Chapter 01 The Accounting Environment: What Is Accounting and Why Is It Done?

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| 1. | The cost-benefit trade-off is best summarized as:      |  |  | | --- | --- | | A. | the concept of comparing the benefits of an action with the costs of the action. |  |  |  | | --- | --- | | B. | the concept of measuring all costs and benefits in dollars. |  |  |  | | --- | --- | | C. | the concept of recording all necessary costs to obtain the desired benefits. |  |  |  | | --- | --- | | D. | the cost of ensuring that costs are always equal to benefits. | |

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| 2. | You have decided to spend $75 on a "Guide to Caribbean Cruises" before booking your winter cruise holiday. This is an example of which of the following principles?      |  |  | | --- | --- | | A. | Relevance |  |  |  | | --- | --- | | B. | Reliability |  |  |  | | --- | --- | | C. | Cost/benefit trade-off |  |  |  | | --- | --- | | D. | Comparability | |

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| 3. | A new shareholder of a small company is concerned about being able to adequately monitor their investment and has asked management to provide them with weekly financial statements. From the company's point of view this would violate which of the following concepts?      |  |  | | --- | --- | | A. | Privacy |  |  |  | | --- | --- | | B. | Reliability |  |  |  | | --- | --- | | C. | IFRS |  |  |  | | --- | --- | | D. | Cost/benefit trade-off | |

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| 4. | Financial accounting would be used to make which of the following decisions?      |  |  | | --- | --- | | A. | Deciding if the company should expand. |  |  |  | | --- | --- | | B. | Determining which products are successful. |  |  |  | | --- | --- | | C. | Determining the price of a product. |  |  |  | | --- | --- | | D. | Deciding whether to invest in the company. | |

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| 5. | Which of the following users would rely on management accounting information?      |  |  | | --- | --- | | A. | Taxation authorities |  |  |  | | --- | --- | | B. | Managers |  |  |  | | --- | --- | | C. | Lenders |  |  |  | | --- | --- | | D. | Investors | |

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| 6. | Which of the following statements about users of financial accounting information is true?      |  |  | | --- | --- | | A. | Users of financial accounting information are the same as the preparers. |  |  |  | | --- | --- | | B. | Users of financial accounting information normally work for the entity. |  |  |  | | --- | --- | | C. | Users of financial accounting information are normally external to the firm. |  |  |  | | --- | --- | | D. | Users of financial accounting information normally have direct access to the information about the entity. | |

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| 7. | Why is it impossible for a single accounting report to be appropriate for all situations?      |  |  | | --- | --- | | A. | Due to the diverse backgrounds of the people preparing accounting reports. |  |  |  | | --- | --- | | B. | Due to the diverse accounting environment in which entities operate. |  |  |  | | --- | --- | | C. | Due to the conflicting objectives of preparers and users. |  |  |  | | --- | --- | | D. | Due to lack of laws defining a single accounting report. | |

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| 8. | What are the four key components of the accounting environment?      |  |  | | --- | --- | | A. | Entities, constraints, stakeholders, environmental factors |  |  |  | | --- | --- | | B. | Entities, constraints, stakeholders, legal factors |  |  |  | | --- | --- | | C. | Users, entities, constraints, environmental factors |  |  |  | | --- | --- | | D. | Users, entities, constraints, legal factors | |

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| 9. | Which type of organization files a business tax return?      |  |  | | --- | --- | | A. | Proprietorship |  |  |  | | --- | --- | | B. | Partnership |  |  |  | | --- | --- | | C. | Corporation |  |  |  | | --- | --- | | D. | Government | |

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| 10. | Which of the following is the most important feature of a corporation?      |  |  | | --- | --- | | A. | It is taxable. |  |  |  | | --- | --- | | B. | It provides limited liability to its shareholders. |  |  |  | | --- | --- | | C. | It can have more than one owner. |  |  |  | | --- | --- | | D. | It has a limited life span. | |

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| 11. | Which of the following statements about private corporations is true?      |  |  | | --- | --- | | A. | Private corporations trade on the stock exchange. |  |  |  | | --- | --- | | B. | Private corporations have only one shareholder. |  |  |  | | --- | --- | | C. | Private corporations are the same as proprietorships. |  |  |  | | --- | --- | | D. | Private corporations' shares are not available for sale unless the shareholders agree. | |

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| 12. | An unincorporated entity operated by two or more people is what form of business?      |  |  | | --- | --- | | A. | A proprietorship |  |  |  | | --- | --- | | B. | A partnership |  |  |  | | --- | --- | | C. | A corporation |  |  |  | | --- | --- | | D. | An income trust | |

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| 13. | James and Nicholas are roommates at university and plan to run a painting business for the summer. Which is the most likely form of organization of their business?      |  |  | | --- | --- | | A. | A proprietorship |  |  |  | | --- | --- | | B. | A partnership |  |  |  | | --- | --- | | C. | A corporation |  |  |  | | --- | --- | | D. | An income trust | |

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| 14. | After completing an accounting course Jessica decided to offer her services as a bookkeeper to friends and neighbours. What is the most likely form of organization of her business?      |  |  | | --- | --- | | A. | A proprietorship |  |  |  | | --- | --- | | B. | A partnership |  |  |  | | --- | --- | | C. | A corporation |  |  |  | | --- | --- | | D. | An income trust | |

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| 15. | What type of organization trades its shares on the Toronto Stock Exchange?      |  |  | | --- | --- | | A. | A partnership |  |  |  | | --- | --- | | B. | A private corporation |  |  |  | | --- | --- | | C. | A public corporation |  |  |  | | --- | --- | | D. | A not-for-profit organization | |

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| 16. | Which of the following types of organization includes all of the business's income in the owner's personal tax return?      |  |  | | --- | --- | | A. | A proprietorship |  |  |  | | --- | --- | | B. | A private corporation |  |  |  | | --- | --- | | C. | A public corporation |  |  |  | | --- | --- | | D. | An income trust | |

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| 17. | Which of the following is the most attractive feature of a proprietorship?      |  |  | | --- | --- | | A. | The only tax return required is the owner's personal tax return. |  |  |  | | --- | --- | | B. | The owner can pledge his/her personal assets against bank loans. |  |  |  | | --- | --- | | C. | Proprietorships are not separate legal entities. |  |  |  | | --- | --- | | D. | Proprietorships are easy and inexpensive to set up. | |

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| 18. | The CICA is the governing organization of chartered accountants in Canada. What is the most likely form of organization of the CICA?      |  |  | | --- | --- | | A. | Partnership |  |  |  | | --- | --- | | B. | Corporation |  |  |  | | --- | --- | | C. | Income trust |  |  |  | | --- | --- | | D. | Not-for-profit | |

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| 19. | Which one of the following is most likely organized as a public corporation?      |  |  | | --- | --- | | A. | Jason's Computer Consulting |  |  |  | | --- | --- | | B. | Smith and Smith, Partners in Law |  |  |  | | --- | --- | | C. | International Tire Inc. |  |  |  | | --- | --- | | D. | Manitoba Health Board | |

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| 20. | What are the owners of a corporation called?      |  |  | | --- | --- | | A. | Auditors |  |  |  | | --- | --- | | B. | Stakeholders |  |  |  | | --- | --- | | C. | Shareholders |  |  |  | | --- | --- | | D. | Managers | |

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| 21. | Which of the following statements about stakeholders is true?      |  |  | | --- | --- | | A. | Stakeholders are individuals that have an interest in an entity. |  |  |  | | --- | --- | | B. | All stakeholders have the same perspective on an entity. |  |  |  | | --- | --- | | C. | Stakeholders normally have unrestricted access to an entity's records. |  |  |  | | --- | --- | | D. | Every entity has the same stakeholders. | |

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| 22. | Who is responsible for deciding what, how and when information is presented in the financial statements?      |  |  | | --- | --- | | A. | Stakeholders |  |  |  | | --- | --- | | B. | Accountants |  |  |  | | --- | --- | | C. | Management |  |  |  | | --- | --- | | D. | Government | |

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| 23. | Which of the following statements about preparers is true?      |  |  | | --- | --- | | A. | Preparers are neutral providers of accounting information. |  |  |  | | --- | --- | | B. | Preparers may not be the people who physically prepare the financial statements. |  |  |  | | --- | --- | | C. | Preparers have the same perspective as stakeholders. |  |  |  | | --- | --- | | D. | Preparers decide what information is going to be presented in the financial statements, but not when it is presented. | |

