

*****Some multiple choice questions are from chapter 7 and 8**

- 1) The Total Asset Turnover measures which of the following?
 - a. the profit generated by efficient management of assets
 - b. how quickly we liquidate our inventory
 - c. the sales revenue generated by efficient management of assets
 - d. the ability to earn profit for the shareholders

- 2) Parker Bank is deciding whether to make a loan to Davis Company. Why would the bank be interested in the amount of liabilities that Davis has on its statement of financial position?
 - a. Liabilities represent resources that could be used to repay the loan.
 - b. If Davis already has many other obligations, it might not be able to repay the loan.
 - c. Existing liabilities give an indication of how profitable Davis has been in the past.
 - d. Parker would be interested in the amount of Davis's assets but not the amount of liabilities.

- 3) The conceptual framework of accounting helps to ensure that
 - a. users with no accounting or business knowledge will understand financial statements.
 - b. a rule will be in place for every possible situation.
 - c. there are consistent standards prescribing the nature, functions and limits of financial statements.
 - d. all countries have their own unique accounting standards.

- 4) What is the primary purpose of hiring a public accounting firm to examine the financial statements of the company?
 - a. To assure no fraud has been committed by the company's management.
 - b. To provide credibility that the financial information conforms with international financial reporting standards in all material respects.
 - c. To detect all accounting errors made by the accounting system and employees.
 - d. To detect fraud committed by employees.

- 5) An understatement of the beginning inventory results in
 - a. no effect on the period's earnings.
 - b. an overstatement of earnings.
 - c. an understatement of earnings.
 - d. a need to adjust purchases.

- 6) The two qualitative characteristics that are defined in terms of what influences or makes a difference to a decision maker are
- faithful representation and materiality.
 - comparability and verifiability.
 - relevance and completeness.
 - materiality and relevance.
- 7) On the statement of cash flows, how would a company report the purchase of machinery?
- As cash used in operating activities.
 - As cash used in financing activities.
 - As cash used in investing activities.
 - It doesn't matter how it is reported as long as it is shown as an outflow of cash.
- 8) Tabor Company had trade receivables of \$450,000 and an allowance for doubtful accounts of \$15,500 just prior to writing off as worthless a trade receivable from Fox Company of \$5,000. What was the net realizable value of trade receivables as shown by the accounting record before and after the write-off?
- | | <u>Before</u> | <u>After</u> |
|----|---------------|--------------|
| a. | \$450,000 | \$450,000 |
| b. | \$15,000 | \$439,500 |
| c. | \$434,500 | \$429,500 |
| d. | \$434,500 | \$434,500 |
- 9) An aging of a company's trade receivables indicates that \$6,500 is estimated to be uncollectible. If Allowance for Doubtful Accounts has a \$1,200 debit balance, the adjustment to record bad debts for the period will require a debit to
- Bad Debts Expense for \$6,500.
 - Bad Debts Expense for \$5,300.
 - Allowance for Doubtful Accounts for \$6,500.
 - Bad Debts Expense for \$7,700.
- 10) Accounting information should be neutral to enhance:
- Faithful representation.
 - Relevance.
 - Comparability.
 - Understandability.

1) C 2) B 3) C 4) B 5) B 6) D 7) C 8) D 9) D 10) A

1. Which of the financial statement(s) addresses the question: "What is the financial picture of the organization on a given day?"
 - a) Statement of Retained Earnings.
 - b) Statement of Cash Flows.
 - c) Statement of Comprehensive Income.
 - d) Statement of Financial Position.
 - e) All of the above.

2. Outstanding cheques on a bank reconciliation report should be
 - a. subtracted from the book balance.
 - b. added to the bank statement balance.
 - c. subtracted from the bank statement balance.
 - d. excluded from the bank statement since there is no difference between the records of the company and those of the bank.

3. XYZ Company discovered that its ending inventory at December 31, 2015 was overstated by \$10,000 after completing its financial statements. This error affects the 2015 financial statements as follows.
 - a. Assets are understated and net earnings is overstated.
 - b. Assets are overstated and net earnings is understated.
 - c. Assets are understated and net earnings is understated.
 - d. Assets are overstated and net earnings is overstated.

