

Exam _____
Name _____

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

1) Which of the following statements BEST describes management accounting?

- A) Management accounting provides information for taxing authorities.
- B) Management accounting focuses on information for internal decision making.
- C) Management accounting provides information for the public.
- D) Management accounting focuses on outside investors and lenders.

Answer: B

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

2) Which of the following are most likely to be users of management accounting information?

- A) Business managers
- B) Potential investors
- C) Customers
- D) Creditors

Answer: A

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

3) Which of the following are likely to be users of financial accounting information?

- A) Taxing authorities
- B) Potential investors
- C) Creditors
- D) All of the above

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

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

4) Accounting is the information system that measures business activity, processes the data into reports and communicates the results to decision makers.

Answer: ☒ True ☐ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

5) Outside investors would ordinarily use financial accounting information to decide whether or not to invest in a business.

Answer: ☒ True ☐ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

6) Management accounting focuses on information for decision makers outside of the business, such as outside investors and lenders.

Answer: ☐ True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

7) Accounting is 'the language of business'.

Answer: ☒ True ☐ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

8) An investor is someone who lends money to a business.

Answer: True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

9) A creditor is a party that has an ownership interest in a business.

Answer: True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

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

Answer: True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

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

11) The owners' claims to the assets of the business are called:

- A) liabilities.
- B) expenses.
- C) revenues.
- D) owners' equity.

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

12) Which of the following is the CORRECT accounting equation?

- A) Assets + Revenue = Liabilities + Expenses
- B) Assets = Liabilities + Owners' equity
- C) Assets + Revenue = Owners' equity
- D) Assets + Liabilities = Owners' equity

Answer: B

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

13) A debt that a business owes to an outside party is called:

- A) revenue.
- B) an asset.
- C) a liability.
- D) owners' equity.

Answer: C

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

14) The economic resources of a business such as furniture, building and land are its:

- A) assets.
- B) revenues.
- C) liabilities.
- D) drawings.

Answer: A

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

15) Scott's Camera Shop started the year with total assets of \$90,000 and total liabilities of \$60,000. During the year, the business earned revenues of \$150,000 and incurred expenses of \$60,000. Scott made no additional capital contributions during the year, but did make drawings of \$70,000. What is the amount of owners' equity at the end of the year?

A) \$150,000

B) \$70,000

C) \$50,000

D) \$60,000

Answer: C

Diff: 3 Type: MC

AACSB: Analytical Thinking

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

Calculate Scott's profit for the year.

A) \$120,000

B) \$90,000

C) \$70,000

D) \$50,000

Answer: C

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

Calculate the amount of owner's drawings.

A) \$15,000

B) \$12,000

C) \$5,000

D) \$13,000

Answer: C

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

18) Liabilities represent creditors' claims on the business's assets.

Answer: ☒ True ☐ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

19) The right side of the accounting equation measures the amount that the business owes to creditors and to the owner.

Answer: ☒ True ☐ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

20) The total of amount of assets that a business possesses may or may not equal the total of liabilities and equity of the business.

Answer: ☐ True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

21) Equity increases when revenues are earned.

Answer: ☒ True ☐ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

22) Equity decreases with expenses and revenues.

Answer: ☐ True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

23) Owner's drawings are the expenses of a business.

Answer: ☐ True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

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

24) Tim contributes capital into his business. The two accounts affected are:

- A) two asset accounts.
- B) a liability and an owners' equity.
- C) an asset and a liability.
- D) an asset and an owners' equity.

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking

25) Joe purchased office equipment for \$1 250 cash. What is the effect on accounts?

- A) One asset account increases; another asset account decreases.
- B) One asset account increases; one owners' equity account increases.
- C) Two asset accounts increase.
- D) One asset account increases; one liability account increases.

Answer: A

Diff: 1 Type: MC

AACSB: Analytical Thinking

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

- A) Cash account increases; Accounts receivable increases.
- B) Cash account increases; Owners' capital account increases.
- C) Cash account increases; Supplies account decreases.
- D) Cash account increases; Accounts payable increases.

