# Miller-Nobles, Accounting 9e

## Chapter 1: The Role of Accounting in Decision Making

### Multiple choice: Choose the alternative(s) that best completes the statement or answers the question.

* + - 1. Users of management accounting information are most likely to be:

1. business managers.
2. potential investors.
3. customers.
4. creditors.

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 1 Explain why accounting is important

A-Head: Why is accounting important?

* + - 1. Which of the following are likely to be users of financial accounting information?

1. Taxing authorities
2. Potential investors
3. Creditors
4. All of the above

Answer: D

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 1 Explain why accounting is important

A-Head: Why is accounting important?

### True/False: Write 'T' if the statement is true and 'F' if the statement is false.

* + - 1. Accounting is the information system that measures business activity, processes the data into reports and communicates the results to decision makers.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 1 Explain why accounting is important

A-Head: Why is accounting important?

* + - 1. Outside investors would ordinarily use financial accounting information to decide whether or not to invest in a business.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 1 Explain why accounting is important

A-Head: Why is accounting important?

* + - 1. Management accounting focuses on information for decision makers outside of the business, such as outside investors and lenders.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 1 Explain why accounting is important

A-Head: Why is accounting important?

* + - 1. Accounting is 'the language of business'.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 1 Explain why accounting is important

A-Head: Why is accounting important?

* + - 1. An investor is someone who lends money to a business.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 1 Explain why accounting is important

A-Head: Why is accounting important?

* + - 1. A creditor is a party that has an ownership interest in a business.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 1 Explain why accounting is important

A-Head: Why is accounting important?

* + - 1. Different users of financial statements (investors, creditors, tax authorities, etc.) all focus on the same parts of the financial statements for the information they need.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 1 Explain why accounting is important

A-Head: Why is accounting important?

### Short answer: Write the word or phrase that best completes each statement or answers the question.

* + - 1. How would you describe management accounting?

Answer: Management accounting focuses on information for internal decision making.

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 1 Explain why accounting is important

A-Head: Why is accounting important?

### Multiple choice: Choose the alternative(s) that best completes the statement or answers the question.

* + - 1. The owners' claims to the assets of the business are called:

1. owners' equity.
2. expenses.
3. revenues.
4. liabilities.

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

* + - 1. Which of the following is the CORRECT accounting equation?

1. Assets + Revenue = Liabilities + Expenses
2. Assets = Liabilities + Owners' equity
3. Assets + Revenue = Owners' equity
4. Assets + Liabilities = Owners' equity

Answer: B

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

* + - 1. A debt that a business owes to an outside party is called:

1. revenue.
2. a liability.
3. an asset.
4. owners' equity.

Answer: B

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

* + - 1. The economic resources of a business such as furniture, building and land are its:

1. assets.
2. revenues.
3. liabilities.
4. drawings.

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

* + - 1. Keira’s antiques shop started the year with total assets of $90,000 and total liabilities of $60,000. During the year, the business earned revenues of $150,000 and incurred expenses of $60,000. Keira made no additional capital contributions during the year, but did make drawings of $70,000. What is the amount of owners' equity at the end of the year?

1. $150,000
2. $70,000
3. $50,000
4. $60,000

Answer: C

Difficulty: Complex

AACSB: Analytical Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

* + - 1. Sruthi's Camera Shop started the year with total assets of $90,000 and total liabilities of $55,000. During the year, the business earned revenues of $120,000 and incurred expenses of $50,000. Sruthi made no additional capital contributions during the year, but did make drawings of $70,000.

Calculate Sruthi's profit for the year.

1. $120,000
2. $90,000
3. $70,000
4. $50,000

Answer: C

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

* + - 1. The profit of a business is $21,000. The beginning and ending capital balances were $34,000 and $50,000, respectively. No capital contributions were made by the owner during the year.

Calculate the amount of owner's drawings.

1. $15,000
2. $12,000
3. $13,000
4. $5000

Answer: D

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

### True/False: Write 'T' if the statement is true and 'F' if the statement is false.

* + - 1. Liabilities represent creditors' claims on the business's assets.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

* + - 1. The right side of the accounting equation measures the amount that the business owes to creditors and to the owner.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

* + - 1. The total of liabilities and equity of a business may or may not equal the total of amount of assets that the business possesses.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

* + - 1. Equity increases when revenues are earned.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

* + - 1. Equity decreases with expenses and revenues.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

* + - 1. Owner's drawings are the expenses of a business.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 2 Describe the accounting equation, and define assets, liabilities and equity

A-Head: What is the accounting equation?