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| 24. | Sandy's Sandwiches is a small business owned and operated by Sandy Southerly that is not publicly traded and has never borrowed any money. Which of the following would be a constraint in the preparation of its financial statements?      |  |  | | --- | --- | | A. | Canada Business Corporations Act |  |  |  | | --- | --- | | B. | CICA |  |  |  | | --- | --- | | C. | IFRS |  |  |  | | --- | --- | | D. | The Income Tax Act | |

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| 25. | Why are there different acceptable ways to account for similar transactions?      |  |  | | --- | --- | | A. | To allow flexibility to deal with different economic circumstances. |  |  |  | | --- | --- | | B. | To allow managers to enhance their bonuses. |  |  |  | | --- | --- | | C. | To confuse the stakeholders. |  |  |  | | --- | --- | | D. | Because the rule makers cannot agree on one best method. | |

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| 26. | Who are the people who examine an entity's financial information on behalf of external stakeholders?      |  |  | | --- | --- | | A. | Accountants |  |  |  | | --- | --- | | B. | Internal auditors |  |  |  | | --- | --- | | C. | External auditors |  |  |  | | --- | --- | | D. | Preparers | |

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| 27. | Which of the following is an important feature of external auditors?      |  |  | | --- | --- | | A. | They are independent of the entity. |  |  |  | | --- | --- | | B. | They have previous experience managing the entity. |  |  |  | | --- | --- | | C. | They have an ownership interest in the entity. |  |  |  | | --- | --- | | D. | They provide many other services to the entity while engaged as auditors. | |

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| 28. | External auditors are hired by which one of the following groups?      |  |  | | --- | --- | | A. | Management |  |  |  | | --- | --- | | B. | Internal auditors |  |  |  | | --- | --- | | C. | Shareholders |  |  |  | | --- | --- | | D. | Tax authorities | |

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| 29. | Because managers can exercise professional judgment when preparing the financial statements for their company, the stakeholder should:      |  |  | | --- | --- | | A. | read the report of the external auditor. |  |  |  | | --- | --- | | B. | place complete confidence in the financial data. |  |  |  | | --- | --- | | C. | understand that management can be motivated to act in its own self-interests. |  |  |  | | --- | --- | | D. | place no confidence in the financial data. | |

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| 30. | In a public corporation, which of the following stakeholders would be the most interested in the financial statements of the entity?      |  |  | | --- | --- | | A. | Shareholders |  |  |  | | --- | --- | | B. | Managers |  |  |  | | --- | --- | | C. | Employees |  |  |  | | --- | --- | | D. | Auditors | |

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| 31. | In a public corporation, which of the following stakeholders would have easy access to other financial information about the entity?      |  |  | | --- | --- | | A. | Shareholders |  |  |  | | --- | --- | | B. | Managers |  |  |  | | --- | --- | | C. | Employees |  |  |  | | --- | --- | | D. | Auditors | |

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| 32. | You are considering buying a house and have found one that meets all of your criteria. When you are trying to decide how much to pay for it, which of the following parties involved in the process would give you the most reliable information?      |  |  | | --- | --- | | A. | An independent real estate appraiser. |  |  |  | | --- | --- | | B. | The owner of the house you want to buy. |  |  |  | | --- | --- | | C. | The real estate agent hired by the owner to sell the house. |  |  |  | | --- | --- | | D. | The bank that is providing the mortgage loan. | |

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| 33. | Which of the following best describes the purpose of an accounting system?      |  |  | | --- | --- | | A. | To accumulate data. |  |  |  | | --- | --- | | B. | To determine the amount of taxes owing. |  |  |  | | --- | --- | | C. | To determine the market value of an entity. |  |  |  | | --- | --- | | D. | To organize, process and convert data into useful information. | |

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| 34. | Which of the following best describes the "critical approach" to accounting?      |  |  | | --- | --- | | A. | It is a valuable tool for evaluating excessive management compensation. |  |  |  | | --- | --- | | B. | It is a system that includes various levels of authorization to enhance separation of duties. |  |  |  | | --- | --- | | C. | It refers to the application of high-level mental skills in analyzing, evaluating and interpreting financial information for decision-making. |  |  |  | | --- | --- | | D. | A company's auditors may apply the critical approach in their audit procedures. | |

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| 35. | The critical approach to accounting is necessary primarily because:      |  |  | | --- | --- | | A. | various levels of authorization are desirable to enhance separation of duties. |  |  |  | | --- | --- | | B. | management compensation would be even more excessive without it. |  |  |  | | --- | --- | | C. | revenue Canada requires it. |  |  |  | | --- | --- | | D. | a company's stakeholders and management have differing information needs and interests. | |

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| 36. | What does ASPE stands for?      |  |  | | --- | --- | | A. | Acceptable Standards for Private Enterprises |  |  |  | | --- | --- | | B. | Accounting for Shareholders of Private Entities |  |  |  | | --- | --- | | C. | Accountants and Shareholders for Private Enterprises |  |  |  | | --- | --- | | D. | Accounting Standards for Private Enterprises | |

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| 37. | What does IFRS stands for?      |  |  | | --- | --- | | A. | International Fraud Reporting Standards |  |  |  | | --- | --- | | B. | Integrated Financial Reporting Standards |  |  |  | | --- | --- | | C. | International Forensic Reporting Standards |  |  |  | | --- | --- | | D. | International Financial Reporting Standards | |

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| 38. | Which of the following statements about IFRS is true?      |  |  | | --- | --- | | A. | IFRS is an international set of accounting policies. |  |  |  | | --- | --- | | B. | All entities in Canada prepare their financial statements in accordance with IFRS. |  |  |  | | --- | --- | | C. | Statements prepared according to IFRS are not easily compared. |  |  |  | | --- | --- | | D. | The flexibility of IFRS requires users to apply critical thinking when using financial statements. | |

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| 39. | International Financial Reporting Standards are:      |  |  | | --- | --- | | A. | mandatory for public companies only. |  |  |  | | --- | --- | | B. | mandatory for both public and private companies. |  |  |  | | --- | --- | | C. | not mandatory, but recommended for both public and private companies. |  |  |  | | --- | --- | | D. | not mandatory, but recommended for public companies only. | |

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| 40. | Which of the following is one of the benefits of the flexibility allowed by IFRS?      |  |  | | --- | --- | | A. | It allows information to be presented in an appropriate way for the situation. |  |  |  | | --- | --- | | B. | It makes accounting reports more interesting to read. |  |  |  | | --- | --- | | C. | It allows all organizations to be required to follow IFRS. |  |  |  | | --- | --- | | D. | It allows preparers to reflect their own personal interests | |

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| 41. | Replacement cost is one way to measure the value of an item. Which of the following best describes replacement cost?      |  |  | | --- | --- | | A. | What you paid for the item. |  |  |  | | --- | --- | | B. | What it would cost to replace the item with an identical item in the same condition. |  |  |  | | --- | --- | | C. | What it would cost to replace the item with an identical new item. |  |  |  | | --- | --- | | D. | What the item could be sold for now. | |

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| 42. | If you wanted to sell your MP3 player to buy a new one with more memory, which of the following methods of valuing an item would be the most useful?      |  |  | | --- | --- | | A. | Cost |  |  |  | | --- | --- | | B. | Replacement cost |  |  |  | | --- | --- | | C. | Replacement cost new |  |  |  | | --- | --- | | D. | Net realizable value | |

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| 43. | If you wanted to insure your brand new Ferrari sports car to ensure that if anything happened to it you could replace it, which of the following methods of valuing an item would be the most useful?      |  |  | | --- | --- | | A. | Cost |  |  |  | | --- | --- | | B. | Replacement cost |  |  |  | | --- | --- | | C. | Replacement cost new |  |  |  | | --- | --- | | D. | Net realizable value | |

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| 44. | You have a collection of 200 international stamps that you have collected over the years. Most of them cost you nothing, as you just took them off letters or postcards that you or friends and family had received. If you add up the face value (the amount printed on the stamp), your collection totals $125.37. You recently saw a story in a local newspaper that someone else sold a similar collection of 400 stamps for $500. Which of the following statements is most likely true?      |  |  | | --- | --- | | A. | The value of the collection is $250.00. |  |  |  | | --- | --- | | B. | The selling price of the collection is $125.37. |  |  |  | | --- | --- | | C. | The replacement cost of the collection is $250.00. |  |  |  | | --- | --- | | D. | The replacement cost - new of the stamps is $125.37. | |

