

Answer: B

- 61) The ending balance in retained earnings appears on the: 61) _____
A) balance sheet only
B) income statement
C) balance sheet and statement of retained earnings
D) statement of retained earnings only

Answer: C

- 62) The owners' interest in the assets of a corporation is known as: 62) _____
A) assets B) revenues
C) shareholders' equity D) expenses

Answer: C

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

- 63) It would be unusual for the balance sheet of a proprietorship to include the term "retained earnings." 63) _____

Answer: True False

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

- 64) Revenues are: 64) _____
A) increases in liabilities resulting from delivering goods or services to customers
B) decreases in retained earnings resulting from delivering goods or services to customers
C) decreases in assets resulting from delivering goods or services to customers
D) increases in retained earnings resulting from delivering goods or services to customers

Answer: D

- 65) The date of the income statement: 65) _____
A) is not dated
B) covers one day in time
C) covers a period of time, usually for an accounting period
D) may cover a period of time or only one day in time, like a snapshot photograph

Answer: C

- 66) Current assets are assets expected to be converted to cash, sold, or consumed: 66) _____
A) within the next 6 months
B) within the next 24 months
C) within the next 12 months or within the business's normal operating cycle if less than a year
D) within the next 12 months or within the business's normal operating cycle if longer than a year

Answer: D

- 67) Purchases and sales of non-current assets are examples of: 67) _____
A) dividend activities B) financing activities
C) investing activities D) operating activities
Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 68) Describe the relationship between the Income Statement, Statement of Retained Earnings and the Balance Sheet.
Answer: The income statement needs to be prepared first as the net income figure is part of the calculation of ending retained earnings on the Statement of Retained Earnings. Once the Statement of Retained Earnings has been prepared this figure is then inserted in the Balance Sheet in the Shareholders' Equity section.

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

- 69) Financial statements are: 69) _____
A) standard documents issued by outside consultants who are hired to analyze key operations of the business in financial terms
B) standard documents that tell us how well a business is performing and where it stands in financial terms
C) reports issued by outside consultants who are hired to analyze key operations of the business
D) reports created by management that states it is responsible for the acts of the corporation
Answer: B

- 70) Common shares appear on the: 70) _____
A) retained earnings statement B) cash flow statement
C) balance sheet D) income statement
Answer: C

- 71) The issuance of shares for cash would be classified as a(n): 71) _____
A) financing activity on a cash flow statement
B) operating activity on a cash flow statement
C) investing activity on a cash flow statement
D) current asset on the balance sheet
Answer: A

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

- 72) The closing retained earnings balance as determined by compiling the balance sheet is used to complete the statement of retained earnings. 72) _____
Answer: True False
- 73) Generally accepted accounting principles, or GAAP, are the rules and procedures established by the Chartered Professional Accountants of Canada (CPAC). 73) _____
Answer: True False
- 74) Closing retained earnings as reported on the balance sheet represent a company's net income from its formation, less the cumulative dividends declared to-date. 74) _____
Answer: True False

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

- 75) Accounting standards for accountants in Canada are established by: 75) _____
A) the Canadian Securities Administrators
B) the Chartered Professional Accountants of Canada
C) the International Accounting Standards Board
D) the Canadian Public Accountability Board

Answer: B

- 76) In order for information to be considered a faithful representation it must be all of the following 76) _____
except:
A) predictive B) without material error
C) complete D) neutral

Answer: A

- 77) The income statement presents a summary of the: 77) _____
A) cash inflows and outflows of an entity
B) changes that occurred in the shareholders' equity of an entity
C) assets and liabilities of an entity
D) revenues and expenses of an entity for a specific time period

Answer: D

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

- 78) The statement of cash flows categorizes the sources and uses of the net cash flow generated by the 78) _____
company during the year.