Answer: B

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

- A) Cash account increases; Accounts receivable decreases.
- B) Accounts receivable increases; Owners' capital increases.
- C) Cash and Accounts receivable both increase.

D) Accounts receivable decreases; Owners' capital increases.

Answer: B

Diff: 2 Type: MC

AACSB: Analytical Thinking

28) Hamilton Lawn Service incurred an \$800 repair expense and paid the repair company in cash. Which account, besides Cash, decreased?

A) Accounts payable

B) Owners' capital

C) Equipment

D) Accounts receivable

Answer: B

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

A) Accounts payable increases; Owners' capital account decreases.

B) Cash account decreases; Accounts payable decreases.

C) Materials account increases; Owners' capital account decreases.

D) Cash account decreases; Accounts payable increases.

Answer: B

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

A) Cash increases; Accounts payable decreases.

B) Accounts payable increases; Owners' capital account decreases.

C) Accounts receivable decreases; Owners' capital account decreases.

D) Cash account increases; Accounts receivable decreases.

Answer: D

Diff: 2 Type: MC

AACSB: Analytical Thinking

31) The proprietor of Martin Supply Service took a \$5 000 cash withdrawal. What is the effect of the withdrawal on the accounts of the business?

A) Cash account increases; Accounts receivable decreases.

B) Cash account decreases; Owners' capital account decreases.

C) Accounts payable increases; Owners' capital account decreases.

D) Cash account increases; Owners' capital account decreases.

Answer: B

Diff: 2 Type: MC

AACSB: Analytical Thinking

32) A \$5 000 account payable is paid by the business. How is the accounting equation affected?

A) Assets decrease \$5 000; liabilities decrease \$5 000.

B) Assets decrease \$5 000; owners' equity increases \$5 000.

C) Assets increase \$5 000; owners' equity decreases \$5 000.

D) Assets increase \$5 000; liabilities increase \$5 000.

Answer: A

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

- A) Assets increase; owners' equity increases.
- B) Liabilities increase; owners' equity decreases.
- C) Assets decrease; owners' equity decreases.
- D) Assets increase; owners' equity decreases.

Answer: A

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

- A) Liabilities increase; owners' equity increases.
- B) Assets decrease; owners' equity decreases.
- C) Liabilities increase; owners' equity decreases.
- D) Assets increase; liabilities increase.

Answer: C

Diff: 2 Type: MC

AACSB: Analytical Thinking

35) A business settles a liability by making a payment with cash. How does paying this liability affect the accounting equation?

- A) Liabilities decrease; owners' equity increases.
- B) Assets increase; liabilities increase.
- C) Assets increase; liabilities decrease.
- D) Assets decrease; liabilities decrease.

Answer: D

Diff: 2 Type: MC

AACSB: Analytical Thinking

36) A proprietor makes a cash withdrawal from the proprietorship. How does this affect the accounting equation?

- A) Assets decrease; owners' equity increases.
- B) This has no effect on assets, liabilities or owners' equity.
- C) Assets increase; liabilities decrease.
- D) Assets decrease; owners' equity decreases.

Answer: D

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

- A) Assets increase; liabilities increase.
- B) Assets increase; owners' equity increases.
- C) One asset increases; one asset decreases.
- D) Assets increase; liabilities decrease.

Answer: C

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

- A) One asset increases; one asset decreases.
- B) Assets increase; owners' equity increases.
- C) Assets increase; liabilities increase.
- D) Assets decrease; owners' equity decreases.

Answer: A

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

- A) a \$1400 increase
- B) a \$1400 decrease
- C) a \$2600 decrease
- D) a \$4000 increase

Answer: A

Diff: 3 Type: MC

AACSB: Analytical Thinking

40) Venus Ltd paid \$10,000 for an account payable. How does this transaction affect the accounting equation of Venus?