### Multiple choice: Choose the alternative(s) that best completes the statement or answers the question.

* + - 1. Joe purchased office equipment for $1 250 cash. What is the effect on accounts?

1. Two asset accounts increase.
2. One asset account increases; one owners' equity account increases.
3. One asset account increases; another asset account decreases.
4. One asset account increases; one liability account increases.

Answer: C

Difficulty: Basic

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Hamilton Lawn Service earned $1 000 for services rendered and collected cash from its customer. What is the effect on accounts?

1. Cash account increases; Accounts receivable increases.
2. Cash account increases; Owners' capital account increases.
3. Cash account increases; Supplies account decreases.
4. Cash account increases; Accounts payable increases.

Answer: B

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Hamilton Lawn Service earned $1 000 for services rendered. The customer promised to pay at a later time. What is the effect on accounts?

1. Cash account increases; Accounts receivable decreases.
2. Accounts receivable increases; Owners' capital increases.
3. Cash and Accounts receivable both increase.
4. Accounts receivable decreases; Owners' capital increases.

Answer: B

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Hamilton Lawn Service incurred an $800 repair expense and paid the repair company in cash. Which account, besides Cash, decreased?

1. Accounts payable
2. Accounts receivable
3. Equipment
4. Owners' capital

Answer: D

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Martin Supply Service paid $350 cash to a materials supplier that it owed from the previous month. What is the effect of the cash payment on account of the business?

1. Accounts payable increases; Owners' capital account decreases.
2. Cash account decreases; Accounts payable decreases.
3. Materials account increases; Owners' capital account decreases.
4. Cash account decreases; Accounts payable increases.

Answer: B

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Martin Supply Service received $1 000 cash from a customer which was owed to the business from the previous month. What is the effect of the cash receipt on the accounts of the business?

1. Cash account increases; Accounts receivable decreases.
2. Accounts payable increases; Owners' capital account decreases.
3. Accounts receivable decreases; Owners' capital account decreases.
4. Cash increases; Accounts payable decreases.

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. The proprietor of Martin Supply Service took a $5 000 cash withdrawal. What is the effect of the withdrawal on the accounts of the business?

1. Cash account increases; Accounts receivable decreases.
2. Cash account increases; Owners' capital account decreases.
3. Accounts payable increases; Owners' capital account decreases.
4. Cash account decreases; Owners' capital account decreases.

Answer: D

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. A $7 000 account payable is paid by the business. How is the accounting equation affected?

1. Assets decrease $7 000; liabilities decrease $7 000.
2. Assets decrease $7 000; owners' equity increases $7 000.
3. Assets increase $7 000; owners' equity decreases $7 000.
4. Assets increase $7 000; liabilities increase $7 000.

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. A business performs services for its customers. Payment is expected to be received next month. How does the performance of services affect the accounting equation?

1. Assets increase; owners' equity increases.
2. Liabilities increase; owners' equity decreases.
3. Assets decrease; owners' equity decreases.
4. Assets increase; owners' equity decreases.

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. A business receives a bill for services rendered from one of its suppliers. The business will pay the supplier next month. When the business receives the bill from its supplier, how does this affect the accounting equation?

1. Liabilities increase; owners' equity increases.
2. Assets decrease; owners' equity decreases.
3. Liabilities increase; owners' equity decreases.
4. Assets increase; liabilities increase.

Answer: C

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. A business settles a liability by making a payment with cash. How does paying this liability affect the accounting equation?

1. Assets decrease; liabilities decrease.
2. Assets increase; liabilities increase.
3. Assets increase; liabilities decrease.
4. Liabilities decrease; owners' equity increases.

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. A proprietor makes a cash withdrawal from the proprietorship. How does this affect the accounting equation?

1. Assets decrease; owners' equity increases.
2. This has no effect on assets, liabilities or owners' equity.
3. Assets increase; liabilities decrease.
4. Assets decrease; owners' equity decreases.

Answer: D

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Equipment is sold for cash in an amount equal to the cost of the equipment recorded on the books. How does this sale affect the accounting equation?