Answer: True False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 79) A cash flow statement is divided into the following sections: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities. For each of the following events, state the section in which it would be listed.
- Received cash from issuance of long-term note payable
 - Payment of interest (ASPE)
 - Repurchase of shares
 - Sale of land
 - Received cash from customers
 - Payment of dividends
 - Purchase of equipment
 - Issuance of 50 shares of common stock

Answer: a. financing activity
b. operating activity
c. financing activity
d. investing activity
e. operating activity
f. financing activity
g. investing activity
h. financing activity

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

- 89) Cash dividends: 89) _____
A) increase expenses on the income statement
B) decrease retained earnings on the retained earnings statement
C) decrease operating activities on the cash flow statement
D) decrease revenue on the income statement

Answer: B

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

- 90) Financial statement information that reflects the economic substance of a transaction is considered to be representationally faithful. 90) _____

Answer: True False

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

- 91) Common shares is a component of: 91) _____
A) total assets
B) retained earnings
C) share capital
D) total liabilities

Answer: C

- 92) Dividends: 92) _____
A) always affect net income
B) are distributions to shareholders of assets (usually cash) generated by net income
C) must be paid to shareholders when the company earns a profit
D) are expenses

Answer: B

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 93) Briefly describe the objectivity principle in the CPA Code of Professional Conduct.

Answer: A member shall not allow their professional or business judgment to be compromised by bias, conflict of interest, or the undue influence of others.

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

- 94) On January 1, 2020, total assets for Liftoff Technologies were \$125,000; on December 31, 2020, total assets were \$145,000. On January 1, 2020, total liabilities were \$110,000; on December 31, 2020, total liabilities were \$115,000. What are the amount of the change and the direction of the change in Liftoff Technologies shareholders' equity for 2020? 94) _____
A) decrease of \$30,000
B) increase of \$15,000
C) increase of \$30,000
D) decrease of \$15,000

Answer: B

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 95) What do shareholders look for when reviewing and analyzing the income statement?

Answer: When reviewing the income statement, shareholders look for steadily increasing levels of net income over time. Net income on an income statement means the company is profitable. A steady increase in net income indicates the company's profits are solid. Net income affects both stock prices and future dividends. A shareholder's personal wealth will be enhanced through an increase in the market price of the company's stock and future dividends to be received.

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

96) CPA has a code of professional conduct. 96) _____

Answer: True False

97) When accounting information is reliable to users it means that assets and services should be recorded at their actual cost, since cost is a reliable measure to use in financial accounting. 97) _____

Answer: True False

98) Accounting is called an information system since it measures business activities, processes data into reports, and communicates results to decision makers. 98) _____

Answer: True False

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

99) Which of the following financial statements provides a "snapshot photo" of one moment in time? 99) _____

- A) statement of retained earnings
- B) income statement
- C) balance sheet
- D) cash flow statement

Answer: C

100) Shareholders' equity for Raisin Corporation on January 1, 2020 and December 31, 2020 were \$60,000 and \$75,000, respectively. Assets on January 1, 2020 and December 31, 2020 were \$115,000 and \$105,000, respectively. Liabilities on January 1, 2020 were \$55,000. What is the amount of liabilities on December 31, 2020? 100) _____

- A) \$55,000
- B) \$30,000
- C) \$40,000
- D) \$15,000

Answer: B

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

101) Financial accounting information is prepared exclusively for external users. 101) _____

Answer: True False

102) Management accounting is prepared primarily for external users. 102) _____

Answer: True False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

103) A cash flow statement is divided into the following sections: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities. For each of the following events, state the section in which it would be listed.

- a. Paid cash to retire long-term note payable
- b. Payment of wages
- c. Issuance of shares
- d. Purchase of land
- e. Depreciation/Amortization expense
- f. Payment of dividends
- g. Sale of equipment
- h. Equipment rental fee

Answer: a. financing activity
b. operating activity
c. financing activity
d. investing activity
e. operating activity (be careful - it is a non-cash item but still shows up here)
f. financing activity
g. investing activity
h. operating activity

104) Your friend has asked you to review and analyze the financial status of her company before she goes to the bank to request a loan. Answer the following questions:

- a. What will you need to review in order to make a sound decision?
- b. What will the bank be looking for? Be specific.

Answer: a. A decision maker would like to have access to all the financial statements of a company for several years, including the income statement, balance sheet, statement of retained earnings, and cash flow statement.
b. The bank will be looking at the company's ability to repay the loan. The bank will look at the amount of income generated by the company for the past several years as well as whether or not it has been increasing or decreasing. The amount of debt already owed by the company will also be an issue. The bank would like to see that shareholders' equity exceeds total liabilities at the time of the loan request. Also, dividends paid to the owner should not exceed the net income in any given period. These are indications that the owner is as much at risk as the bank would be if the loan were granted.

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

105) Depreciation is normally associated with which asset on the balance sheet?

- A) inventory
- B) land
- C) equipment
- D) accounts receivable

105) _____

Answer: C

106) An investor wishes to assess a company's financial position at the end of the period. Which financial statement would the investor probably examine?