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| 45. | Your brother borrowed your 2010 Toyota Corolla and had an accident. He is okay, but the car is write-off. You paid $5,000 for it a year ago, and your brother has offered to give you $3,000, the cost he estimates of another 2010 Toyota Corolla. A new Toyota Corolla costs $22,500. Which of the following statements is true?      |  |  | | --- | --- | | A. | The replacement cost of the car is $3,000. |  |  |  | | --- | --- | | B. | The replacement cost of the car is $5,000. |  |  |  | | --- | --- | | C. | The replacement cost-new of the car is $5,000. |  |  |  | | --- | --- | | D. | The replacement cost of the car is $22,500. | |

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| 46. | You have been approached to invest in a real estate venture. A small group is going to buy a piece of land and construct single-family homes on it and then sell them. The group has done similar deals in the past, but one of the participants has left the group and they are now looking for new investors.  Required:  Explain how accounting information would help you decide whether or not to invest in the proposed venture. What non-accounting information would you also want? |

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| 47. | Explain what is meant by the cost/benefit trade-off concept in accounting. A high school student is considering spending $500 to spend two days visiting two out-of-town universities he is thinking of attending. Evaluate this decision using the cost/benefit trade-off concept. |

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| 48. | Identify the stakeholders in each of the following entities and the decisions they make.  i) A privately owned summer camp for boys and girls. ii) A large publicly owned donut store chain. iii) A national charity that supports medical research. |

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| 49. | Identify the stakeholders in each of the following entities and the decisions they make.  i) A non-for-profit day care centre operated by the parents of the children. ii) A small family owned convenience store. iii) A large publicly owned grocery chain. |

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| 50. | Identify three external users of an entity's financial statements and give an example of one decision that each of them would rely on the financial statements for. |

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| 51. | What would be the most likely form of business organization for each of the following?  i) A small bookkeeping business run by an individual from his/her home ii) A national bank iii) Two brothers operating a landscape business together iv) A firm of twenty lawyers v) A family business operating a small chain of bookstores |

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| 52. | Darnia Delaware has been making pottery as a hobby and selling it from her home to friends for several years. She has decided to open a store to sell her work and the work of others to the public. She is hoping that if the store is successful she could expand to a second location in a year's time. She has come to you for advice about how she should organize the business. A friend recommended to her that she become incorporated (operate as a corporation) but she laughed, "I am not going to get so big that I take-over the world!"  Required:  Compare and contrast for Darnia the advantages and disadvantages of operating as a proprietorship versus a corporation. What would you recommend to her? |

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| 53. | Mathew has recently graduated from university and started a full-time job. He has used the information on his bank statement for the past two months to start a personal financial plan because he wants to figure out when he can buy a car. The report he prepared for the past two months is shown below. Mathew is frustrated because he can't figure out how the plan is going to help him. "I wasted time adding up all my deposits and withdrawals for nothing," he complained. "Accounting is just not worth it!"  Mathew's Personal Financial Plan: Goal—to buy a car!      Required:  Explain to Mathew how an accounting system could help him determine when he can buy a car. What suggestions would you make to him to improve his current system? |

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| 54. | Identify five potential stakeholders in a company and briefly describe their specific information needs. |

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| 55. | Explain what is meant by the critical approach to accounting and why it is important. |

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| 56. | Armand Arsenault owns—that is, he is the sole shareholder of—and manages Arsenault Hardware (AH), a small chain of hardware stores. He has always used Joe Summers, an employee-bookkeeper to keep the records and prepare the financial statements. To date the only other one to ever see or use the financial statements was the tax department. The opportunity to buy the building where one of the stores operates has come up, and AH has approached the local bank for a loan. The bank has some questions about the preparation of the financial statements.  Required:  A) In this situation who is responsible for selecting the accounting policies used by AH? B) Is it likely that the statements were prepared according to ASPE? Why or why not? C) Define ASPE. D) What other information might the bank want before making its decision? |

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| 57. | Zhang recently purchased a ladder and some painting supplies to help his mother repaint her house. He is now thinking of painting houses for the summer to earn money for school. He has the following information from his work at his mother's, plus he has given you some estimates of the amount to work he expects to do in the remainder of the summer.  Cost of ladder: $300 Cost of paint supplies (brushes, rollers and pans): $200. Zhang estimates he can use half of the supplies again but will need to replace an amount equal to the rest every job. Cash paid for paint: $250. He still owes the store $150. Cost of renting DVDs to watch when he was finished for the day: $30. His mother only paid him $500, because he still lives at home, and she pointed out that his rent is free. He estimates that for a similar job he could charge $1,500. He thinks he could complete one house of a similar size per week for the 10 weeks remaining in the summer.  Required:  A) Is all the information Zhang has given you relevant for his decision? If not, which one(s) are not relevant? B) Is all of the information reliable? Why or why not? C) Organize the information to provide him with some feedback about how much money he has made so far this summer. D) Organize the information to allow him to predict how much money he will make in the remainder of the summer. E) Do you recommend Zhang paint houses for the summer? Why or why not? |

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| 58. | Chris has just finished his first month at college and wants to estimate his costs for the rest of the year to ensure that the money he makes at his part-time job will cover all of his expenses. He has recorded all his cash inflows and outflows for the month as follows:      Required:  Prepare a statement that organizes Chris' information is a useful way. |

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| 59. | In the summer of 2005, forty three rail cars from a Canadian National Rail (CN) train derailed near Wabamun Lake, a vacation area in Alberta, spilling 700,000 litres of oil into the scenic lake. The disaster, in addition to creating negative headlines for CN, created new stakeholders for the company, including the local Wabamun Lake residents' association.  Required:  A) Identify what information these new stakeholders would want. Where can they get the information? B) How powerful a stakeholder are they? Are there any other stakeholders they could align themselves with? |

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| 60. | Katerina Slovenka decided to turn her love of movies into a small business and has just finished her first month operating a neighbourhood video store. She has kept a notebook of her financial transactions for the month and has approached you to help her decide if she should continue in business. She is discouraged, because although she thought she rented a lot of movies, her bank account has decreased instead of increased. She started the business by buying 100 DVDs; she estimates that the average video has a rental life of three months and that she will add 40 new and replacement titles every month.  Katrina's Notebook      Required:  A) Prepare a statement that organizes the information collected in a useful way. B) Explain to Katerina why you organized it the way you did. C) Should Katerina continue in business? Support your answer. |

Chapter 01 The Accounting Environment: What Is Accounting and Why Is It Done? Key

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| 1. *(p. 4)* | The cost-benefit trade-off is best summarized as:      |  |  | | --- | --- | | **A.** | the concept of comparing the benefits of an action with the costs of the action. |  |  |  | | --- | --- | | B. | the concept of measuring all costs and benefits in dollars. |  |  |  | | --- | --- | | C. | the concept of recording all necessary costs to obtain the desired benefits. |  |  |  | | --- | --- | | D. | the cost of ensuring that costs are always equal to benefits. | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #1 Learning Objective: 01-01 Define accounting and explain why its important.* |

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| 2. *(p. 4)* | You have decided to spend $75 on a "Guide to Caribbean Cruises" before booking your winter cruise holiday. This is an example of which of the following principles?      |  |  | | --- | --- | | A. | Relevance |  |  |  | | --- | --- | | B. | Reliability |  |  |  | | --- | --- | | **C.** | Cost/benefit trade-off |  |  |  | | --- | --- | | D. | Comparability | |

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| *Blooms Level: Comprehension Difficulty: Easy Friedlan - Chapter 01 #2 Learning Objective: 01-01 Define accounting and explain why its important.* |

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| 3. *(p. 4)* | A new shareholder of a small company is concerned about being able to adequately monitor their investment and has asked management to provide them with weekly financial statements. From the company's point of view this would violate which of the following concepts?      |  |  | | --- | --- | | A. | Privacy |  |  |  | | --- | --- | | B. | Reliability |  |  |  | | --- | --- | | C. | IFRS |  |  |  | | --- | --- | | **D.** | Cost/benefit trade-off | |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #3 Learning Objective: 01-01 Define accounting and explain why its important.* |