1. One asset increases; one asset decreases.
2. Assets increase; owners' equity increases.
3. Assets increase; liabilities increase.
4. Assets increase; liabilities decrease.

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. The business receives cash from a customer that is owed to the company 'on account', based on services rendered to the customer previously. How does the collection of the cash affect the accounting equation?

1. One asset increases; one asset decreases.
2. Assets increase; owners' equity increases.
3. Assets increase; liabilities increase.
4. Assets decrease; owners' equity decreases.

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Ace Ltd had the following transactions in June: sold goods for $2000 on account; received cash on account, $4000; paid $600 for repair expense; paid $2000 to a supplier that it owed from the previous month. What is the combined effect on Cash of the June transactions?

1. a $1400 increase
2. a $1400 decrease
3. a $2600 decrease
4. a $4000 increase

Answer: A

Difficulty: Complex

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Venus Ltd paid $10,000 for an account payable. How does this transaction affect the accounting equation of Venus?

1. assets decrease by $10,000 and equity increases by $10,000
2. assets increase by $10,000 and liabilities increase by $10,000
3. assets increase by $10,000 and equity decreases by $10,000
4. assets decrease by $10,000 and liabilities decrease by $10,000

Answer: D

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Land is purchased by a business for $140,000. The company pays for the land by a cash payment of $24,000 and promised to pay the remaining amount at a later period. What is net effect of this transaction on the business's accounting equation?

1. Assets increase by $140,000; liabilities decrease by $116,000.
2. Assets increase by $116,000; liabilities increase by $116,000.
3. Assets increase by $140,000; liabilities decrease by $24,000.
4. Assets increase by $116,000; equity increases by $116,000.

Answer: B

Difficulty: Complex

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Star Homes Ltd just recorded a transaction in its books of accounts. If this transaction increased the total liabilities by $12,000:

1. assets or equity must decrease by $12,000
2. assets must decrease by $12,000
3. assets must increase or equity must decrease by $12,000
4. both assets and equity must each decrease by $6000

Answer: C

Difficulty: Complex

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Sharon Samson owns Reliable Waterworks which provides plumbing services. Transactions of Reliable Waterworks during the first year of operations are given below:

1. Sharon contributed $11,000 into a new cheque account for the business and recorded a capital contribution.
2. Paid $1200 for equipment to be used for plumbing repairs.
3. Borrowed $10,000 from a local bank and deposited the money in the cheque account.
4. Paid $400 as rent for the year.
5. Paid $500 for plumbing supplies to be used on various jobs in the future.
6. Completed a plumbing repair project for a local lawyer and received $3400.

Calculate the amount of total assets balance at the end of the first year.

1. $1700
2. $24,000
3. $21,000
4. $1200

Answer: B

Difficulty: Complex

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Sharon Samson starts a plumbing service called Reliable Waterworks. Transactions of Reliable Waterworks during the first year of operations are given below:

1. Sharon deposited $10,000 into a new cheque account for the business and recorded the capital contribution.
2. Paid $1200 cash for equipment to be used for plumbing repairs.
3. Borrowed $14,000 from a local bank and deposited the money in the cheque account.
4. Paid $400 rent for the year.
5. Purchased $300 of office supplies by cash.
6. Completed a plumbing repair project for a local lawyer and received $3500 cash.

Calculate the amount of total liabilities at the end of the first year.

1. $14,000
2. $22,800
3. $3500
4. $10,000

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Robinson starts a plumbing service named Crusoe Waterworks. Transactions of Crusoe Waterworks during the first year of operations are given below:

1. Robinson deposited $8000 into a new cheque account for the business and recorded the capital contribution.
2. Paid $2000 cash for equipment to be used for plumbing repairs.
3. Borrowed $29,000 from a local bank and deposited the money in the cheque account.
4. Paid $700 rent for the year.
5. Purchased $1500 of office supplies on credit.
6. Completed a plumbing repair project for a local lawyer and received $3000 cash.

Calculate the amount of total owners' equity after recording the transactions.

