

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

- 12) Accounting is often referred to as "the language of business." Why is accounting described this way? How is accounting different from bookkeeping?
- 13) 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.
- 14) What are the three forms of business organizations? How do they differ?
- 15) There are many different stakeholders in Dollarama Inc. Explain why the same information may not be suitable or appropriate for all stakeholders.
- 16) Dollarama is a publicly owned corporation. How does it differ from a privately owned corporation?
- 17) What is a not-for-profit organization?
- 18) Think about the impact accounting has on our economy and our nation. Name some external groups interested in reviewing a company's financial statements.

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

- 19) Accounting standards for accountants in Canada are established by: 19) _____
 - A) the Canadian Public Accountability Board
 - B) the International Accounting Standards Board
 - C) the Canadian Securities Administrators
 - D) the Chartered Professional Accountants of Canada
- 20) The accounting equation can be stated as: 20) _____
 - A) Assets + Liabilities = Shareholders' equity
 - B) Assets + Shareholders' equity = Liabilities
 - C) Assets = Liabilities - Shareholders' equity
 - D) Assets = Liabilities + Shareholders' equity
- 21) The owners' interest in the assets of a corporation is known as: 21) _____
 - A) revenues
 - B) shareholders' equity
 - C) expenses
 - D) assets
- 22) If liabilities increase \$120,000 during a given period and shareholders' equity decreases \$25,000 during the same period, assets must: 22) _____
 - A) decrease \$95,000
 - B) decrease \$145,000
 - C) increase \$95,000
 - D) increase \$145,000

- 23) Which of the following best describes a liability? 23) _____
- A) Liabilities are economic obligations to creditors to be paid at some future date by the company.
 - B) Liabilities are accounts receivable of the company.
 - C) Liabilities are future economic benefits to which a company is entitled.
 - D) Liabilities are a form of share capital.
- 24) Expenses are: 24) _____
- A) increases in liabilities resulting from purchasing assets
 - B) decreases in retained earnings resulting from operations
 - C) increases in assets resulting from operations
 - D) increases in retained earnings resulting from operations
- 25) 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? 25) _____
- A) increase of \$30,000
 - B) increase of \$15,000
 - C) decrease of \$30,000
 - D) decrease of \$15,000
- 26) Receivables are classified as: 26) _____
- A) assets
 - B) decreases in earnings
 - C) increases in earnings
 - D) liabilities
- 27) 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? 27) _____
- A) \$55,000
 - B) \$40,000
 - C) \$30,000
 - D) \$15,000
- 28) Claims held by the shareholders (owners) of a corporation are referred to as: 28) _____
- A) share capital
 - B) share capital minus retained earnings
 - C) share capital plus retained earnings
 - D) retained earnings
- 29) Revenues are: 29) _____
- A) decreases in assets resulting from delivering goods or services to customers
 - B) decreases in retained earnings resulting from delivering goods or services to customers
 - C) increases in liabilities resulting from delivering goods or services to customers
 - D) increases in retained earnings resulting from delivering goods or services to customers
- 30) If assets increase \$120,000 during a given period and liabilities decrease \$25,000 during the same period, shareholders' equity must: 30) _____
- A) increase \$145,000
 - B) decrease \$95,000
 - C) increase \$95,000
 - D) decrease \$145,000

- 38) The balance sheet is sometimes also called the: 38) _____
A) statement of operations B) statement of cash position
C) statement of income and expense D) statement of financial position
- 39) The cash flow statement is divided into three categories relating to cash flows from operating, investing, and: 39) _____
A) financing activities B) management planning activities
C) strategic positioning activities D) marketing activities
- 40) To determine a company's gross margin for the period, an investor would look on the: 40) _____
A) cash flow statement B) statement of retained earnings
C) balance sheet D) income statement
- 41) Which financial statement is based on the accounting equation? 41) _____
A) balance sheet B) statement of retained earnings
C) cash flow statement D) income statement
- 42) The main source of cash for a business normally arises from: 42) _____
A) financing activities B) operating activities
C) investing activities D) current assets
- 43) Gains and losses appear on which of the financial statements listed below? 43) _____
A) the balance sheet B) the cash flow statement
C) the retained earnings statement D) the income statement
- 44) The date of the income statement: 44) _____
A) is not dated
B) may cover a period of time or only one day in time, like a snapshot photograph
C) covers one day in time
D) covers a period of time, usually for an accounting period
- 45) Operating expenses appear on the income statement: 45) _____
A) directly after revenue B) directly after cost of goods sold
C) directly after gross margin D) do not appear on the income statement
- 46) Common shares is a component of: 46) _____
A) share capital B) total liabilities
C) total assets D) retained earnings