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| 4. *(p. 16)* | Financial accounting would be used to make which of the following decisions?      |  |  | | --- | --- | | A. | Deciding if the company should expand. |  |  |  | | --- | --- | | B. | Determining which products are successful. |  |  |  | | --- | --- | | C. | Determining the price of a product. |  |  |  | | --- | --- | | **D.** | Deciding whether to invest in the company. | |

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| *Blooms Level: Comprehension Difficulty: Easy Friedlan - Chapter 01 #4 Learning Objective: 01-01 Define accounting and explain why its important.* |

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| 5. *(p. 9)* | Which of the following users would rely on management accounting information?      |  |  | | --- | --- | | A. | Taxation authorities |  |  |  | | --- | --- | | **B.** | Managers |  |  |  | | --- | --- | | C. | Lenders |  |  |  | | --- | --- | | D. | Investors | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #5 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 6. *(p. 9)* | Which of the following statements about users of financial accounting information is true?      |  |  | | --- | --- | | A. | Users of financial accounting information are the same as the preparers. |  |  |  | | --- | --- | | B. | Users of financial accounting information normally work for the entity. |  |  |  | | --- | --- | | **C.** | Users of financial accounting information are normally external to the firm. |  |  |  | | --- | --- | | D. | Users of financial accounting information normally have direct access to the information about the entity. | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #6 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 7. *(p. 10)* | Why is it impossible for a single accounting report to be appropriate for all situations?      |  |  | | --- | --- | | A. | Due to the diverse backgrounds of the people preparing accounting reports. |  |  |  | | --- | --- | | **B.** | Due to the diverse accounting environment in which entities operate. |  |  |  | | --- | --- | | C. | Due to the conflicting objectives of preparers and users. |  |  |  | | --- | --- | | D. | Due to lack of laws defining a single accounting report. | |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #7 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 8. *(p. 6)* | What are the four key components of the accounting environment?      |  |  | | --- | --- | | **A.** | Entities, constraints, stakeholders, environmental factors |  |  |  | | --- | --- | | B. | Entities, constraints, stakeholders, legal factors |  |  |  | | --- | --- | | C. | Users, entities, constraints, environmental factors |  |  |  | | --- | --- | | D. | Users, entities, constraints, legal factors | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #8 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 9. *(p. 7)* | Which type of organization files a business tax return?      |  |  | | --- | --- | | A. | Proprietorship |  |  |  | | --- | --- | | B. | Partnership |  |  |  | | --- | --- | | **C.** | Corporation |  |  |  | | --- | --- | | D. | Government | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #9 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 10. *(p. 7)* | Which of the following is the most important feature of a corporation?      |  |  | | --- | --- | | A. | It is taxable. |  |  |  | | --- | --- | | **B.** | It provides limited liability to its shareholders. |  |  |  | | --- | --- | | C. | It can have more than one owner. |  |  |  | | --- | --- | | D. | It has a limited life span. | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #10 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 11. *(p. 7)* | Which of the following statements about private corporations is true?      |  |  | | --- | --- | | A. | Private corporations trade on the stock exchange. |  |  |  | | --- | --- | | B. | Private corporations have only one shareholder. |  |  |  | | --- | --- | | C. | Private corporations are the same as proprietorships. |  |  |  | | --- | --- | | **D.** | Private corporations' shares are not available for sale unless the shareholders agree. | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #11 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 12. *(p. 7)* | An unincorporated entity operated by two or more people is what form of business?      |  |  | | --- | --- | | A. | A proprietorship |  |  |  | | --- | --- | | **B.** | A partnership |  |  |  | | --- | --- | | C. | A corporation |  |  |  | | --- | --- | | D. | An income trust | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #12 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 13. *(p. 7)* | James and Nicholas are roommates at university and plan to run a painting business for the summer. Which is the most likely form of organization of their business?      |  |  | | --- | --- | | A. | A proprietorship |  |  |  | | --- | --- | | **B.** | A partnership |  |  |  | | --- | --- | | C. | A corporation |  |  |  | | --- | --- | | D. | An income trust | |

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| *Blooms Level: Comprehension Difficulty: Easy Friedlan - Chapter 01 #13 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 14. *(p. 7)* | After completing an accounting course Jessica decided to offer her services as a bookkeeper to friends and neighbours. What is the most likely form of organization of her business?      |  |  | | --- | --- | | **A.** | A proprietorship |  |  |  | | --- | --- | | B. | A partnership |  |  |  | | --- | --- | | C. | A corporation |  |  |  | | --- | --- | | D. | An income trust | |

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| *Blooms Level: Comprehension Difficulty: Easy Friedlan - Chapter 01 #14 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 15. *(p. 7)* | What type of organization trades its shares on the Toronto Stock Exchange?      |  |  | | --- | --- | | A. | A partnership |  |  |  | | --- | --- | | B. | A private corporation |  |  |  | | --- | --- | | **C.** | A public corporation |  |  |  | | --- | --- | | D. | A not-for-profit organization | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #15 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 16. *(p. 7)* | Which of the following types of organization includes all of the business's income in the owner's personal tax return?      |  |  | | --- | --- | | **A.** | A proprietorship |  |  |  | | --- | --- | | B. | A private corporation |  |  |  | | --- | --- | | C. | A public corporation |  |  |  | | --- | --- | | D. | An income trust | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #16 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 17. *(p. 7)* | Which of the following is the most attractive feature of a proprietorship?      |  |  | | --- | --- | | A. | The only tax return required is the owner's personal tax return. |  |  |  | | --- | --- | | B. | The owner can pledge his/her personal assets against bank loans. |  |  |  | | --- | --- | | C. | Proprietorships are not separate legal entities. |  |  |  | | --- | --- | | **D.** | Proprietorships are easy and inexpensive to set up. | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #17 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 18. *(p. 8)* | The CICA is the governing organization of chartered accountants in Canada. What is the most likely form of organization of the CICA?      |  |  | | --- | --- | | A. | Partnership |  |  |  | | --- | --- | | B. | Corporation |  |  |  | | --- | --- | | C. | Income trust |  |  |  | | --- | --- | | **D.** | Not-for-profit | |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #18 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 19. *(p. 7)* | Which one of the following is most likely organized as a public corporation?      |  |  | | --- | --- | | A. | Jason's Computer Consulting |  |  |  | | --- | --- | | B. | Smith and Smith, Partners in Law |  |  |  | | --- | --- | | **C.** | International Tire Inc. |  |  |  | | --- | --- | | D. | Manitoba Health Board | |

