

Multiple Choice (30 marks – 54 minutes)

Select the best answer for each of the following multiple-choice questions and enter your answer on the Scantron Sheet. Only one answer will be accepted for each question. There is no penalty for guessing. No account will be taken of any explanations provided.

Question Nos. 1 to 10 are each worth 1 mark. Question Nos. 11 to 20 are each worth 2 marks.

1. Retained earnings at the end of the period is equal to:
- (a) retained earnings at the beginning of the period plus profit minus liabilities.
 - (b) assets plus liabilities.
 - (c) profit for the period
 - (d) retained earnings at the beginning of the period plus profit minus dividends.

ANS: D

2. The statement of financial position and statement of changes in equity are related because:
- (a) the total assets on the statement of financial position is reported on the statement of changes in equity.
 - (b) the ending amount on the statement of changes in equity is reported on the statement of financial position.
 - (c) the ending amount on each statement is transferred to the statement of cash flows.
 - (d) both contain information for the corporation.

ANS: B

3. Office equipment is classified on the statement of financial position as:
- (a) a current asset.
 - (b) property, plant, and equipment.
 - (c) shareholders' equity.
 - (d) a long-term investment.

ANS: B

4. The qualitative characteristic that says the value of information should exceed the cost of preparing it is called:
- (a) relevance.
 - (b) understandability.
 - (c) cost constraint.
 - (d) verifiability.

ANS: C

5. The going concern assumption is inappropriate when:
- (a) liquidation appears likely.
 - (b) the business is just starting up.
 - (c) fair values are higher than costs.
 - (d) the business is organized as a proprietorship.

ANS: A

6. The objective of financial reporting is to:
- (a) provide information to the Canada Revenue Agency.
 - (b) provide financial information that is useful to existing and potential investors, lenders and other creditors.
 - (c) comply with Accounting Standards for Private Enterprises.
 - (d) comply with International Financial Reporting Standards.

ANS: B

7. On a classified statement of financial position, current assets are often listed:
- (a) in alphabetical order.
 - (b) with the largest dollar amounts first.
 - (c) in the order in which they are expected to be converted into cash.
 - (d) in the order of acquisition.

ANS: C

8. Which of the following is not a main section of the conceptual framework of accounting?
- (a) The objective of financial reporting
 - (b) The going concern assumption
 - (c) Financial analysis
 - (d) The elements of financial statements

ANS: C

9. For the basic accounting equation to stay in balance, each transaction recorded must
- (a) affect two or fewer accounts.
 - (b) affect two or more accounts.
 - (c) always affect exactly two accounts.
 - (d) affect the same number of asset and liability accounts.

ANS: B

10. The sequence of steps in the transaction recording process is:
- (a) analyze → journal → ledger.
 - (b) journal → analyze → ledger.
 - (c) journal → ledger → analyze.
 - (d) ledger → journal → analyze.

ANS: A

11. An accountant has debited an asset account for \$3,000 and credited a revenue account for \$6,000. What can be done to complete the recording of the transaction?
- (a) Nothing further can be done.
 - (b) Credit a shareholders' equity account for \$3,000.
 - (c) Debit another asset account for \$3,000.
 - (d) Credit another asset account for \$3,000.

ANS: C

12. Collection of a \$1,500 accounts receivable
- (a) increases an asset \$1,500; decreases a liability \$1,500.
 - (b) decreases a liability \$1,500; increases shareholders' equity \$1,500.
 - (c) decreases an asset \$1,500; decreases a liability \$1,500.
 - (d) has no effect on total assets.

ANS: D

13. The Town Laundry purchased \$5,500 worth of laundry supplies on June 2 and recorded the purchase as an asset. On June 30, an inventory of the laundry supplies indicated only \$3,000 on hand. The adjusting entry that should be made by the company on June 30 is
- (a) debit Laundry Supplies Expense, \$3,000; credit Laundry Supplies, \$3,000.
 - (b) debit Laundry Supplies Expense, \$2,500; credit Laundry Supplies, \$2,500.
 - (c) debit Laundry Supplies, \$2,500; credit Laundry Supplies Expense, \$2,500.
 - (d) debit Laundry Supplies, \$3,000; credit Laundry Supplies Expense, \$3,000.