- A) the income statement
- B) the balance sheet
- C) the cash flow statement
- D) the statement of retained earnings

106) _____

Answer: B

- 107) Cash would appear on the: 107) _____
 A) income statement with the revenues
 B) balance sheet with the current liabilities
 C) balance sheet with the current assets
 D) retained earnings statement with the net income

Answer: C

- 108) The repayment of a note payable would be classified as a(n): 108) _____
 A) investing activity on a cash flow statement
 B) current asset on the balance sheet
 C) operating activity on a cash flow statement
 D) financing activity on a cash flow statement

Answer: D

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

- 109) The accounting equation must always be in balance. 109) _____
 Answer: True False

- 110) Liabilities are often referred to as "outsider claims" and owners' equity as "insider claims" to assets. 110) _____
 Answer: True False

- 111) The three forms of business organizations are proprietorships, partnerships, and non-profit organizations. 111) _____
 Answer: True False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 112) Prepare a Statement of Retained Earnings: On October 31, 2020, Lariat Inc. reported retained earnings of \$250,000. For the year ended October 31, 2020, Lariat had a net income of \$80,000 and paid dividends of \$50,000.

Answer: Lariat Inc.
Statement of Retained Earnings
For the Year Ended October 31, 2020

Retained Earnings, November 1, 2019	\$ 250,000
Net income for the year	80,000
Less dividends	<u>(50,000)</u>
Retained Earnings, October 31, 2020	<u>\$ 280,000</u>

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

- 113) Expenses are: 113) _____
 A) increases in retained earnings resulting from operations
 B) decreases in retained earnings resulting from operations
 C) increases in assets resulting from operations
 D) increases in liabilities resulting from purchasing assets

Answer: B

- 114) The main source of cash for a business normally arises from: 114) _____
A) financing activities B) operating activities
C) investing activities D) current assets

Answer: B

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 115) There are many different stakeholders in Dollarama Inc. Explain why the same information may not be suitable or appropriate for all stakeholders.

Answer: Different stakeholders make different decisions that require different information. For example, lenders want to know whether the company will be able to repay its loans but the Canada Revenue Agency (CRA) wants to know the amount of taxes that should be paid for the current year. Much of the information that the lenders would request, such as who are the company's major customers and the amounts they owe the company, would be of no interest to CRA. CRA is simply interested in compliance with the income tax act.

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

- 116) Cash received from the issuance of share capital would appear: 116) _____
A) as an investing activity on the cash flow statement
B) would not appear on a cash flow statement
C) as an operating activity on the cash flow statement
D) as a financing activity on the cash flow statement

Answer: D

- 117) The principle that states that assets acquired by the business should be recorded at their actual price is the: 117) _____
A) reliability assumption B) objectivity assumption
C) cost assumption D) stable monetary unit assumption

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

118) Following is an alphabetical list of the assets, liabilities, revenues, and expenses of Keykin Inc. Prepare an income statement for the year ended September 30, 2020.

Accounts payable	\$2,800	Note payable	\$4,000
Accounts receivable	5,400	Rent expense	10,200
Advertising expense	3,600	Salary expense	12,100
Cash	9,100	Salary payable	900
Cost of goods sold	31,700	Sales revenue	75,800
Inventory	7,900	Supplies	1,800
Interest expense	800	Utilities expense	700

Answer:

Keykin Inc.			
Income Statement			
For the Year Ended September 30, 2020			
Revenues:			
	Sales revenue		\$75,800
Expenses:			
	Cost of goods sold	\$31,700	
	Rent expense	10,200	
	Salary expense	12,100	
	Advertising expense	3,600	
	Interest expense	800	
	Utilities expense	<u>700</u>	<u>59,100</u>
Net income			<u>\$16,700</u>

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

119) When accounting for cash collected from customers, the transaction would appear on the cash flow statement as a(an): 119) _____
 A) operating activity
 B) financing activity
 C) activity that would not appear on the cash flow statement
 D) investing activity

Answer: A

120) How do revenues for a period relate to the beginning and ending balances in retained earnings? 120) _____
 A) Revenues less expenses will either increase or decrease the beginning balance of retained earnings for the period.
 B) Revenues will decrease the beginning balance of retained earnings for the period.
 C) Revenues less expenses will either increase or decrease the ending balance of retained earnings for the period.
 D) Revenues will increase the beginning balance of retained earnings for the period.