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| *Blooms Level: Comprehension Difficulty: Easy Friedlan - Chapter 01 #19 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 20. *(p. 7)* | What are the owners of a corporation called?      |  |  | | --- | --- | | A. | Auditors |  |  |  | | --- | --- | | B. | Stakeholders |  |  |  | | --- | --- | | **C.** | Shareholders |  |  |  | | --- | --- | | D. | Managers | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #20 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 21. *(p. 7)* | Which of the following statements about stakeholders is true?      |  |  | | --- | --- | | **A.** | Stakeholders are individuals that have an interest in an entity. |  |  |  | | --- | --- | | B. | All stakeholders have the same perspective on an entity. |  |  |  | | --- | --- | | C. | Stakeholders normally have unrestricted access to an entity's records. |  |  |  | | --- | --- | | D. | Every entity has the same stakeholders. | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #21 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 22. *(p. 10)* | Who is responsible for deciding what, how and when information is presented in the financial statements?      |  |  | | --- | --- | | A. | Stakeholders |  |  |  | | --- | --- | | B. | Accountants |  |  |  | | --- | --- | | **C.** | Management |  |  |  | | --- | --- | | D. | Government | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #22 Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 23. *(p. 11)* | Which of the following statements about preparers is true?      |  |  | | --- | --- | | A. | Preparers are neutral providers of accounting information. |  |  |  | | --- | --- | | **B.** | Preparers may not be the people who physically prepare the financial statements. |  |  |  | | --- | --- | | C. | Preparers have the same perspective as stakeholders. |  |  |  | | --- | --- | | D. | Preparers decide what information is going to be presented in the financial statements, but not when it is presented. | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #23 Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 24. *(p. 9)* | Sandy's Sandwiches is a small business owned and operated by Sandy Southerly that is not publicly traded and has never borrowed any money. Which of the following would be a constraint in the preparation of its financial statements?      |  |  | | --- | --- | | A. | Canada Business Corporations Act |  |  |  | | --- | --- | | B. | CICA |  |  |  | | --- | --- | | C. | IFRS |  |  |  | | --- | --- | | **D.** | The Income Tax Act | |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #24 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 25. *(p. 11)* | Why are there different acceptable ways to account for similar transactions?      |  |  | | --- | --- | | **A.** | To allow flexibility to deal with different economic circumstances. |  |  |  | | --- | --- | | B. | To allow managers to enhance their bonuses. |  |  |  | | --- | --- | | C. | To confuse the stakeholders. |  |  |  | | --- | --- | | D. | Because the rule makers cannot agree on one best method. | |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #25 Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 26. *(p. 12)* | Who are the people who examine an entity's financial information on behalf of external stakeholders?      |  |  | | --- | --- | | A. | Accountants |  |  |  | | --- | --- | | B. | Internal auditors |  |  |  | | --- | --- | | **C.** | External auditors |  |  |  | | --- | --- | | D. | Preparers | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #26 Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 27. *(p. 12)* | Which of the following is an important feature of external auditors?      |  |  | | --- | --- | | **A.** | They are independent of the entity. |  |  |  | | --- | --- | | B. | They have previous experience managing the entity. |  |  |  | | --- | --- | | C. | They have an ownership interest in the entity. |  |  |  | | --- | --- | | D. | They provide many other services to the entity while engaged as auditors. | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #27 Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 28. *(p. 12)* | External auditors are hired by which one of the following groups?      |  |  | | --- | --- | | A. | Management |  |  |  | | --- | --- | | B. | Internal auditors |  |  |  | | --- | --- | | **C.** | Shareholders |  |  |  | | --- | --- | | D. | Tax authorities | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #28 Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 29. *(p. 11)* | Because managers can exercise professional judgment when preparing the financial statements for their company, the stakeholder should:      |  |  | | --- | --- | | A. | read the report of the external auditor. |  |  |  | | --- | --- | | B. | place complete confidence in the financial data. |  |  |  | | --- | --- | | **C.** | understand that management can be motivated to act in its own self-interests. |  |  |  | | --- | --- | | D. | place no confidence in the financial data. | |

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| *Blooms Level: Comprehension Difficulty: Easy Friedlan - Chapter 01 #29 Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 30. *(p. 9)* | In a public corporation, which of the following stakeholders would be the most interested in the financial statements of the entity?      |  |  | | --- | --- | | **A.** | Shareholders |  |  |  | | --- | --- | | B. | Managers |  |  |  | | --- | --- | | C. | Employees |  |  |  | | --- | --- | | D. | Auditors | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #30 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 31. *(p. 11)* | In a public corporation, which of the following stakeholders would have easy access to other financial information about the entity?      |  |  | | --- | --- | | A. | Shareholders |  |  |  | | --- | --- | | **B.** | Managers |  |  |  | | --- | --- | | C. | Employees |  |  |  | | --- | --- | | D. | Auditors | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #31 Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 32. *(p. 12)* | You are considering buying a house and have found one that meets all of your criteria. When you are trying to decide how much to pay for it, which of the following parties involved in the process would give you the most reliable information?      |  |  | | --- | --- | | **A.** | An independent real estate appraiser. |  |  |  | | --- | --- | | B. | The owner of the house you want to buy. |  |  |  | | --- | --- | | C. | The real estate agent hired by the owner to sell the house. |  |  |  | | --- | --- | | D. | The bank that is providing the mortgage loan. | |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #32 Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 33. *(p. 3)* | Which of the following best describes the purpose of an accounting system?      |  |  | | --- | --- | | A. | To accumulate data. |  |  |  | | --- | --- | | B. | To determine the amount of taxes owing. |  |  |  | | --- | --- | | C. | To determine the market value of an entity. |  |  |  | | --- | --- | | **D.** | To organize, process and convert data into useful information. | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #33 Learning Objective: 01-01 Define accounting and explain why its important.* |

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| 34. *(p. 12)* | Which of the following best describes the "critical approach" to accounting?      |  |  | | --- | --- | | A. | It is a valuable tool for evaluating excessive management compensation. |  |  |  | | --- | --- | | B. | It is a system that includes various levels of authorization to enhance separation of duties. |  |  |  | | --- | --- | | **C.** | It refers to the application of high-level mental skills in analyzing, evaluating and interpreting financial information for decision-making. |  |  |  | | --- | --- | | D. | A company's auditors may apply the critical approach in their audit procedures. | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #34 Learning Objective: 01-04 Explain what a critical approach to accounting is.* |

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| 35. *(p. 12)* | The critical approach to accounting is necessary primarily because:      |  |  | | --- | --- | | A. | various levels of authorization are desirable to enhance separation of duties. |  |  |  | | --- | --- | | B. | management compensation would be even more excessive without it. |  |  |  | | --- | --- | | C. | revenue Canada requires it. |  |  |  | | --- | --- | | **D.** | a company's stakeholders and management have differing information needs and interests. | |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #35 Learning Objective: 01-04 Explain what a critical approach to accounting is.* |

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| 36. *(p. 14)* | What does ASPE stands for?      |  |  | | --- | --- | | A. | Acceptable Standards for Private Enterprises |  |  |  | | --- | --- | | B. | Accounting for Shareholders of Private Entities |  |  |  | | --- | --- | | C. | Accountants and Shareholders for Private Enterprises |  |  |  | | --- | --- | | **D.** | Accounting Standards for Private Enterprises | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #36 Learning Objective: 01-05 Understand the purpose of accounting standards such as International Financial Reporting Standards (IFRS) and Accounting Standards for Private Enterprises (ASPE) and be familiar with the different sets of accounting standards that are used in Canada* |

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| 37. *(p. 14)* | What does IFRS stands for?      |  |  | | --- | --- | | A. | International Fraud Reporting Standards |  |  |  | | --- | --- | | B. | Integrated Financial Reporting Standards |  |  |  | | --- | --- | | C. | International Forensic Reporting Standards |  |  |  | | --- | --- | | **D.** | International Financial Reporting Standards | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #37 Learning Objective: 01-05 Understand the purpose of accounting standards such as International Financial Reporting Standards (IFRS) and Accounting Standards for Private Enterprises (ASPE) and be familiar with the different sets of accounting standards that are used in Canada* |

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| 38. *(p. 13)* | Which of the following statements about IFRS is true?      |  |  | | --- | --- | | A. | IFRS is an international set of accounting policies. |  |  |  | | --- | --- | | B. | All entities in Canada prepare their financial statements in accordance with IFRS. |  |  |  | | --- | --- | | C. | Statements prepared according to IFRS are not easily compared. |  |  |  | | --- | --- | | **D.** | The flexibility of IFRS requires users to apply critical thinking when using financial statements. | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #38 Learning Objective: 01-05 Understand the purpose of accounting standards such as International Financial Reporting Standards (IFRS) and Accounting Standards for Private Enterprises (ASPE) and be familiar with the different sets of accounting standards that are used in Canada* |

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| 39. *(p. 13)* | International Financial Reporting Standards are:      |  |  | | --- | --- | | **A.** | mandatory for public companies only. |  |  |  | | --- | --- | | B. | mandatory for both public and private companies. |  |  |  | | --- | --- | | C. | not mandatory, but recommended for both public and private companies. |  |  |  | | --- | --- | | D. | not mandatory, but recommended for public companies only. | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #39 Learning Objective: 01-05 Understand the purpose of accounting standards such as International Financial Reporting Standards (IFRS) and Accounting Standards for Private Enterprises (ASPE) and be familiar with the different sets of accounting standards that are used in Canada* |

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| 40. *(p. 14)* | Which of the following is one of the benefits of the flexibility allowed by IFRS?      |  |  | | --- | --- | | **A.** | It allows information to be presented in an appropriate way for the situation. |  |  |  | | --- | --- | | B. | It makes accounting reports more interesting to read. |  |  |  | | --- | --- | | C. | It allows all organizations to be required to follow IFRS. |  |  |  | | --- | --- | | D. | It allows preparers to reflect their own personal interests | |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #40 Learning Objective: 01-05 Understand the purpose of accounting standards such as International Financial Reporting Standards (IFRS) and Accounting Standards for Private Enterprises (ASPE) and be familiar with the different sets of accounting standards that are used in Canada* |