1. $8000
2. $10,300
3. $29,000
4. $3000

Answer: B

Difficulty: Complex

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Sharon Samson starts a plumbing service named Reliable Waterworks. Selected transactions are described as follows:

1. Sharon deposited $8000 into a new cheque account for the business and recorded the capital contribution.
2. Paid $4000 cash for equipment to be used for plumbing repairs.
3. Borrowed $12,000 from a local bank and deposited the money in the cheque account.
4. Paid $600 rent for the year.
5. Paid $100 cash for plumbing supplies to be used in future.
6. Completed a plumbing repair project for a local lawyer and received $4000 cash.

Calculate the profit.

1. $500
2. $3400
3. $3900
4. $4000

Answer: B

Difficulty: Complex

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Following is an extract of account balances of Wilson Mowing Service as at 31 December of the first year of operation:

| Accounts receivable | $4000 |
| --- | --- |
| Accounts payable | 7000 |
| Salary expense | 5000 |
| Repairs expense | 700 |
| Truck | 11,000 |
| Equipment | 9000 |
| Loans payable | 8400 |
| Cash | 7000 |
| Supplies expense | 1000 |
| Service revenue | 32,000 |
| Petrol expense | 2900 |
| Salary payable | 300 |

At the end of the year, what is the amount of total assets?

1. $31,000
2. $20,000
3. $27,000
4. $15,000

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Following is an extract of account balances of Wilson Mowing Service as at 31 December of the first year of operation:

| Accounts receivable | $6000 |
| --- | --- |
| Accounts payable | 7000 |
| Salary expense | 7000 |
| Repairs expense | 800 |
| Truck | 10,000 |
| Equipment | 12,000 |
| Loans payable | 8100 |
| Cash | 7400 |
| Supplies expense | 1300 |
| Service revenue | 35,000 |
| Petrol expense | 2900 |
| Salary payable | 300 |

At the end of the year, what is the amount of total liabilities?

1. $24,500
2. $15,100
3. $15,400
4. $27,400

Answer: C

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. Following is a list of account balances of Wilson Mowing Service as at 31 December of the first year of operation:

| Accounts receivable | $4000 |
| --- | --- |
| Accounts payable | 5000 |
| Salary expense | 5000 |
| Repairs expense | 600 |
| Truck | 12,000 |
| Equipment | 10,000 |
| Loans payable | 24,000 |
| Cash | 12,000 |
| Supplies expense | 10,000 |
| Service revenue | 24,000 |
| Petrol expense | 7200 |
| Salary payable | 1200 |

Calculate the profit.

1. $2000
2. $2900
3. $30,300
4. $33,200

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

* + - 1. The total assets and the total liabilities of Samantha Financial Services are shown below. There were no capital contributions and withdrawals during the year.

| Blank | Assets | Liabilities |
| --- | --- | --- |
| Beginning of year | $405,000 | $275,000 |
| End of year | 445,000 | 305,000 |

What was the amount of profit for the year?

1. $30,000
2. $10,000
3. $40,000
4. $70,000

Answer: B

Difficulty: Complex

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

### True/False: Write 'T' if the statement is true and 'F' if the statement is false.

* + - 1. A business owner starts a new business and invests $6 000 of capital. This transaction results in an increase in the business's liabilities.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

### Short answer: Write the word or phrase that best completes each statement or answers the question.

* + - 1. Frances contributes capital into his business. Which two accounts are affected?

Answer: An asset and an owners' equity are affected.

Difficulty: Basic

AACSB: Analytical Thinking

Learning Objective: 3 Use the accounting equation to analyse transactions

A-Head: How do you analyse transactions?

### Multiple choice: Choose the alternative(s) that best completes the statement or answers the question.

* + - 1. Which of the following statements BEST defines financial statements?

1. Financial statements are documents that report on a business in monetary terms, providing information to help people make informed business decisions.
2. Financial statements are plans and forecasts for future time periods.
3. Financial statements are the verbal statements made to business news organisations by chief financial officers.
4. Financial statements are the information systems that record and measure business transactions.

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

* + - 1. The statement of changes in equity shows the changes in Owners' equity. Which one of these statements is TRUE?

1. Decreases in Owners' equity result from owner investments.
2. Decreases in Owners' equity result from profit.
3. Decreases in Owners' equity result from revenues earned.
4. Decreases in Owners' equity result from losses.

Answer: D

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

* + - 1. The income statement presents a summary of an entity's revenues and expenses for a period of time. Which of the following statements is TRUE?