Answer: C

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

121) From an accounting viewpoint, a proprietorship is a distinct and separate entity from the proprietor. 121) _____

Answer: True False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

122) Following is an alphabetical list of the assets, liabilities, and shareholders' equity accounts of Bliz Inc. Prepare a balance sheet dated April 30, 2020.

Accounts payable	\$10,200	Note payable	\$15,000
Accounts receivable	17,000	Retained earnings	27,500
Cash	32,900	Salary payable	10,700
Common shares	34,400	Supplies	13,900
Inventory	34,000		

Answer:

Bliz Inc.			
Balance Sheet			
April 30, 2020			
Assets		Liabilities	
Cash	\$32,900	Accounts payable	\$10,200
Accounts receivable	17,000	Note payable	15,000
Inventory	34,000	Salary payable	<u>10,700</u>
Supplies	<u>13,900</u>	Total liabilities	<u>35,900</u>
		Shareholders' equity	
		Common shares	34,400
		Retained earnings	<u>27,500</u>
		Total shareholders' equity	61,900
		Total liabilities and	
Total assets	<u>\$97,800</u>	shareholders' equity	<u>\$97,800</u>

123) What is the purpose of a cash flow statement?

Answer: A cash flow statement reports how the company generates and uses its cash. Wise use of cash generates revenues and additional cash. Operating activities should be the main source of cash. The cash flow statement provides information that would be difficult to obtain from analyzing the other financial statements.

- 124) Choose the appropriate definition for the terms below.
- professional guidelines followed by accountants
 - corporations that have issued shares in public markets
 - organizations that do not issue information used by the public
 - set of standards used by public corporations
 - the group responsible for Canadian GAAP
 - issues International Financial Reporting Standards
 - another set of GAAP for private enterprises
 - this group was established to oversee accounting and reporting standards for both Canadian companies and not-for-profits

- _____ 1. International Accounting Standards Board
 _____ 2. ASPE
 _____ 3. publicly accountable enterprises
 _____ 4. Chartered Professional Accountants
 _____ 5. GAAP
 _____ 6. Accounting Standards Board
 _____ 7. International Financial Reporting Standards
 _____ 8. private enterprises

- Answer: 1. f
 2. g
 3. b
 4. e
 5. a
 6. h
 7. d
 8. c

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

- 125) The owners' equity of proprietorships and partnerships is different. 125) _____
 Answer: True False

- 126) Revenues less cash outflow equals net income (or net loss). 126) _____
 Answer: True False

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

- 127) The CEO of a business owns a home and two automobiles. The company the CEO works for also owns automobiles and a home in a remote area used for strategic planning meetings by its executives. Which principle or assumption "draws a sharp boundary" around the possessions of the CEO and the assets of the business for which he works? 127) _____
 A) the stable-monetary-unit assumption B) the entity assumption
 C) the going-concern assumption D) the objectivity assumption
 Answer: B

- 128) Net income is: 128) _____
 A) added to beginning retained earnings on the retained earnings statement
 B) deducted from beginning retained earnings on the retained earnings statement
 C) deducted from net sales on the income statement
 D) added to assets on the balance sheet
 Answer: A

129) Receivables are classified as: 129) _____
A) liabilities B) decreases in earnings
C) increases in earnings D) assets
Answer: D

130) Losses are reported on the: 130) _____
A) balance sheet B) statement of retained earnings
C) income statement D) cash flow statement
Answer: C

131) If liabilities increase \$120,000 during a given period and shareholders' equity decreases \$25,000 during the same period, assets must: 131) _____
A) decrease \$145,000 B) increase \$95,000
C) increase \$145,000 D) decrease \$95,000
Answer: B

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

132) All corporations that are publicly accountable must apply International Financial Reporting Standards (IFRS). 132) _____
Answer: True False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

133) A company's management makes three major types of decisions on an ongoing basis: decisions regarding *operating* activities, decisions regarding *investing* activities, and decisions regarding *financing* activities. Discuss each of these three types of activities, including examples of each type.
Answer: *Operating* activities relate to deciding how to operate the business and involves decisions such as what products and/or services to sell, what prices to sell those products and services for, and how to market those products and services. *Investing* activities relate to deciding what kinds of investments to make and involve decisions such as what types of non-current assets to buy. *Financing* activities relate to deciding how to finance the company's operations and involve decisions such as whether to obtain cash by selling shares or by borrowing from a bank.