- A) assets decrease by \$10,000 and liabilities decrease by \$10,000
- B) assets increase by \$10,000 and liabilities increase by \$10,000
- C) assets increase by \$10,000 and equity decreases by \$10,000
- D) assets decrease by \$10,000 and equity increases by \$10,000

Answer: A

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

- A) Assets increase by \$140,000 ; liabilities decrease by \$116,000.
- B) Assets increase by \$116,000; liabilities increase by \$116,000.
- C) Assets increase by \$140,000; liabilities decrease by \$24,000.
- D) Assets increase by \$116,000; equity increases by \$116,000.

Answer: B

Diff: 3 Type: MC

AACSB: Analytical Thinking

42) Star Homes Ltd just recorded a transaction in its books of accounts. If this transaction increased the total liabilities by \$12,000:

- A) assets or equity must decrease by \$12,000
- B) assets must increase or equity must decrease by \$12,000
- C) assets must decrease by \$12,000
- D) both assets and equity must each decrease by \$6000

Answer: B

Diff: 3 Type: MC

AACSB: Analytical Thinking

43) Sharon Samson owns Reliable Waterworks which provides plumbing services. Transactions of Reliable Waterworks during the first year of operations are given below:

- A) Sharon contributed \$11,000 into a new cheque account for the business and recorded a capital contribution.
- B) Paid \$1200 for equipment to be used for plumbing repairs.
- C) Borrowed \$10,000 from a local bank and deposited the money in the cheque account.
- D) Paid \$400 as rent for the year.
- E) Paid \$500 for plumbing supplies to be used on various jobs in the future.
- F) Completed a plumbing repair project for a local lawyer and received \$3400.

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

- A) \$1700
- B) \$24,000
- C) \$21,000
- D) \$1200

Answer: B

Diff: 3 Type: MC

AACSB: Analytical Thinking

44) Sharon Samson starts a plumbing service called Reliable Waterworks. Transactions of Reliable Waterworks during the first year of operations are given below:

- a) Sharon deposited \$10,000 into a new cheque account for the business and recorded the capital contribution.
- b) Paid \$1200 cash for equipment to be used for plumbing repairs.
- c) Borrowed \$14,000 from a local bank and deposited the money in the cheque account.
- d) Paid \$400 rent for the year.
- e) Purchased \$300 of office supplies by cash.
- f) Completed a plumbing repair project for a local lawyer and received \$3500 cash.

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

- A) \$14,000
- B) \$22,800
- C) \$3500
- D) \$10,000

Answer: A

Diff: 2 Type: MC

AACSB: Analytical Thinking

45) Robinson starts a plumbing service named Crusoe Waterworks. Transactions of Crusoe Waterworks during the first year of operations are given below:

- A) Robinson deposited \$8000 into a new cheque account for the business and recorded the capital contribution.
- B) Paid \$2000 cash for equipment to be used for plumbing repairs.
- C) Borrowed \$29,000 from a local bank and deposited the money in the cheque account.
- D) Paid \$700 rent for the year.
- E) Purchased \$1500 of office supplies on credit.
- F) Completed a plumbing repair project for a local lawyer and received \$3000 cash.

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

- A) \$8000

B) \$10,300

C) \$29,000

D) \$3000

Answer: B

Diff: 3 Type: MC

AACSB: Analytical Thinking

46) Sharon Samson starts a plumbing service named Reliable Waterworks. Selected transactions are described as follows:

A) Sharon deposited \$8000 into a new cheque account for the business and recorded the capital contribution.

B) Paid \$4000 cash for equipment to be used for plumbing repairs.

C) Borrowed \$12,000 from a local bank and deposited the money in the cheque account.

D) Paid \$600 rent for the year.

E) Paid \$100 cash for plumbing supplies to be used in future.

F) Completed a plumbing repair project for a local lawyer and received \$4000 cash.

Calculate the profit.