1. There is profit when total revenues are greater than total expenses.
2. There is a loss when total expenses are greater than total revenue.
3. There is a loss when withdrawals are made.
4. Both A and B are true.

Answer: D

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

* + - 1. Which of the following financial statements reports cash receipts and cash payments during a period of time?

1. Cash flow statement
2. Statement of changes in equity
3. Income statement
4. Balance sheet

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

* + - 1. Which of the following financial statements reports an increase or decrease in net cash during the time period covered?

1. Income statement
2. Balance sheet
3. Cash flow statement
4. Statement of changes in equity

Answer: C

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

* + - 1. Which of the following financial statements shows the changes in Owners' equity during a period of time?

1. Balance sheet
2. Statement of changes in equity
3. Cash flow statement
4. Income statement

Answer: B

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

* + - 1. Which of the following financial statements lists the entity's assets, liabilities and owners' equity as at a specific date?

1. Cash flow statement
2. Balance sheet
3. Income statement
4. Statement of changes in equity

Answer: B

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

* + - 1. Financial statements are prepared after an entity's transactions are analysed and recorded. Which of the following reports is NOT one of the required financial statements?

1. Income statement
2. Balance sheet
3. Statement of drawings
4. Cash flow statement

Answer: C

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

* + - 1. Each financial statement includes a heading giving three pieces of data. Which of the following items is NOT included in these headings?

1. Name of the preparer of the statement
2. Name of the business
3. Name of the financial statement
4. Date or time period covered

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

### True/False: Write 'T' if the statement is true and 'F' if the statement is false.

* + - 1. The balance sheet of a business represents the account balances as at a particular date in time.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

* + - 1. The relative proportion of economic resources and obligations isn’t shown by the balance sheet.

1. True
2. False

Answer: False

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

* + - 1. The balance sheet shows whether or not a business is earning a profit.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

* + - 1. The income statement shows whether or not a business can generate enough cash to pay its liabilities.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 4 Prepare financial statements

A-Head: How do you prepare financial statements?

### Multiple choice: Choose the alternative(s) that best completes the statement or answers the question.

* + - 1. If an analyst wants to know how likely it is that a company would be able to earn a profit, the MOST useful statement would be the:

1. statement of changes in equity.
2. balance sheet.
3. cash flow statement.
4. income statement.

Answer: D

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 5 Use financial statements and return on assets (ROA) to evaluate business performance

A-Head: How do you use financial statements to evaluate business performance

* + - 1. You can evaluate business performance in terms of profitability by analysing which financial statement?

1. Income statement
2. Cash flow statement
3. Balance sheet
4. None of the above

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 5 Use financial statements and return on assets (ROA) to evaluate business performance

A-Head: How do you use financial statements to evaluate business performance

* + - 1. The explanation of why the profit differs from change in cash balance for the period is explained in which of the following statements?

1. Balance sheet
2. Income statement
3. Cash flow statement
4. Statement of changes in equity

Answer: C

Difficulty: Basic

AACSB: Analytical Thinking

Learning Objective: 5 Use financial statements and return on assets (ROA) to evaluate business performance

A-Head: How do you use financial statements to evaluate business performance

* + - 1. If an analyst wants to know how likely it is that a business would be able to pay off all its debts, which of the following statements would be MOST useful?

1. Cash flow statement
2. Income statement
3. Statement of changes in equity
4. Balance sheet

Answer: D

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 5 Use financial statements and return on assets (ROA) to evaluate business performance

A-Head: How do you use financial statements to evaluate business performance

* + - 1. You can evaluate the economic resources, debt and overall financial position of a company in which of the following financial statements?

1. Cash flow statement
2. Statement of changes in equity
3. Income statement
4. Balance sheet

Answer: D

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 5 Use financial statements and return on assets (ROA) to evaluate business performance

A-Head: How do you use financial statements to evaluate business performance

* + - 1. The return on assets is calculated by:

1. multiplying profit and average assets.
2. dividing profit by average assets.
3. subtracting profit from average assets.
4. adding profit and average assets.

Answer: B

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 5 Use financial statements and return on assets (ROA) to evaluate business performance

A-Head: How do you use financial statements to evaluate business performance

* + - 1. Which of the following is used to calculate average assets for the return on assets calculation?