134) What is a not-for-profit organization?
Answer: A not-for-profit organization is organized for some other purpose than the earning of profit. Many examples are possible. For example, The Salvation Army or the University of Toronto are organized for the purpose of providing services to community stakeholders.

Many business students will eventually find employment in not-for-profit organizations or the public sector and a knowledge of accounting is just as important in these types of organizations as it is in multinational public corporations.

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

135) To determine a company's gross margin for the period, an investor would look on the: 135) _____
A) statement of retained earnings B) cash flow statement
C) balance sheet D) income statement
Answer: D

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

136) Tall Tree Ltd. gathered together the following information regarding the asset, liability, shareholders' equity, revenue, and expense accounts as of the end of its first year in operation, May 31, 2020:

Accounts payable	\$9,600	Rent expense	\$6,500
Accounts receivable	3,200	Salary expense	19,400
Cash	13,800	Salary payable	1,300
Common shares	15,000	Service revenue	45,500
Dividends	8,300	Supplies	2,500
Interest expense	1,200	Truck	34,600
Note payable	21,000	Utilities expense	5,000

Prepare the Statement of Retained Earnings for Tall Tree Ltd. for the year ended May 31, 2020.

Answer: Tall Tree Ltd.
Statement of Retained Earnings
For the Year Ended May 31, 2020

Retained earnings, June 1, 2019	\$0
Add: Net income	<u>13,400</u>
	13,400
Deduct: Dividends	<u>8,300</u>
Retained earnings, May 31, 2020	<u>\$ 5,100</u>

*Net income \$13,400 = 45,500 - 1,200 - 6,500 - 19,400 - 5,000

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

137) The primary objective of financial reporting is to provide information:

137) _____

- A) useful for making investment and lending decisions
- B) about the profitability of the business
- C) regarding the cash flows of the business
- D) to the federal government about tax matters

Answer: A

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

138) Keria Corp. prepared the following random list of assets, liabilities, revenues, and expenses from its December 31, 2020, accounting records. The beginning retained earnings as of January 1, 2020, was \$43,100 and the owner, Keria Staple, received dividends of \$14,600 during the year. Prepare the balance sheet for Keria Corp. as of December 31, 2020.

Accounts receivable	\$15,700	Service revenue	\$50,500
Interest expense	4,900	Cash	128,000
Supplies	1,500	Note payable	17,000
Accounts payable	106,100	Salary expense	18,000
Utilities expense	5,200	Interest payable	1,600
Furniture	18,000	Rent expense	9,400
Salary payable	2,400	Automobiles	12,900
Common shares	30,500	Land	23,000

Answer:

Keria Corp.
Balance Sheet
December 31, 2020

Assets		Liabilities	
Cash	\$128,000	Accounts payable	\$106,100
Accounts receivable	15,700	Note payable	17,000
Supplies	1,500	Interest payable	1,600
Furniture	18,000	Salary payable	<u>2,400</u>
Automobiles	12,900	Total liabilities	<u>127,100</u>
Land	<u>23,000</u>		
		Shareholders' equity	
		Common shares	30,500
		Retained earnings	<u>41,500</u> *
		Total shareholders' equity	72,000
		Total liabilities and	
Total assets	<u>\$199,100</u>	shareholders' equity	<u>\$199,100</u>

* $\$41,500 = \$43,100 + \$13,000$ (which is net income) - $\$14,600$

Net income = $\$50,500 - \$4,900 - \$5,200 - \$18,000 - \$9,400 = \$13,000$

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

139) From a legal perspective, proprietors, partners, and shareholders are personally liable for a corporation's debts. 139) _____

Answer: True False

140) Retained earnings represent cash that is available to a company for future operations and expansion. 140) _____

Answer: True False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

141) Dollarama is a publicly owned corporation. How does it differ from a privately owned corporation?

Answer: The shares of Dollarama can be bought or sold on the Toronto Stock Exchange without asking the permission of the other shareholders, which is not true of a private corporation. The ownership of the shares of private corporations is limited. Shares of private corporations can only be purchased with the agreement of the existing shareholders.

Private corporations are not necessarily small. For instance, The Jim Pattison Group is Canada's third largest privately held company and has 31,000 employees and annual sales of more than \$6 billion.