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| 41. *(p. 19)* | Replacement cost is one way to measure the value of an item. Which of the following best describes replacement cost?      |  |  | | --- | --- | | A. | What you paid for the item. |  |  |  | | --- | --- | | **B.** | What it would cost to replace the item with an identical item in the same condition. |  |  |  | | --- | --- | | C. | What it would cost to replace the item with an identical new item. |  |  |  | | --- | --- | | D. | What the item could be sold for now. | |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #41 Learning Objective: 01-06 Understand that the main purpose of accounting is to measure economic activity and that accounting measurements can often be difficult and subjective.* |

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| 42. *(p. 19)* | If you wanted to sell your MP3 player to buy a new one with more memory, which of the following methods of valuing an item would be the most useful?      |  |  | | --- | --- | | A. | Cost |  |  |  | | --- | --- | | B. | Replacement cost |  |  |  | | --- | --- | | C. | Replacement cost new |  |  |  | | --- | --- | | **D.** | Net realizable value | |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #42 Learning Objective: 01-06 Understand that the main purpose of accounting is to measure economic activity and that accounting measurements can often be difficult and subjective.* |

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| 43. *(p. 19)* | If you wanted to insure your brand new Ferrari sports car to ensure that if anything happened to it you could replace it, which of the following methods of valuing an item would be the most useful?      |  |  | | --- | --- | | A. | Cost |  |  |  | | --- | --- | | B. | Replacement cost |  |  |  | | --- | --- | | **C.** | Replacement cost new |  |  |  | | --- | --- | | D. | Net realizable value | |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #43 Learning Objective: 01-06 Understand that the main purpose of accounting is to measure economic activity and that accounting measurements can often be difficult and subjective.* |

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| 44. *(p. 19)* | You have a collection of 200 international stamps that you have collected over the years. Most of them cost you nothing, as you just took them off letters or postcards that you or friends and family had received. If you add up the face value (the amount printed on the stamp), your collection totals $125.37. You recently saw a story in a local newspaper that someone else sold a similar collection of 400 stamps for $500. Which of the following statements is most likely true?      |  |  | | --- | --- | | **A.** | The value of the collection is $250.00. |  |  |  | | --- | --- | | B. | The selling price of the collection is $125.37. |  |  |  | | --- | --- | | C. | The replacement cost of the collection is $250.00. |  |  |  | | --- | --- | | D. | The replacement cost - new of the stamps is $125.37. | |

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| *Blooms Level: Comprehension Difficulty: Difficult Friedlan - Chapter 01 #44 Learning Objective: 01-06 Understand that the main purpose of accounting is to measure economic activity and that accounting measurements can often be difficult and subjective.* |

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| 45. *(p. 19)* | Your brother borrowed your 2010 Toyota Corolla and had an accident. He is okay, but the car is write-off. You paid $5,000 for it a year ago, and your brother has offered to give you $3,000, the cost he estimates of another 2010 Toyota Corolla. A new Toyota Corolla costs $22,500. Which of the following statements is true?      |  |  | | --- | --- | | **A.** | The replacement cost of the car is $3,000. |  |  |  | | --- | --- | | B. | The replacement cost of the car is $5,000. |  |  |  | | --- | --- | | C. | The replacement cost-new of the car is $5,000. |  |  |  | | --- | --- | | D. | The replacement cost of the car is $22,500. | |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #45 Learning Objective: 01-06 Understand that the main purpose of accounting is to measure economic activity and that accounting measurements can often be difficult and subjective.* |

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| 46. *(p. 2-3, 10-11)* | You have been approached to invest in a real estate venture. A small group is going to buy a piece of land and construct single-family homes on it and then sell them. The group has done similar deals in the past, but one of the participants has left the group and they are now looking for new investors.  Required:  Explain how accounting information would help you decide whether or not to invest in the proposed venture. What non-accounting information would you also want?     There should be accounting information from their previous ventures. You could see if previous projects have been profitable; that is, did they sell the houses for more than the cost of the land and construction costs? You could calculate the rate of return earned in previous deals. There is no guarantee that the current deal will earn a similar return, but historical information can be used to predict future performance. How much money have the others been able to withdraw from the business? You could determine if the company has any other way to repay the money to investors should they be unable to sell the houses. You could see who else the company owes money to and find out if they would be paid back before or after your claim. If they need additional money, where do they plan on getting it from? What is the form of organization of the venture? If it were a partnership, you would have personal liability for all obligations of the partnership. What do you get for your investment? Will you be getting a salary? Will you have any say in the decision-making process?  Non-accounting information might include information about house construction in the area and recent house sales. You would want to determine if there is a market for the type of houses they are proposing and what price they have sold at, or if the market is currently over-built; i.e., does the supply of houses exceed the demand? You would want information about competitors currently in the market or planning to enter. You might want information about interest rates—if they go up, traditional housing sales fall. You could check with an organization like the Better Business Bureau to find out if there have been any complaints against the group, the participants and the houses built previously. You would want to find out about the background, skill levels and track record of the other members of the group. |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #46 Learning Objective: 01-01 Define accounting and explain why its important. Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 47. *(p. 4)* | Explain what is meant by the cost/benefit trade-off concept in accounting. A high school student is considering spending $500 to spend two days visiting two out-of-town universities he is thinking of attending. Evaluate this decision using the cost/benefit trade-off concept.     Gathering and analyzing information takes time and is costly. In accounting you want the benefit derived from using the information to exceed the cost of collecting and processing it. As you collect additional information the additional amount of benefits usually decreases. There may come a point where you have enough information to make a decision without needing to incur additional costs.  Attending university out of town is expensive and normally a four-year commitment. The cost of choosing poorly might be a lost year of university work, or having to pay rent or tuition for a full year even if the student is unhappy and drops out. So the $500 cost to visit the universities seems a reasonable application of the cost/benefit trade-off. It is worth the $500 cost to get the benefit of picking the university the student will be happiest at. |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #47 Learning Objective: 01-01 Define accounting and explain why its important.* |

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| 48. *(p. 9-10)* | Identify the stakeholders in each of the following entities and the decisions they make.  i) A privately owned summer camp for boys and girls. ii) A large publicly owned donut store chain. iii) A national charity that supports medical research.     i) Owners: How profitable is the camp? How much should they charge in fees?  Suppliers to the camp: Are they going to get paid? How long until they get paid?  Staff: Will the camp be able to pay the wages all summer?  Campers' parents: They normally pay their fees up front so want to know that the camp will be able to operate all summer and provide the services paid for. That it is a reputable and reliable organization.  Lenders and suppliers: Has the camp borrowed money? Will they be able to repay it?  Government regulators: Interested in compliance with health and safety regulations. Want to assess and collect taxes.  ii) Shareholders: How profitable is the company? Will they receive any of the profits as dividend payout or as increases in the share price? Is management doing a good job running the company?  Lenders and suppliers: Can the company repay any loans or amounts owing and interest? Do they have any security to offer in case they cannot pay?  Management: How well has the company done? What compensation should they expect? Do they have the resources available to expand?  Employees: Is the company viable in the long-term. What level of wages and benefits can they afford to pay?  Government: Compliance with health and safety regulations. Want to assess and collect taxes.  iii) Researchers: Does the organization have the resources to fund their research?  Donors: What are they using the money for? What portion is going to administrative functions? What portion to the research? Have they had any results? How do they measure their results? How much should they donate?  Government: Does it meet the criteria of a non-for-profit organization? Is it meeting its objectives?  Patients or families that will benefit from the research. |