4. Which of the following statements is true for a business using a perpetual inventory system?
 - a. The beginning inventory account is closed to the retained earnings account.
 - b. The income summary account is used to close the inventory account.
 - c. The cost of goods sold account is debited and the beginning inventory account is credited in the first closing entry.
 - d. The closing process does not involve the inventory account.

5. If liabilities increase by \$230,000 during a given period and shareholders' equity decreases by \$50,000 during the same period, assets must
 - a. increase by \$280,000.
 - b. decrease by \$280,000.
 - c. increase by \$180,000.
 - d. decrease by \$180,000.
 - e. increase by \$230,000.

6. Which of the following transactions decreases earnings under the accrual basis but does not decrease earnings under the cash basis?
- Payment of the current period's telephone bill.
 - Payment of rent for two months in advance.
 - Expiration of prepaid rent.
 - Return of defective inventory purchased on account, where full credit was given.
7. Which of the following statements best defines the matching process?
- The dollar amount of total assets should match the dollar amount of total liabilities and owners' equity.
 - Expenses should be recorded in the same time period as the related revenues are recognized.
 - The revenues earned will always match the revenues realized.
 - The attempt to match the dollar amount of expenses to the dollar amount of revenues.
8. Which of the following is not a step toward effective internal control over cash?
- Require signatures from a manager and one financial officer on all cheques.
 - Require only one person to sign cheques.
 - Require that the person responsible for removing the cash from the cash register not have access to the accounting records.
 - Require that cash be deposited daily at the bank.
9. IMQ Limited gathered the following reconciling information in preparing its June bank reconciliation:

Cash balance per books, September 30	\$12,000
Electronic collection of account	6,000
Outstanding cheques	9,000
Deposits in transit	4,500
Bank service charge	75
NSF Cheque	1,200

The adjusted cash balance per books at September 30 is:

- \$8,775.
 - \$12,000.
 - \$16,500.
 - \$16,725.
10. When is revenue recognized under the percentage of completion method?
- When construction begins on the project.
 - When the project is complete.
 - Throughout the project, based upon the amount of work completed each year.
 - Throughout the project, based upon the amount of cash received from the customer.

11. The relationship between current assets and current liabilities is important in evaluating a company's
- profitability.
 - liquidity.
 - fair value.
 - comparability.
12. On January 1, 2016, VA Company had \$22,000 of Retained Earnings. During 2016 VA earned profit of \$40,000 and declared and paid dividends of \$20,000. In addition, the company received cash of \$15,000 as an additional investment by its owners. What is the ending balance in Retained Earnings at December 31, 2016?
- \$32,000.
 - \$42,000.
 - \$57,000.
 - \$67,000.
13. In order for accounting information to be relevant, it must
- have very little cost.
 - help predict future economic events or confirm prior expectations.
 - be verifiable.
 - be used by a lot of different organizations.

(1) D (2) C (3) D (4) D (5) C (6) C (7) B (8) B (9) D (10) C (11) B (12) B (13) B

- 1) For a business organized as a general partnership, which statement is true?
 - a) The owners and the business are separate legal entities.
 - b) Each partner is potentially responsible for the debts of the business.
 - c) Formation of a partnership requires getting a charter from the province of incorporation.
 - d) A partnership is not considered to be separate from its creditors.

- 2) Which of the following situations would cause investors to overpay for the acquisition of a company from its current owners?
 - a) Understated trade payables and overstated inventory.
 - b) Understated revenues and overstated expenses.
 - c) Understated assets and overstated expenses.
 - d) Understated assets and overstated revenues.

- 3) Vida Corporation gathered the following reconciling information in preparing its July bank reconciliation:

Cash balance per books, July 31	\$3,500
Deposits in transit	150
Electronic collection of account receivable	850
Bank charge for cheque printing	20
Outstanding cheques	2,000
NSF cheque	170

The adjusted cash balance per books at July 31 is

- a) \$4,160.
- b) \$4,010.
- c) \$2,460.
- d) \$2,310.