142) Think about the impact accounting has on our economy and our nation. Name some external groups interested in reviewing a company's financial statements.

Answer: . shareholders and other investors
· bankers
· other creditors
· Canada Revenue Agency
· other governmental agencies
· the general public

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

143) Notes receivable due in 60 days would be classified as a:

- A) non-current asset on the balance sheet B) non-current liability on the balance sheet
C) current liability on the balance sheet D) current asset on the balance sheet

143) _____

Answer: D

Answer Key

Testname: CH1

- 1) FALSE
- 2) Assets show what the company can pledge as collateral that a creditor can collect in the event of the company failing to pay its debts. Liabilities indicate how much the company owes other creditors. Assets should be increasing faster than liabilities over time. The amount of assets should exceed the amount of liabilities.
- 3) B
- 4) FALSE
- 5)
 - a. financing activity
 - b. operating activity
 - c. operating activity
 - d. operating activity
 - e. investing activity
 - f. investing activity
 - g. operating activity
 - h. operating activity
 - i. financing activity
- 6) FALSE
- 7) A
- 8) D
- 9) A
- 10) D
- 11) FALSE
- 12) FALSE
- 13) C
- 14) C
- 15) D
- 16) B
- 17) FALSE
- 18) B
- 19) FALSE
- 20) Accounting is the system that measures business activities, processes that information into reports, and communicates the results to decision makers. Accounting, as an information system, provides the elements necessary for management and others to make decisions and estimate how well a company may perform in the future. Accounting is the common "language" used by managers, investors, and others to communicate information about a business.

Bookkeeping is simply the procedural element of accounting that processes the accounting data. Accounting is an information system, of which bookkeeping is a component.

- 21) B

Answer Key
 Testname: CH1

22)

Zap Ltd.			
Balance Sheet			
December 31, 2020			
Assets		Liabilities	
Cash	\$21,600	Accounts payable	\$12,200
Accounts receivable	21,000	Note payable	11,000
Inventory	23,500	Salary payable	<u>2,300</u>
Supplies	2,500	Total liabilities	<u>25,500</u>
Equipment	<u>24,600</u>		
		Shareholders' equity	
		Common shares	50,600
		Retained earnings	<u>17,100</u>
		Total shareholders' equity	67,700
		Total liabilities and	
Total assets	<u>\$93,200</u>	shareholders' equity	<u>\$93,200</u>

23) C

24) TRUE

25) Individuals

- to manage bank accounts
- to evaluate job prospects
- to make investments
- to decide whether to rent or buy a home

Managers of businesses

- to set goals for the organization
- to evaluate progress toward those goals
- to decide how much inventory to keep on hand
- to decide how much cash to borrow

Investors and creditors

- to decide whether or not to invest in a new company
- to determine whether or not to make a loan

Government regulatory agencies (e.g., Ontario Securities Commission)

- to make sure that the company is abiding by federal or provincial regulations

Taxing authorities

- to determine the amount of tax due

Non-profit organizations

- to set goals for the organization
- to evaluate progress toward those goals
- to decide how much cash to borrow

Labour unions

- to determine wage demands

26) TRUE

27) A

28) A

29) C

30) TRUE

31) C

Answer Key
Testname: CH1

32)

Snow Inc.			
Income Statement			
For the Year Ended July 31, 2020			
Revenues:			
	Service revenue		\$45,500
Expenses:			
	Salary expense	\$19,400	
	Rent expense	7,500	
	Utilities expense	5,000	
	Interest expense	<u>1,500</u>	<u>33,400</u>
Net income			<u>\$12,100</u>

- 33) A
34) FALSE
35) FALSE
36) D
37) B
38) B
39) TRUE
40) TRUE
41) FALSE
42) B
43) C
44) B
45) D
46)

Tap Corporation
Balance Sheet
August 31, 2020

Assets	Liabilities		
Cash	\$21,900	Accounts payable	\$6,700
Accounts receivable	8,200	Note payable	10,000
Supplies	2,500	Salary payable	<u>12,200</u>
Truck	<u>23,600</u>	Total liabilities	<u>28,900</u>
		Shareholders' equity	
		Common shares	25,000
		Retained earnings	<u>2,300</u> *
		Total shareholders' equity	27,300
		Total liabilities and	
Total assets	<u>\$56,200</u>	Shareholders' equity	<u>\$56,200</u>