1. Average assets = (Beginning assets + Ending assets) × 2
2. Average assets = (Beginning assets - Ending assets) ÷ 2
3. Average assets = (Beginning assets + Ending assets) ÷ 2
4. Average assets = (Beginning assets - Ending assets) × 2

Answer: C

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 5 Use financial statements and return on assets (ROA) to evaluate business performance

A-Head: How do you use financial statements to evaluate business performance

### Short answer: Write the word or phrase that best completes each statement or answers the question.

* + - 1. Assume MetAmbit Ltd had profit of $2500 for the year ended 31 December 2016. Its beginning and ending assets were $35,500 and $18,500, respectively. Calculate MetAmbit's return on assets (ROA). (Round your percentage answer to two decimal places.)

Answer: 9.26%

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 5 Use financial statements and return on assets (ROA) to evaluate business performance

A-Head: How do you use financial statements to evaluate business performance

### Multiple choice: Choose the alternative(s) that best completes the statement or answers the question.

* + - 1. The financial examination of a company's financial records is called a(n):

1. appraisal.
2. criminal investigation.
3. audit.
4. financial analysis.

Answer: C

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. Which of the following activities would NOT be included in the role of an accountant in public practice?

1. internal auditing
2. liquidation
3. tax planning
4. external auditing

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. Which of the following is NOT one of the main professional accounting bodies in Australia?

1. Institute of Public Accountants
2. Chartered Accountants Australia and New Zealand
3. Certified Public Accountants of Australia
4. Certified Practising Accountants of Australia

Answer: C

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. In Australia, Accounting standards are formulated by the:

1. AASB.
2. FRC.
3. IASB.
4. ASIC.

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. Which of the following concepts (or principles) would dictate that a person with three different businesses keeps three different bank accounts?

1. Going concern assumption
2. Entity concept
3. Accounting period concept
4. Accrual basis of accounting

Answer: B

Difficulty: Basic

AACSB: Analytical Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. Which of the following concepts (or principles) directs a business to align inputs and outputs of physical goods or services with one another?

1. Entity concept
2. Accrual basis of accounting
3. Matching principle
4. Going concern assumption

Answer: C

Difficulty: Basic

AACSB: Analytical Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. Which of the following concepts (or principles) require an assumption that the entity will remain in operation for the foreseeable future?

1. Going concern assumption
2. Accounting period concept
3. Accrual basis of accounting
4. Entity concept

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. Zhang Wei has three different businesses. He has only one bank account for transactions relating to all of his various businesses. Which of the following concepts or principles of accounting is Zhang Wei violating?

1. Entity concept
2. Accounting period concept
3. Accrual basis accounting
4. Going concern concept

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

### True/False: Write 'T' if the statement is true and 'F' if the statement is false.

* + - 1. An accountant working in public practice may provide management consulting services.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. Accounting firms in public practice are all large, multinational partnerships.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. The Australian conceptual framework encompasses non-profit organisations as well as for-profit ones.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. Australian Accounting Standards are exactly the same as the International Financial Reporting Standards (IFRS).

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. In Australia, there is both private and public sector involvement in the standard-setting process.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

* + - 1. The International Accounting Standards Board is made up of members from the private sector and has no public sector involvement.

1. True
2. False

Answer: True

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 6 Describe the organisations and principles that govern accounting

A-Head: What are the organisations and principles that govern accounting?

### Multiple choice: Choose the alternative(s) that best completes the statement or answers the question.

* + - 1. A proprietorship is created by:

1. two or more individuals.
2. electing a board of directors.
3. one individual deciding to start a business.
4. issuing shares of the business.

Answer: C

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. By definition, which of the following represents the owners of a company?

1. Shareholders
2. Customers
3. Employees
4. Creditors

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. Regarding accounting information and records, a proprietorship is an entity entirely separate from its:

1. customers.
2. vendors.
3. proprietor.
4. shareholders.

Answer: C

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. If a proprietorship cannot pay its debts, the creditors may make claims against the:

1. state government.
2. employees of the business.
3. assets of the proprietor.
4. assets of the proprietorship only.

Answer: C

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. A relatively low amount of government regulation is a key advantage of a:

1. company.
2. not-for-profit.
3. partnership.
4. proprietorship.

Answer: D

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. Phillip and Reed have developed a new technology for home computer systems. However, they need to raise a large amount of capital to build the production and support facilities to market their product successfully. Which of the following business types would be best suited to help the business raise the necessary capital to begin production?