- 47) Cost of goods sold is: 47) _____
A) added to sales on the retained earnings statement
B) deducted from sales on the balance sheet
C) deducted from sales on the income statement
D) added to sales on the income statement
- 48) Suppose The Fruit Group buys a kiwi for \$.10 and sells the kiwi for \$.50. The cost of goods sold would be: 48) _____
A) \$.05 B) \$.40 C) \$.10 D) \$.50
- 49) Net income is: 49) _____
A) deducted from net sales on the income statement
B) deducted from beginning retained earnings on the retained earnings statement
C) added to beginning retained earnings on the retained earnings statement
D) added to assets on the balance sheet
- 50) Notes receivable due in 60 days would be classified as a: 50) _____
A) current asset on the balance sheet
B) current liability on the balance sheet
C) non-current liability on the balance sheet
D) non-current asset on the balance sheet
- 51) Cash received from the issuance of share capital would appear: 51) _____
A) as an investing activity on the cash flow statement
B) as an operating activity on the cash flow statement
C) would not appear on a cash flow statement
D) as a financing activity on the cash flow statement
- 52) Losses are reported on the: 52) _____
A) balance sheet B) statement of retained earnings
C) income statement D) cash flow statement
- 53) What is the proper order for the cash flow statement? 53) _____
A) investing activities, financing activities, and operating activities
B) operating activities, financing activities, and investing activities
C) operating activities, investing activities, and financing activities
D) financing activities, investing activities, and operating activities
- 54) The ending balance in retained earnings appears on the: 54) _____
A) statement of retained earnings only
B) income statement
C) balance sheet only
D) balance sheet and statement of retained earnings

- 63) Current assets are assets expected to be converted to cash, sold, or consumed: 63) _____
 A) within the next 12 months or within the business's normal operating cycle if less than a year
 B) within the next 12 months or within the business's normal operating cycle if longer than a year
 C) within the next 24 months
 D) within the next 6 months
- 64) Equipment would appear on the: 64) _____
 A) income statement with the operating expenses
 B) balance sheet with the current assets
 C) balance sheet with the non-current assets
 D) income statement with the revenues
- 65) Depreciation is normally associated with which asset on the balance sheet? 65) _____
 A) inventory
 B) land
 C) accounts receivable
 D) equipment
- 66) Cash would appear on the: 66) _____
 A) income statement with the revenues
 B) retained earnings statement with the net income
 C) balance sheet with the current liabilities
 D) balance sheet with the current assets
- 67) Accounts payable would appear on the: 67) _____
 A) balance sheet with the current assets
 B) income statement with the expenses
 C) retained earnings statement with the dividends
 D) balance sheet with the current liabilities
- 68) When accounting for cash collected from customers, the transaction would appear on the cash flow statement as a(an): 68) _____
 A) investing activity
 B) operating activity
 C) financing activity
 D) activity that would not appear on the cash flow statement
- 69) When a repurchase of shares is done by a company it: 69) _____
 A) increases the amount of owners' equity
 B) increases the amount of total liabilities
 C) decreases the amount of total liabilities
 D) decreases the amount of owners' equity
- 70) All of the following are considered standard financial statements *except* the: 70) _____
 A) statement of assets
 B) statement of earnings
 C) cash flow statement
 D) statement of retained earnings

- 71) The statement that presents a summary of the revenues and expenses of an entity is called the: 71) _____
A) balance sheet B) statement of retained earnings
C) cash flow statement D) income statement
- 72) The income statement presents a summary of the: 72) _____
A) changes that occurred in the shareholders' equity of an entity
B) cash inflows and outflows of an entity
C) revenues and expenses of an entity for a specific time period
D) assets and liabilities of an entity
- 73) Increases in shareholders' equity arise from: 73) _____
A) net income earned during the period
B) investments by the owner
C) payment of dividends
D) both investments by the owner and net income earned during the period
- 74) Decreases in shareholders' equity result from: 74) _____
A) owner investments and a net loss during the period
B) a net income during the period
C) owner investments
D) a net loss during the period
- 75) Purchases and sales of non-current assets are examples of: 75) _____
A) investing activities B) operating activities
C) financing activities D) dividend activities
- 76) Cash spent to purchase a new building would appear on the cash flow statement as: 76) _____
A) a financing activity B) an investing activity
C) a dividend activity D) an operating activity
- 77) The payment of the chief financial officer's salary would appear: 77) _____
A) on the balance sheet with the current liabilities
B) on the cash flow statement with the operating activities
C) on the income statement with the revenues
D) on the income statement as part of cost of goods sold
- 78) The amount of net income shown on the income statement also appears on the: 78) _____
A) statement of assets B) statement of financial position
C) statement of retained earnings D) balance sheet

- 79) The balance sheet contains: 79) _____
 A) the beginning balance in retained earnings
 B) the amount of dividends paid to shareholders
 C) the ending balance in retained earnings
 D) the amount of net income
- 80) What is one component of shareholders' equity? 80) _____
 A) common shares B) property, plant, and equipment
 C) cash D) notes payable