Calculation: $\$3,500 + \$850 - \$20 - \$170 = \$4,160$

- 4) In 2013, G CO. reported product sales of \$717.8 million and trade receivables of \$79.4 million. In 2012, product sales were \$584.9 million and trade receivables were \$71.4 million. What was its receivables turnover ratio for 2013?
 - a) 8.19
 - b) 8.64
 - c) 9.04
 - d) 9.52

Calculation: $\$717.8 \div \{(\$79.4 + \$71.4) \div 2\} = 9.52$

- 5) The WD Co. reported revenue of \$23,402 million for 2013. Their trade receivables balance was \$3,999 million in 2013 and \$3,633 million in 2012. How much cash was collected from customers?
- \$23,036
 - \$23,306
 - \$23,402
 - \$23,768

Calculation: $\$23,402 - (\$3,999 - \$3,633) = \$23,036$

- 6) The books of Tweed Company provided the following information:

Beginning balances:

	\$30,000
Trade receivables	
Allowances for doubtful accounts (a credit)	2,000

Transactions during the year:

	1,800,000
Sales revenue (of which 1/3 were on credit)	
Collections on trade receivables	590,000
Accounts written off as uncollectible	2,500

Past collection experience has indicated that 1% of credit sales normally is not collected. Therefore, an adjusting entry for bad debt expense should be made in the amount of which of the following?

- \$500.
 - \$2,500.
 - \$6,000.
 - \$6,500.
- 7) In applying the revenue principle to a given transaction, the most important moment or period in time is when
- The related cash inflows occur.
 - The related expenses are incurred.
 - Ownership is transferred or services are rendered.
 - The service contract is signed regarding service to be performed.

Calculation: $(\$1,800,000 \times 1/3) \times 1\% = \$6,000$

- 8) On January 1, 2015, Green Inc., started the year with a \$22,000 credit balance in its retained earnings account. During 2015, the company earned profit of \$40,000 and declared and paid dividends of \$10,000. Also, the company received cash of \$15,000 as an additional investment by its owners and \$20,000 as a collection of receivables. Therefore, the balance in retained earnings on December 31, 2015, would equal
- \$8,000.
 - \$52,000.
 - \$67,000.
 - \$87,000.

Calculation: $\$22,000 + \$40,000 - \$10,000 = \$52,000$

- 9) Which statement is *false* regarding the financial statements?
- Current assets reported in the statement of financial position are generally reported in order of their liquidity.
 - Distributions to owners (dividends) are reported in the statement of earnings.
 - Expenses on the statement of earnings are reported as incurred, not as paid.
 - The statement of cash flows reports the sources and uses of cash during the accounting period.
- 10) In order for accounting information to be relevant, it must
- Have very little cost.
 - Help predict future economic events or confirm prior expectations.
 - Be verifiable.
 - Be used by a lot of different organizations.
- 11) Which of the following would most likely increase net profit margin?
- Decreasing selling price
 - Increasing sales volume
 - Increasing expenses
 - Decreasing sales volume
- 12) When the auditors give an unqualified opinion, it means the company's financial statements do not conform to international financial reporting standards.
- True
 - False
- 13) The balance in Allowance for Doubtful Accounts would have a debit balance when
- The percentage of receivables basis is used.
 - An uncollectible account is later recovered.
 - Write-offs during the year have been less than previous estimates.
 - Write-offs during the year have exceeded previous estimates.
- 14) If an account is collected after having been previously written off,
- The allowance account should be debited.
 - Only the cash account needs to be credited.
 - Both statement of earnings and balance sheet accounts will be affected.
 - There will be both a debit and a credit to trade accounts receivable.
- 15) If a cheque correctly written and paid by the bank for \$521 is incorrectly recorded on the company's books for \$251, the appropriate treatment on the bank reconciliation would be to
- Add \$270 to the balance per bank.
 - Add \$270 to the balance per books.
 - Deduct \$270 from the balance per books.
 - Deduct \$270 from the balance per bank.

1) b ; 2) a ; 3) a ; 4) d ; 5) a ; 6) c ; 7) c ; 8) b ; 9) b ; 10) b ; 11) b ; 12) b ; 13) d ; 14) d ; 15) c