A) \$500

B) \$3400

C) \$3900

D) \$4000

Answer: B

Diff: 3 Type: MC

AACSB: Analytical Thinking

47) Following is an extract of account balances of Wilson Mowing Service as at 31 December of the first year of operation:

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

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

A) \$27,000

B) \$20,000

C) \$31,000

D) \$15,000

Answer: C

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

48) Following is a list of account balances of Wilson Mowing Service as at 31 December of the first year of operation:

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

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

A) \$24,500

B) \$15,100

C) \$15,400

D) \$27,400

Answer: C

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

49) Following is a list of account balances of Wilson Mowing Service as at 31 December of the first year of operation:

Accounts receivable	\$4000
Accounts payable	5000
Salary expense	5000
Repairs expense	600
Truck	12,000
Equipment	10,000
Loans payable	24,800
Cash	12,000
Supplies expense	10,000
Service revenue	24,800
Petrol expense	7200
Salary payable	1200

Calculate the profit.

A) \$2000

B) \$2900

C) \$30,300

D) \$33,200

Answer: A

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

50) The total assets and the total liabilities of Samantha Financial Services are shown below. There were no capital contributions and withdrawals during the year.

	Assets	Liabilities
Beginning of year	\$405,000	\$275,000
End of year	445,000	305,000

What was the amount of profit for the year?

- A) \$30,000
- B) \$70,000
- C) \$40,000
- D) \$10,000

Answer: D

Diff: 3 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

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

51) A business owner starts a new business and invests \$6 000 of capital. This transaction results in an increase in the business's liabilities.

Answer: True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking

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

52) Which of the following statements BEST defines financial statements?

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

Answer: A

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

53) The statement of changes in equity shows the changes in Owners' equity. Which one of these statements is TRUE?

- A) Decreases in Owners' equity result from owner investments.
- B) Decreases in Owners' equity result from profit.
- C) Decreases in Owners' equity result from revenues earned.
- D) Decreases in Owners' equity result from losses.

Answer: D

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

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

- A) There is profit when total revenues are greater than total expenses.
- B) There is a loss when total expenses are greater than total revenue.
- C) There is a loss when withdrawals are made.
- D) Both A and B are true.

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking

55) Which of the following financial statements reports cash receipts and cash payments during a period of time?

- A) Balance sheet
- B) Statement of changes in equity
- C) Income statement
- D) Cash flow statement

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

56) Which of the following financial statements reports an increase or decrease in net cash during the time period covered?

- A) Income statement
- B) Balance sheet
- C) Cash flow statement
- D) Statement of changes in equity

Answer: C

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

57) Which of the following financial statements shows the changes in Owners' equity during a period of time?

- A) Balance sheet
- B) Statement of changes in equity
- C) Cash flow statement
- D) Income statement

Answer: B

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

58) Which of the following financial statements lists the entity's assets, liabilities and owners' equity as at a specific date?

- A) Cash flow statement
- B) Balance sheet
- C) Income statement
- D) Statement of changes in equity

Answer: B

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

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

- A) Income statement
- B) Statement of drawings
- C) Balance sheet
- D) Cash flow statement

Answer: B

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

60) Each financial statement includes a heading giving three pieces of data. Which of the following items is NOT included in these headings?

- A) Name of the preparer of the statement
- B) Name of the business
- C) Name of the financial statement

D) Date or time period covered

Answer: A

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

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

61) The balance sheet of a business represents the account balances as at a particular date in time.

Answer: ☒ True ☐ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

62) The relative proportion of economic resources and obligations would be shown by the balance sheet.

Answer: ☒ True ☐ False

Diff: 2 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

63) The balance sheet shows whether or not a business is earning a profit.

Answer: ☐ True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

64) The income statement shows whether or not a business can generate enough cash to pay its liabilities.

Answer: ☐ True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

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

65) If an analyst wants to know how likely it is that a company would be able to earn a profit, which of the following statements would be MOST useful?

A) Statement of changes in equity

B) Balance sheet

C) Cash flow statement

D) Income statement

Answer: D

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

66) You can evaluate business performance in terms of profitability by analysing which financial statement?

A) Balance sheet

B) Cash flow statement

C) Income statement

D) None of the above

Answer: C

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

67) The explanation of why the profit differs from change in cash balance for the period is explained in which of the following statements?