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| *Blooms Level: Comprehension Difficulty: Difficult Friedlan - Chapter 01 #48 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment. Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 49. *(p. 9-10)* | Identify the stakeholders in each of the following entities and the decisions they make.  i) A non-for-profit day care centre operated by the parents of the children. ii) A small family owned convenience store. iii) A large publicly owned grocery chain.     i) Parents: Want to assess the efficiency of the centre. How are their fees being spent? Will additional funding be required? Where would it come from? Are there adequate facilities/resources available or do things need to be upgraded or replaced? Will fees be going up? Are they meeting minimum safety standards?  Government: Are health and safety standards being met? Do they qualify as a non-for-profit organization?  Suppliers: Will they be paid? When? What are the alternatives if they can not be paid?  Employees: Are they viable in the long run? What wages can they expect?  ii) Owners: How is the store performing? Can efficiency be improved? Do additional investments need to be made?  Suppliers and lenders: Can the company repay any loans or amounts owing and interest? Do they have any security to offer in case they cannot pay?  Government: Wants to assess and collect taxes. Ensure compliance with health and safety regulations  iii) Shareholders: How profitable is the company? Will they receive any of the profits as dividend payout or as increases in the share price? Is management doing a good job running the company?  Lenders and suppliers: Can the company repay any loans or amounts owing and interest? Do they have any security to offer in case they cannot pay?  Management: How well has the company done? What compensation should they expect? Do they have the resources available to expand?  Employees: Is the company viable in the long-term. What level of wages and benefits can they afford to pay?  Government: Compliance with health and safety regulations. Want to assess and collect taxes |

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| *Blooms Level: Comprehension Difficulty: Difficult Friedlan - Chapter 01 #49 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment. Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 50. *(p. 10)* | Identify three external users of an entity's financial statements and give an example of one decision that each of them would rely on the financial statements for.     Answers could vary significantly. Here are some of the usual key external shareholders.  Shareholders: In most larger companies shareholders are external to the running of the organization. They are looking for information about management's effectiveness in running the company and what returns they could expect.  Government: Are interested in assessing and collecting taxes owed. In some instances government agencies would be monitoring for employee health and safety, consumer safety or environmental controls.  Lenders: Are interested in assessing a company's ability to repay any borrowings or if they have assets the lender could take back to sell in the event that they were unable to repay.  Suppliers: Want to ensure that if they offer extended credit terms to the company that the company will be able to pay them.  Consumers: If the product requires after-sales service or has the potential for break-down they want to know that the company will be able to honour the warranty or provide the service. |

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| *Blooms Level: Knowledge Difficulty: Moderate Friedlan - Chapter 01 #50 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 51. *(p. 7)* | What would be the most likely form of business organization for each of the following?  i) A small bookkeeping business run by an individual from his/her home ii) A national bank iii) Two brothers operating a landscape business together iv) A firm of twenty lawyers v) A family business operating a small chain of bookstores     i) Proprietorship ii) Corporation iii) Partnership iv) Partnership v) Corporation |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #51 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 52. *(p. 7-8)* | Darnia Delaware has been making pottery as a hobby and selling it from her home to friends for several years. She has decided to open a store to sell her work and the work of others to the public. She is hoping that if the store is successful she could expand to a second location in a year's time. She has come to you for advice about how she should organize the business. A friend recommended to her that she become incorporated (operate as a corporation) but she laughed, "I am not going to get so big that I take-over the world!"  Required:  Compare and contrast for Darnia the advantages and disadvantages of operating as a proprietorship versus a corporation. What would you recommend to her?     Proprietorship:  Advantages: easy to set up, inexpensive to operate. Disadvantages: Not a separate legal entity so must include all earnings in personal income and pay personal tax rates on it. Unlimited liability so no protection of personal assets. Difficult to transfer ownership. May be more difficult to borrow money or raise additional funds.  Corporation:  Advantages: Limited liability, personal assets of the owners are separate from the business, but in the case of a small corporation, like this one would be, any creditors would probably ask for personal guarantees. Business income can either be retained in the corporation or paid out to shareholders as dividends. Corporate tax rates may be lower than personal tax rates, particularly for small businesses. It is a separate legal entity and therefore can enter into contracts. May make it easier to borrow money or to expand the business. Easy to transfer ownership without affecting the running of the company.  Disadvantage: More expensive to operate.  Recommendation: As Darnia is expecting to grow the business and is operating a large and more complicated business than before—now she will pay rent, deal with suppliers and unknown customers—she should probably incorporate. Presumably she will make more money so the tax advantages may also be attractive to her. Similarly if she wants to sell the business eventually it is easier to sell as a corporation. Incorporation is not only for large international businesses; corporations can be small private corporations that still have all the advantages of incorporation. |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #52 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 53. *(p. 17-18)* | Mathew has recently graduated from university and started a full-time job. He has used the information on his bank statement for the past two months to start a personal financial plan because he wants to figure out when he can buy a car. The report he prepared for the past two months is shown below. Mathew is frustrated because he can't figure out how the plan is going to help him. "I wasted time adding up all my deposits and withdrawals for nothing," he complained. "Accounting is just not worth it!"  Mathew's Personal Financial Plan: Goal—to buy a car!      Required:  Explain to Mathew how an accounting system could help him determine when he can buy a car. What suggestions would you make to him to improve his current system?     An accounting system collects data, then summarizes it and organizes it to produce information that is useful to the decision maker. Different decision makers may have different needs and therefore may require the information in different formats. By tracking his inflows and expenses Mathew will be able to determine what he spends his money on and how much he can put aside each month toward his goal of buying a car.  If he had more detail in his expenses he would have better information about his spending habits. He could identify areas where he could reduce his spending in order to save more. Perhaps he could eat out one less time a week, or join a library instead of buying new books and newspapers. In Mathew's current system the information is too summarized to be of much use. In addition to just reviewing his bank statement he needs to track where his money is going. He could start with a notebook and write down what he spends his cash on and what the cheques are for. He should decide how many different categories of spending he needs; for example, does he need to separate his entertainment expenses into more than one category (movies, pub nights, etc)? How much detail he needs will depend on how he expects to use the information. |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #53 Learning Objective: 01-06 Understand that the main purpose of accounting is to measure economic activity and that accounting measurements can often be difficult and subjective.* |

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| 54. *(p. 9-10)* | Identify five potential stakeholders in a company and briefly describe their specific information needs.     Owners: Often, the owners of a business don't manage it themselves and, thus, aren't involved in its day-to-day affairs (e.g., shareholders of public corporations). When the owners don't manage the business, they need information from it for purposes of evaluating how well their investment is doing, determining if management is doing a good job, assessing the effectiveness of business strategies, considering whether they should sell their interest in the entity or deciding if the managers should be replaced.  Creditors: A creditor is a stakeholder because it's owed money, goods or services by an entity. Creditors need information to determine if an entity will be able to pay amounts owed and, in the event the entity doesn't pay, whether there are assets that might be taken and sold to recover the money owed.  Taxation authorities: In Canada, most individuals and corporations must file a tax return each year. The Canada Revenue Agency (CRA) requires taxpayers to calculate their taxes using methods consistent with the *Income Tax Act*, Canada's federal tax legislation. Provinces also have tax rules that must be followed. The CRA uses accounting information to assess the taxes owed by a business or individual.  Governments: Governments use accounting information to decide whether certain entities should receive government support or subsidies. Accounting information can also have a political impact if, for instance, a company attracts the attention of politicians by making what the public perceives as "too much money."  Labour unions: Labour unions are concerned with the interests of their members and attempt to negotiate good wage and benefits packages with employers. Accounting information can provide insights to the union about how much an entity can afford to pay employees.  Communities/public interest groups: The lives of people are affected by the entities in their communities. For example, entities can be employers, taxpayers or polluters. Accounting information provides citizens and community leaders with information regarding the entity and its impact in the community.  Donors to charities: Donors would like to know that their donations are being used mainly to achieve the goals of the charity and not excessively for administration and fundraising. Accounting information can be useful for assessing whether the money they donate will be put to good use. |

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| *Blooms Level: Knowledge Difficulty: Easy Friedlan - Chapter 01 #54 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment.* |

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| 55. *(p. 12-13)* | Explain what is meant by the critical approach to accounting and why it is important.     The critical approach to accounting refers to critical thinking, which is applying high-level mental skills such as analysis, application, evaluation, explanation, inference, interpretation, judgment and synthesis as a guide to decision making. This is important because:  • There are different kinds of entities with a wide variety of characteristics, and each entity can have many different stakeholders who have different information needs and interests. • Accounting information is prepared by an entity's managers, and their interests are often different from those of stakeholders. • Accounting rules often allow different ways of measuring similar transactions or economic events. • Measuring economic activity can be very challenging, which in turn means that a lot of judgment is required by the preparers. |

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| *Blooms Level: Comprehension Difficulty: Moderate Friedlan - Chapter 01 #55 Learning Objective: 01-04 Explain what a critical approach to accounting is.* |