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

- 81) Generally accepted accounting principles, or GAAP, are the rules and procedures established by the Chartered Professional Accountants of Canada (CPAC). 81) _____
- 82) All corporations that are publicly accountable must apply International Financial Reporting Standards (IFRS). 82) _____
- 83) In accounting, the word "net" means after a subtraction. 83) _____
- 84) Net income is calculated by taking a company's earnings less their dividends paid out. 84) _____
- 85) Retained earnings represent cash that is available to a company for future operations and expansion. 85) _____
- 86) Liabilities are often referred to as "outsider claims" and owners' equity as "insider claims" to assets. 86) _____
- 87) It would be unusual for the balance sheet of a proprietorship to include the term "retained earnings." 87) _____
- 88) A form of the accounting equation can be stated as $\text{Assets} - \text{Liabilities} = \text{Share capital} + \text{Retained earnings}$. 88) _____
- 89) The income statement measures the company's financial position at the end of the year. 89) _____
- 90) The balance sheet measures how well the company performed during the year. 90) _____
- 91) The basic component of share capital is retained earnings. 91) _____
- 92) Shareholders' equity is often referred to as "net assets" and represents the residual amount of business assets that can be claimed by the owners. 92) _____
- 93) The accounting equation must always be in balance. 93) _____

- 94) The statement of retained earning discloses the amount of dividends declared during the year. 94) _____
- 95) The statement of cash flows categorizes the sources and uses of the net cash flow generated by the company during the year. 95) _____
- 96) Expenses are increases in retained earnings that result from operations. 96) _____
- 97) For business purposes, dividend payments are classified as expenses. 97) _____
- 98) Revenues less cash outflow equals net income (or net loss). 98) _____
- 99) The Cash Flow Statement is organized in terms of the organization's operating, investing, and financing activities. 99) _____
- 100) Under ASPE the payment of interest is a financing activity. 100) _____
- 101) Dividends are a form of expenses. 101) _____
- 102) Revenues are increases in retained earnings from the delivery of goods or services. 102) _____
- 103) 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. 103) _____

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

- 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.
- 105) 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

- 106) 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.

- 107) 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

- 108) 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		

- 109) 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

- 110) 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.

- 111) 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
- 112) Classify each statement below as an operating activity, investing activity, or a financing activity.
- Sold 12,000 shares for cash.
 - Paid salaries of employees.
 - Paid amount due for income taxes.
 - Paid interest expense (ASPE).
 - Purchased office equipment for cash.
 - Sold old office equipment and received cash.
 - Received interest income.
 - Paid interest on a bank loan.
 - Paid dividends to shareholders.
- 113) 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.

- 114) 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.
- Paid cash to retire long-term note payable
 - Payment of wages
 - Issuance of shares
 - Purchase of land
 - Depreciation/Amortization expense
 - Payment of dividends
 - Sale of equipment
 - Equipment rental fee
- 115) 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.
- 116) What do shareholders look for when reviewing and analyzing the income statement?
- 117) What do creditors such as bankers look for when reviewing assets and liabilities on the balance sheet?
- 118) What is the purpose of a cash flow statement?

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

- 119) Which financial statement must be prepared before the others? 119) _____
- | | |
|--------------------------------|---------------------|
| A) retained earnings statement | B) income statement |
| C) cash flow statement | D) balance sheet |

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

- 120) Describe the relationship between the Income Statement, Statement of Retained Earnings and the Balance Sheet.

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

- 121) The closing retained earnings balance as determined by compiling the balance sheet is used to complete the statement of retained earnings. 121) _____

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

122) 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.

123) 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

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

124) Which of the following financial statements shows the net increase or decrease in cash during the period? 124) _____

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

125) Which of the following statements should be prepared right before the balance sheet? 125) _____

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

- 126) In order for information to be considered a faithful representation it must be all of the following *except*: 126) _____
 A) predictive B) without material error
 C) neutral D) complete
- 127) The primary objective of financial reporting is to provide information: 127) _____
 A) about the profitability of the business
 B) useful for making investment and lending decisions
 C) regarding the cash flows of the business
 D) to the federal government about tax matters
- 128) The _____ assumption assumes that the organization will continue operating normally for the foreseeable future. 128) _____
 A) going-concern B) stable monetary unit
 C) entity D) cost
- 129) The accounting concept that maintains that each organization or section of an organization stands apart from other organizations and individuals is known as the: 129) _____
 A) entity assumption B) monetary unit assumption
 C) reliability principle D) going-concern assumption
- 130) The principle that states that assets acquired by the business should be recorded at their actual price is the: 130) _____
 A) reliability assumption B) stable monetary unit assumption
 C) cost assumption D) objectivity assumption
- 131) The relevant measure of value of the assets of a company that is going out of business is its: 131) _____
 A) liquidation value B) carrying amount
 C) recorded value D) historical cost
- 132) 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? 132) _____
 A) the stable-monetary-unit assumption B) the going-concern assumption
 C) the entity assumption D) the objectivity assumption
- 133) The stable-monetary-unit assumption is the basis for ignoring: 133) _____
 A) the difference between the appraised value and the actual cost when recording an asset at its historical cost
 B) the effect of inflation in the accounting records
 C) fluctuations in the value of the Canadian dollar relative to foreign currencies
 D) the possibility that the value of inventory might drop below its historical cost