A) Balance sheet

B) Income statement

C) Cash flow statement

D) Statement of changes in equity

Answer: C

Diff: 1 Type: MC

AACSB: Analytical Thinking

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

- A) Cash flow statement
- B) Balance sheet
- C) Statement of changes in equity
- D) Income statement

Answer: B

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

69) You can evaluate the economic resources, debt and overall financial position of a company in which of the following financial statements?

- A) Cash flow statement
- B) Statement of changes in equity
- C) Income statement
- D) Balance sheet

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

70) The return on assets is calculated by:

- A) multiplying profit and average assets.
- B) dividing profit by average assets.
- C) subtracting profit from average assets.
- D) adding profit and average assets.

Answer: B

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

71) Which of the following is used to calculate average assets for the return on assets calculation?

- A) $\text{Average assets} = (\text{Beginning assets} + \text{Ending assets}) \times 2$
- B) $\text{Average assets} = (\text{Beginning assets} - \text{Ending assets}) \div 2$
- C) $\text{Average assets} = (\text{Beginning assets} + \text{Ending assets}) \div 2$
- D) $\text{Average assets} = (\text{Beginning assets} - \text{Ending assets}) \times 2$

Answer: C

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

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

- A) 9.26%
- B) 4.63%
- C) 7.04%
- D) 13.51%

Answer: A

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

73) The financial examination of a company's financial records is called a(n):

- A) appraisal.
- B) criminal investigation.
- C) audit.
- D) financial analysis.

Answer: C

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

74) Which of the following activities would NOT be included in the role of an accountant in public practice?

- A) liquidation
- B) internal auditing
- C) tax planning
- D) external auditing

Answer: B

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

75) Which of the following is NOT one of the main professional accounting bodies in Australia?

- A) Institute of Public Accountants
- B) Institute of Chartered Accountants in Australia
- C) Certified Public Accountants of Australia
- D) Certified Practising Accountants of Australia

Answer: C

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

76) In Australia, Accounting standards are formulated by the:

- A) AASB.
- B) FRC.
- C) IASB.
- D) ASIC.

Answer: A

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

77) Which of the following concepts (or principles) would dictate that a person with three different businesses keeps three different bank accounts?

- A) Going concern assumption
- B) Accrual basis of accounting
- C) Accounting period concept
- D) Entity concept

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking

78) Which of the following concepts (or principles) require an assumption that the entity will remain in operation for the foreseeable future?

- A) Entity concept

- B) Accounting period concept
- C) Accrual basis of accounting
- D) Going concern assumption

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking

79) Bill Rogers has three different businesses. He has only one bank account for transactions relating to all of his various businesses. Which of the following concepts or principles of accounting is Bill violating?

- A) Entity concept
- B) Accounting period concept
- C) Accrual basis accounting
- D) Going concern concept

Answer: A

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

80) An accountant working in public practice may provide management consulting services.

Answer: ☒ True ☐ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

81) Accounting firms in public practice are all large, multinational partnerships.

Answer: ☐ True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

82) The Australian conceptual framework encompasses non-profit organisations as well as for-profit ones.

Answer: ☒ True ☐ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

83) Australian Accounting Standards are exactly the same as the International Financial Reporting Standards (IFRS).

Answer: ☐ True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

84) In Australia, there is both private and public sector involvement in the standard-setting process.

Answer: ☒ True ☐ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

85) The International Accounting Standards Board is made up of members from the private sector and has no public sector involvement.

Answer: ☒ True ☐ False

Diff: 2 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

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

86) A proprietorship is created by:

- A) two or more individuals.

- B) one individual deciding to start a business.
- C) electing a board of directors.
- D) issuing shares of the business.

Answer: B

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

87) By definition, which of the following represents the owners of a company?

- A) Employees
- B) Customers
- C) Shareholders
- D) Creditors

Answer: C

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

88) Regarding accounting information and records, a proprietorship is an entity entirely separate from its:

- A) customers.
- B) vendors.
- C) proprietor.
- D) shareholders.