ANS: B

14. At December 31, Zacharias Corp reports Salaries Payable of \$25,000 on its statement of financial position. The next payroll amounting to \$40,000 is to be paid in January. What will be the journal entry to record the payment of salaries in January?

- (a)

Salaries Expense	40,000
Salaries Payable	25,000
Cash	15,000
- (b)

Salaries Expense	40,000
Cash	40,000
- (c)

Salaries Expense	40,000
Salaries Payable	25,000
Cash	65,000
- (d)

Salaries Expense	15,000
Salaries Payable	25,000
Cash	40,000

ANS: D

15. On September 1, Monmouth Microwaves Ltd signed a 9%, five-month note payable for \$9,000. The amount of interest to be accrued at December 31 is

- (a) \$9,810.00
- (b) \$ 810.00
- (c) \$ 337.50
- (d) \$ 270.00

ANS: D

16. A new accountant working for Malawi Limited records \$800 depreciation expense on store equipment at year end as follows:

Depreciation Expense	800
Cash	800

The effect of this entry is to

- (a) adjust the accounts correctly at year end.
- (b) understate expenses on the income statement.
- (c) overstate the carrying amount of the depreciable assets at year end.
- (d) understate the carrying amount of the depreciable assets at year end.

ANS: C

17. At December 31, 2012, before any year-end adjustments, Ubanigi Corp's Insurance Expense account had a balance of \$725 and its Prepaid Insurance account had a balance of \$2,900. It was determined that \$1,500 of the Prepaid Insurance had expired. The adjusted balance for Insurance Expense for the year would be

- (a) \$2,225
- (b) \$1,500
- (c) \$1,125
- (d) \$ 725.

ANS: A

18. McCloud Realty received a cheque for \$21,000 on July 1, which represents a 6-month advance payment of rent on a building it rents to a client. Unearned Rental Revenue was credited for the full \$21,000. Financial statements will be prepared on July 31. McCloud Realty should make the following adjusting entry on July 31:

- (a) debit Unearned Rental Revenue, \$3,500; credit Rental Revenue, \$3,500.
- (b) debit Rental Revenue, \$3,500; credit Unearned Rental Revenue, \$3,500.
- (c) debit Unearned Rental Revenue, \$21,000; credit Rental Revenue, \$21,000.
- (d) debit Cash, \$3,500; credit Rental Revenue, \$3,500.

ANS: A

19. On November 1, Ye Olde Gift Shoppe signed a 6%, three-month note payable for \$100,000 to help finance increases in inventory for the Christmas shopping season. Assuming no entries have been made previously for the interest on this note, what is the required adjusting entry for the interest accrued to December 31?

- (a)

Interest Expense	1,000	
Interest Payable		1,000
- (b)

Interest Expense	500	
Interest Payable		500
- (c)

Interest Expense	1,000	
Cash		1,000
- (d)

Interest Expense	1,500	
Interest Payable		1,500

ANS: A

- 20 The Sayonara Corporation purchased a notebook computer for \$3,000 on December 1. The useful life of the notebook computer is estimated to be 5 years. If financial statements are to be prepared on December 31, the company should make the following adjusting entry:
- (a) debit Depreciation Expense, \$600; credit Accumulated Depreciation, \$600.
 - (b) debit Depreciation Expense, \$50; credit Accumulated Depreciation, \$50.
 - (c) debit Depreciation Expense, \$2,400; credit Accumulated Depreciation, \$2,400.
 - (d) debit Office Equipment, \$50; credit Accumulated Depreciation, \$50.

ANS: B