1. Limited liability partnership
2. Company
3. Partnership
4. Proprietorship

Answer: B

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. David has decided to open an auto-detailing business. He will pick up a car from the client, take it to his parents' garage, detail it, and return it to the client. If he does all of the work himself and takes no legal steps to form a special organisation, which type of business organisation, in effect, has he chosen?

1. Proprietorship
2. Partnership
3. Limited liability company
4. Company

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. Caleb Brown has been the sole owner of a bicycle sales and repair shop for many years. Which of the following business types would best protect Caleb's personal assets from product liability exposure?

1. Not-for-profit
2. Partnership
3. Limited liability company
4. Proprietorship

Answer: C

Difficulty: Moderate

AACSB: Analytical Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. Which of the following is NOT a characteristic of a traditional partnership?

1. A partnership is owned by shareholders.
2. A partnership joins two or more individuals as co-owners.
3. Each partner has the authority to commit the entire partnership to a binding contract.
4. If a partnership cannot pay its debts, lenders can take the owners' personal assets to satisfy the obligations.

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. Which of the following is TRUE for a proprietorship?

1. A proprietorship has a single owner.
2. A proprietorship joins two or more individuals as co-owners.
3. The proprietor is not personally liable for the debts of the proprietorship.
4. A proprietorship has an indefinite life.

Answer: A

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. A company possesses all but one of the following characteristics. Which of the following is NOT a characteristic of a company?

1. A company is a distinct entity in the eyes of the law.
2. If a company cannot pay its debts, lenders can take the owners' personal assets to satisfy the obligations.
3. A company is owned by shareholders.
4. Company ownership is divided into shares.

Answer: B

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

### True/False: Write 'T' if the statement is true and 'F' if the statement is false.

* + - 1. Similar to partnerships, in a limited-liability company, the members are personally liable for the debts and obligations of the business.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. A proprietor has unlimited liability for the debts and obligations of the proprietorship.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

* + - 1. In a limited liability company the business, not the owners, is responsible for the company's debts.

1. True
2. False

Answer: True

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

### Short answer: Write the word or phrase that best completes each statement or answers the question.

* + - 1. From a legal perspective, what is a proprietorship?

Answer: From a legal perspective, a proprietorship is an entity that is not distinct from its proprietor.

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 7 Identify the three main types of business organisation

A-Head: What are the main types of business organisation?

### Multiple choice: Choose the alternative(s) that best completes the statement or answers the question.

* + - 1. An auditor has been offered a gift of golf clubs as a token of appreciation by a manager in the firm being audited. Which of the following principles in the APESB Code of Conduct would be most relevant in deciding whether to accept the gift?

1. Confidentiality
2. Professional competence and due care
3. Objectivity
4. Integrity

Answer: C

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 8 Explain the role of ethics and sustainability in accounting

A-Head: How do ethics and sustainability relate to accounting?

* + - 1. The concept of sustainability in terms of business operations means that:

1. the business will continue to be profitable in the future as well as the present.
2. the business should consider the needs of society and the environment as being more important than making profits.
3. the business will keep growing in value indefinitely.
4. the business should endure losses today in order to ensure profits in the future.

Answer: A

Difficulty: Moderate

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 8 Explain the role of ethics and sustainability in accounting

A-Head: How do ethics and sustainability relate to accounting?

* + - 1. An example of an external sustainability issue is:

1. greenhouse gas emissions.
2. future profitability of the business.
3. current profitability of the business.
4. both B and C.

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Learning Objective: 8 Explain the role of ethics and sustainability in accounting

A-Head: How do ethics and sustainability relate to accounting?

### True/False: Write 'T' if the statement is true and 'F' if the statement is false.

* + - 1. All business managers are legally bound to comply with the code of ethics developed by the professional accounting bodies.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 8 Explain the role of ethics and sustainability in accounting

A-Head: How do ethics and sustainability relate to accounting?

* + - 1. Codes of ethics govern professional as well as private activities.

1. True
2. False

Answer: False

Difficulty: Basic

AACSB: Analytical Thinking, Reflective Thinking

Learning Objective: 8 Explain the role of ethics and sustainability in accounting

A-Head: How do ethics and sustainability relate to accounting?