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| 56. *(p. 14-15)* | Armand Arsenault owns—that is, he is the sole shareholder of—and manages Arsenault Hardware (AH), a small chain of hardware stores. He has always used Joe Summers, an employee-bookkeeper to keep the records and prepare the financial statements. To date the only other one to ever see or use the financial statements was the tax department. The opportunity to buy the building where one of the stores operates has come up, and AH has approached the local bank for a loan. The bank has some questions about the preparation of the financial statements.  Required:  A) In this situation who is responsible for selecting the accounting policies used by AH? B) Is it likely that the statements were prepared according to ASPE? Why or why not? C) Define ASPE. D) What other information might the bank want before making its decision?     A) Accounting policies choices are always the responsibility of management, in this case, Armand Arsenault.  B) The statements were most likely not prepared according to ASPE. Although the business is incorporated, it is a private company and they are not required to use ASPE. Since the only other user was the tax department, the statements most likely used policies that conform to tax laws.  C) ASPE stands for Accounting Standards for Private Enterprises and is made up of the conventions, principles, practices, procedures and rules that define acceptable accounting practices for private companies.  D) Other information the bank would want: an appraisal of the market value of the building, whether anyone else has an existing claim on the building or other assets of AH. They may want to have an independent accountant review the financial statements to improve their reliability. |

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| *Blooms Level: Comprehension Difficulty: Difficult Friedlan - Chapter 01 #56 Learning Objective: 01-05 Understand the purpose of accounting standards such as International Financial Reporting Standards (IFRS) and Accounting Standards for Private Enterprises (ASPE) and be familiar with the different sets of accounting standards that are used in Canada* |

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| 57. *(p. 17 to 19)* | Zhang recently purchased a ladder and some painting supplies to help his mother repaint her house. He is now thinking of painting houses for the summer to earn money for school. He has the following information from his work at his mother's, plus he has given you some estimates of the amount to work he expects to do in the remainder of the summer.  Cost of ladder: $300 Cost of paint supplies (brushes, rollers and pans): $200. Zhang estimates he can use half of the supplies again but will need to replace an amount equal to the rest every job. Cash paid for paint: $250. He still owes the store $150. Cost of renting DVDs to watch when he was finished for the day: $30. His mother only paid him $500, because he still lives at home, and she pointed out that his rent is free. He estimates that for a similar job he could charge $1,500. He thinks he could complete one house of a similar size per week for the 10 weeks remaining in the summer.  Required:  A) Is all the information Zhang has given you relevant for his decision? If not, which one(s) are not relevant? B) Is all of the information reliable? Why or why not? C) Organize the information to provide him with some feedback about how much money he has made so far this summer. D) Organize the information to allow him to predict how much money he will make in the remainder of the summer. E) Do you recommend Zhang paint houses for the summer? Why or why not?     A) No. The DVD rental cost is not relevant; it's not a business expense. The cost of the ladder and supplies to date are also not relevant; it will not change based on his decision.  B) The information about what has been spent to date is reliable, as those are known costs. The information about future revenues and costs is not as reliable, as they are only estimates at this point. If he had already received signed contracts for the jobs or firm estimates for the paint and supplies, that would improve the reliability of the information  C)      D) Yes, Zhang should paint houses for the summer; although he lost money working for his mother, he would more than make up for that in the remainder of the summer. |

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| *Blooms Level: Application Difficulty: Difficult Friedlan - Chapter 01 #57 Learning Objective: 01-06 Understand that the main purpose of accounting is to measure economic activity and that accounting measurements can often be difficult and subjective.* |

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| 58. *(p. 17-18)* | Chris has just finished his first month at college and wants to estimate his costs for the rest of the year to ensure that the money he makes at his part-time job will cover all of his expenses. He has recorded all his cash inflows and outflows for the month as follows:      Required:  Prepare a statement that organizes Chris' information is a useful way.     Summary of Earnings and Expenses for Chris for September: |

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| *Blooms Level: Application Difficulty: Moderate Friedlan - Chapter 01 #58 Learning Objective: 01-06 Understand that the main purpose of accounting is to measure economic activity and that accounting measurements can often be difficult and subjective.* |

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| 59. *(p. 11-13)* | In the summer of 2005, forty three rail cars from a Canadian National Rail (CN) train derailed near Wabamun Lake, a vacation area in Alberta, spilling 700,000 litres of oil into the scenic lake. The disaster, in addition to creating negative headlines for CN, created new stakeholders for the company, including the local Wabamun Lake residents' association.  Required:  A) Identify what information these new stakeholders would want. Where can they get the information? B) How powerful a stakeholder are they? Are there any other stakeholders they could align themselves with?     A) They would want information about the extent of the environmental damage, what it is going to cost to clean it up, and who is going to pay for it. They would also be concerned with any decrease in the value of their properties as a result of the damage. They would probably have a difficult time getting much information from CN other than what is normally publicly available.  B) Although they could be vocal in bringing public awareness to the issue and creating unfavourable publicity for CN, as external stakeholders with no direct financial links to the company, they have little ability to influence CN's actions directly. They could contact government and environmental groups to help them assess the environmental impact and the clean-up costs and to help them put additional pressure on CN. The governments are more powerful stakeholders and would be able to exert more pressure on or discipline CN in order to get them to clean up the site and compensate the residents. |

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| *Blooms Level: Analysis Difficulty: Difficult Friedlan - Chapter 01 #59 Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment. Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it.* |

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| 60. *(p. 18-19)* | Katerina Slovenka decided to turn her love of movies into a small business and has just finished her first month operating a neighbourhood video store. She has kept a notebook of her financial transactions for the month and has approached you to help her decide if she should continue in business. She is discouraged, because although she thought she rented a lot of movies, her bank account has decreased instead of increased. She started the business by buying 100 DVDs; she estimates that the average video has a rental life of three months and that she will add 40 new and replacement titles every month.  Katrina's Notebook      Required:  A) Prepare a statement that organizes the information collected in a useful way. B) Explain to Katerina why you organized it the way you did. C) Should Katerina continue in business? Support your answer.     A)      B) The information is separated into business revenues and expenses and then personal expenses. This way it is easier to measure the performance of the store. All the revenues are grouped together, then the expenses are summarized by type of expense. This way the information is easier to interpret.  C) Although Katerina has apparently lost money during her first month, she has incurred some costs that will provide a benefit to her in future months. July's rent should really be deducted from July's rental revenues. Other start-up costs would be the 100 initial DVDs; she expects to only buy 40 per month in the future, which should cost her $160 and hence reduce her monthly expenses by $240. The DVD player is also a long-term investment; although the exact length is not known at this point, she won't incur that cost next month either. If those three costs are removed from her monthly calculation (240 + 250 + 225 = $715), she would show a profit of $320. The amount spent on office supplies may also not necessarily be a monthly expense. She should also note that her weekly rentals did increase over the month, and hopefully she will be able to maintain the higher level of rentals in the future and increase her profit. |

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| *Blooms Level: Application Difficulty: Difficult Friedlan - Chapter 01 #60 Learning Objective: 01-06 Understand that the main purpose of accounting is to measure economic activity and that accounting measurements can often be difficult and subjective.* |

Chapter 01 The Accounting Environment: What Is Accounting and Why Is It Done? Summary

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| *Category* | *# of Questions* |
| Blooms Level: Analysis | 1 |
| Blooms Level: Application | 3 |
| Blooms Level: Comprehension | 25 |
| Blooms Level: Knowledge | 31 |
| Difficulty: Difficult | 7 |
| Difficulty: Easy | 23 |
| Difficulty: Moderate | 30 |
| Friedlan - Chapter 01 | 60 |
| Learning Objective: 01-01 Define accounting and explain why its important. | 7 |
| Learning Objective: 01-02 Describe the accounting environment and understand that the accounting information an entity presents is affected by the accounting environment. | 26 |
| Learning Objective: 01-03 Discuss how the interests of the people who prepare accounting information can conflict with the interests of those who use it. | 13 |
| Learning Objective: 01-04 Explain what a critical approach to accounting is. | 3 |
| Learning Objective: 01-05 Understand the purpose of accounting standards such as International Financial Reporting Standards (IFRS) and Accounting Standards for Private Enterprises (ASPE) and be familiar with the different sets of accounting standards that are used in Canada | 6 |
| Learning Objective: 01-06 Understand that the main purpose of accounting is to measure economic activity and that accounting measurements can often be difficult and subjective. | 9 |