* $\$2,300 = \$0 + \$12,500 \text{ (net income)} - \$10,200$
 $\text{Net income} = \$45,600 - \$7,500 - \$19,400 - \$5,000 - \$1,200 = \$12,500$

- 47) C
48) B

Answer Key
Testname: CH1

- 49) 1. f
- 2. g
- 3. b
- 4. e
- 5. a
- 6. h
- 7. d
- 8. c

50) D

51) B

52) B

53) D

54) A *proprietorship* has a single, or sole, owner who is responsible for the business and its operations. A *partnership* has two or more individuals who operate together as co-owners of the business. In both of these forms of organization, the owners are individually liable for the debts of the business. A *corporation* is a business owned by shareholders, who may or may not have a part in the day-to-day operations of the business. The shareholders of a corporation are not legally liable for the debts of the business.

It is easier to sell one's ownership of a corporation, since the ownership is evidenced by shares of stock, which can be traded. There are legal rules to be considered when a partner wishes to sell his or her interest in a partnership. Such rules make it more difficult to sell a partnership interest. A sole proprietor who sells his or her business may encounter difficulty since the business owner may be the business itself (such as a consultant or other independent contractor).

55) D

56) A

57) A

58) Managers falsify financial reporting to deceive investors and creditors into loaning money to or investing in the company when they may not have done so otherwise.

59) FALSE

60) B

61) C

62) C

63) TRUE

64) D

65) C

66) D

67) C

68) The income statement needs to be prepared first as the net income figure is part of the calculation of ending retained earnings on the Statement of Retained Earnings. Once the Statement of Retained Earnings has been prepared this figure is then inserted in the Balance Sheet in the Shareholders' Equity section.

69) B

70) C

71) A

72) FALSE

73) TRUE

74) TRUE

75) B

76) A

77) D

78) TRUE

Answer Key

Testname: CH1

- 79) a. financing activity
 - b. operating activity
 - c. financing activity
 - d. investing activity
 - e. operating activity
 - f. financing activity
 - g. investing activity
 - h. financing activity
- 80) TRUE
- 81) A
- 82) C
- 83) B
- 84) C
- 85) B
- 86) C
- 87) TRUE
- 88) FALSE
- 89) B
- 90) TRUE
- 91) C
- 92) B
- 93) A member shall not allow their professional or business judgment to be compromised by bias, conflict of interest, or the undue influence of others.
- 94) B
- 95) When reviewing the income statement, shareholders look for steadily increasing levels of net income over time. Net income on an income statement means the company is profitable. A steady increase in net income indicates the company's profits are solid. Net income affects both stock prices and future dividends. A shareholder's personal wealth will be enhanced through an increase in the market price of the company's stock and future dividends to be received.
- 96) TRUE
- 97) FALSE
- 98) TRUE
- 99) C
- 100) B
- 101) FALSE
- 102) FALSE
- 103) a. financing activity
- b. operating activity
- c. financing activity
- d. investing activity
- e. operating activity (be careful - it is a non-cash item but still shows up here)
- f. financing activity
- g. investing activity
- h. operating activity

Answer Key
 Testname: CH1

- 104) a. A decision maker would like to have access to all the financial statements of a company for several years, including the income statement, balance sheet, statement of retained earnings, and cash flow statement.
 b. The bank will be looking at the company's ability to repay the loan. The bank will look at the amount of income generated by the company for the past several years as well as whether or not it has been increasing or decreasing. The amount of debt already owed by the company will also be an issue. The bank would like to see that shareholders' equity exceeds total liabilities at the time of the loan request. Also, dividends paid to the owner should not exceed the net income in any given period. These are indications that the owner is as much at risk as the bank would be if the loan were granted.

- 105) C
 106) B
 107) C
 108) D
 109) TRUE
 110) TRUE
 111) FALSE
 112)

Lariat Inc.
 Statement of Retained Earnings
 For the Year Ended October 31, 2020

Retained Earnings, November 1, 2019	\$ 250,000
Net income for the year	80,000
Less dividends	<u>(50,000)</u>
Retained Earnings, October 31, 2020	<u>\$ 280,000</u>

- 113) B
 114) B
 115) Different stakeholders make different decisions that require different information. For example, lenders want to know whether the company will be able to repay its loans but the Canada Revenue Agency (CRA) wants to know the amount of taxes that should be paid for the current year. Much of the information that the lenders would request, such as who are the company's major customers and the amounts they owe the company, would be of no interest to CRA. CRA is simply interested in compliance with the income tax act.