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

- 134) 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. 134) _____
- 135) Relevance and comparability are the two fundamental qualitative characteristics of accounting. 135) _____
- 136) Materiality is a component of the faithful representation qualitative characteristic. 136) _____
- 137) Financial statement information that reflects the economic substance of a transaction is considered to be representationally faithful. 137) _____

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

- 138) Choose the appropriate definition for the terms below.
- a. professional guidelines followed by accountants
 - b. corporations that have issued shares in public markets
 - c. organizations that do not issue information used by the public
 - d. set of standards used by public corporations
 - e. the group responsible for Canadian GAAP
 - f. issues International Financial Reporting Standards
 - g. another set of GAAP for private enterprises
 - h. 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

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

- 139) All of the following are factors that influence business and accounting decisions *except*: 139) _____
- | | |
|-----------------------------|-------------|
| A) legal | B) ethical |
| C) operational inefficiency | D) economic |

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

- 140) CPA has a code of professional conduct. 140) _____
- 141) The application of IFRS and ASPE frequently requires the use of professional judgment. 141) _____

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

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

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

Answer Key

Testname: UNTITLED1

- 1) A
- 2) B
- 3) FALSE
- 4) FALSE
- 5) TRUE
- 6) FALSE
- 7) TRUE
- 8) TRUE
- 9) FALSE
- 10) FALSE
- 11) FALSE
- 12) 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.

13) 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

Answer Key

Testname: UNTITLED1

- 14) 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).

- 15) 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.
- 16) 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.

- 17) 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.

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

19) D

20) D

21) B

22) C

23) A

24) B

25) B

26) A

27) C

28) C

29) D

30) A

Answer Key

Testname: UNTITLED1

- 31) D
- 32) B
- 33) B
- 34) C
- 35) B
- 36) B
- 37) A
- 38) D
- 39) A
- 40) D
- 41) A
- 42) B
- 43) D
- 44) D
- 45) C
- 46) A
- 47) C
- 48) C
- 49) C
- 50) A
- 51) D
- 52) C
- 53) C
- 54) D
- 55) B
- 56) D
- 57) B
- 58) A
- 59) B
- 60) B
- 61) C
- 62) A
- 63) B
- 64) C
- 65) D
- 66) D
- 67) D
- 68) B
- 69) D
- 70) A
- 71) D
- 72) C

Answer Key

Testname: UNTITLED1

- 73) D
- 74) D
- 75) A
- 76) B
- 77) B
- 78) C
- 79) C
- 80) A
- 81) TRUE
- 82) TRUE
- 83) TRUE
- 84) FALSE
- 85) FALSE
- 86) TRUE
- 87) TRUE
- 88) TRUE
- 89) FALSE
- 90) FALSE
- 91) FALSE
- 92) TRUE
- 93) TRUE
- 94) TRUE
- 95) TRUE
- 96) FALSE
- 97) FALSE
- 98) FALSE
- 99) TRUE
- 100) FALSE
- 101) FALSE
- 102) TRUE
- 103) TRUE
- 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.

Answer Key

Testname: UNTITLED1

105) 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>

106) 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>

107) 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 assets	<u>\$93,200</u>	Total liabilities and shareholders' equity	<u>\$93,200</u>

Answer Key

Testname: UNTITLED1

108)

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>

109)

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) - $\$14,600$
 $\text{Net income} = \$50,500 - \$4,900 - \$5,200 - \$18,000 - \$9,400 = \$13,000$

110)

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

Answer Key

Testname: UNTITLED1

- 111) a. financing activity
b. operating activity
c. financing activity
d. investing activity
e. operating activity
f. financing activity
g. investing activity
h. financing activity

- 112) 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

- 113) 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>

- 114) 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
- 115) *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.
- 116) 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.
- 117) 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.
- 118) 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.

Answer Key

Testname: UNTITLED1

119) B

120) 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.

121) FALSE

122)

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>

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

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

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

124) B

125) B

126) A

127) B

128) A

129) A

130) C

131) A

132) C

133) B

134) FALSE

135) FALSE

136) FALSE

137) TRUE

Answer Key

Testname: UNTITLED1

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

139) C

140) TRUE

141) TRUE

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

143) 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.