- 116) D
 117) C
 118)

Keykin Inc.
 Income Statement
 For the Year Ended September 30, 2020

Revenues:		
	Sales revenue	\$75,800
Expenses:		
	Cost of goods sold	\$31,700
	Rent expense	10,200
	Salary expense	12,100
	Advertising expense	3,600
	Interest expense	800
	Utilities expense	<u>700</u>
		<u>59,100</u>
Net income		<u>\$16,700</u>

- 119) A
 120) C
 121) TRUE

Answer Key
 Testname: CH1

122)

Bliz Inc.			
Balance Sheet			
April 30, 2020			
Assets		Liabilities	
Cash	\$32,900	Accounts payable	\$10,200
Accounts receivable	17,000	Note payable	15,000
Inventory	34,000	Salary payable	<u>10,700</u>
Supplies	<u>13,900</u>	Total liabilities	<u>35,900</u>
		Shareholders' equity	
		Common shares	34,400
		Retained earnings	<u>27,500</u>
		Total shareholders' equity	61,900
		Total liabilities and	
Total assets	<u>\$97,800</u>	shareholders' equity	<u>\$97,800</u>

- 123) A cash flow statement reports how the company generates and uses its cash. Wise use of cash generates revenues and additional cash. Operating activities should be the main source of cash. The cash flow statement provides information that would be difficult to obtain from analyzing the other financial statements.
- 124) 1. f
 2. g
 3. b
 4. e
 5. a
 6. h
 7. d
 8. c
- 125) TRUE
 126) FALSE
 127) B
 128) A
 129) D
 130) C
 131) B
 132) TRUE
- 133) *Operating* activities relate to deciding how to operate the business and involves decisions such as what products and/or services to sell, what prices to sell those products and services for, and how to market those products and services. *Investing* activities relate to deciding what kinds of investments to make and involve decisions such as what types of non-current assets to buy. *Financing* activities relate to deciding how to finance the company's operations and involve decisions such as whether to obtain cash by selling shares or by borrowing from a bank.
- 134) A not-for-profit organization is organized for some other purpose than the earning of profit. Many examples are possible. For example, The Salvation Army or the University of Toronto are organized for the purpose of providing services to community stakeholders.
- Many business students will eventually find employment in not-for-profit organizations or the public sector and a knowledge of accounting is just as important in these types of organizations as it is in multinational public corporations.
- 135) D

Answer Key
 Testname: CH1

136) Tall Tree Ltd.
 Statement of Retained Earnings
 For the Year Ended May 31, 2020

Retained earnings, June 1, 2019	\$0
Add: Net income	<u>13,400</u>
	13,400
Deduct: Dividends	<u>8,300</u>
Retained earnings, May 31, 2020	<u>\$ 5,100</u>

*Net income \$13,400 = 45,500 - 1,200 - 6,500 - 19,400 - 5,000

137) A

138) Keria Corp.
 Balance Sheet
 December 31, 2020

Assets		Liabilities	
Cash	\$128,000	Accounts payable	\$106,100
Accounts receivable	15,700	Note payable	17,000
Supplies	1,500	Interest payable	1,600
Furniture	18,000	Salary payable	<u>2,400</u>
Automobiles	12,900	Total liabilities	<u>127,100</u>
Land	<u>23,000</u>		
		Shareholders' equity	
		Common shares	30,500
		Retained earnings	<u>41,500</u> *
		Total shareholders' equity	72,000
		Total liabilities and	
Total assets	<u>\$199,100</u>	shareholders' equity	<u>\$199,100</u>

* \$41,500 = \$43,100 + \$13,000 (which is net income) - \$14,600

Net income = \$50,500 - \$4,900 - \$5,200 - \$18,000 - \$9,400 = \$13,000

139) FALSE

140) FALSE

141) The shares of Dollarama can be bought or sold on the Toronto Stock Exchange without asking the permission of the other shareholders, which is not true of a private corporation. The ownership of the shares of private corporations is limited. Shares of private corporations can only be purchased with the agreement of the existing shareholders.

Private corporations are not necessarily small. For instance, The Jim Pattison Group is Canada's third largest privately held company and has 31,000 employees and annual sales of more than \$6 billion.

- 142) · shareholders and other investors
 · bankers
 · other creditors
 · Canada Revenue Agency
 · other governmental agencies
 · the general public

143) D