Answer: C

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

89) From a legal perspective, a proprietorship is:

- A) an entity separate from its proprietor.
- B) subject to regulation by ASIC.
- C) not a distinct entity from its proprietor.
- D) authorised under state charter.

Answer: C

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

90) If a proprietorship cannot pay its debts, the creditors may make claims against the:

- A) state government.
- B) employees of the business.
- C) assets of the proprietorship only.
- D) assets of the proprietor.

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

91) A relatively low amount of government regulation is a key advantage of a:

- A) company.
- B) not-for-profit.
- C) partnership.
- D) proprietorship.

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

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

- A) Limited liability partnership
- B) Proprietorship
- C) Partnership
- D) Company

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking

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

- A) Proprietorship
- B) Partnership
- C) Limited liability company
- D) Company

Answer: A

Diff: 2 Type: MC

AACSB: Analytical Thinking

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

- A) Not-for-profit
- B) Partnership
- C) Limited liability company
- D) Proprietorship

Answer: C

Diff: 2 Type: MC

AACSB: Analytical Thinking

95) Which of the following is NOT a characteristic of a traditional partnership?

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

Answer: D

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

96) Which of the following is TRUE for a proprietorship?

- A) A proprietorship has a single owner.
- B) A proprietorship joins two or more individuals as co-owners.
- C) The proprietor is not personally liable for the debts of the proprietorship.
- D) A proprietorship has an indefinite life.

Answer: A

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

97) A company possesses all but one of the following characteristics. Which of the following is NOT a characteristic of a company?

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

Answer: C

Diff: 1 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

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

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

Answer: True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

99) A proprietor has unlimited liability for the debts and obligations of the proprietorship.

Answer: ☒ True False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

100) In a limited liability company the business, not the owners, is responsible for the company's debts.

Answer: ☒ True False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

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

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

- A) Confidentiality
- B) Professional competence and due care
- C) Objectivity
- D) Integrity

Answer: C

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

102) The concept of sustainability in terms of business operations means that:

- A) the business should endure losses today in order to ensure profits in the future.
- B) the business should consider the needs of society and the environment as being more important than making profits.
- C) the business will keep growing in value indefinitely.
- D) the business will continue to be profitable in the future as well as the present.

Answer: D

Diff: 2 Type: MC

AACSB: Analytical Thinking, Reflective Thinking

103) Which of the following is an example of an external sustainability issue?

- A) Greenhouse gas emissions
- B) Future profitability of the business
- C) Current profitability of the business

D) Both B and C

Answer: A

Diff: 2 Type: MC

AACSB: Application of Knowledge

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

104) All business managers are legally bound to comply with the code of ethics developed by the professional accounting bodies.

Answer: True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

105) Codes of ethics govern professional as well as private activities.

Answer: True ☒ False

Diff: 1 Type: TF

AACSB: Analytical Thinking, Reflective Thinking

- 1) B
- 2) A
- 3) D
- 4) TRUE
- 5) TRUE
- 6) FALSE
- 7) TRUE
- 8) FALSE
- 9) FALSE
- 10) FALSE
- 11) D
- 12) B
- 13) C
- 14) A
- 15) C
- 16) C
- 17) C
- 18) TRUE
- 19) TRUE
- 20) FALSE
- 21) TRUE
- 22) FALSE
- 23) FALSE
- 24) D
- 25) A
- 26) B
- 27) B
- 28) B
- 29) B
- 30) D
- 31) B
- 32) A
- 33) A
- 34) C
- 35) D
- 36) D
- 37) C
- 38) A
- 39) A
- 40) A
- 41) B
- 42) B
- 43) B
- 44) A
- 45) B
- 46) B
- 47) C
- 48) C
- 49) A
- 50) D

- 51) FALSE
- 52) A
- 53) D
- 54) D
- 55) D
- 56) C
- 57) B
- 58) B
- 59) B
- 60) A
- 61) TRUE
- 62) TRUE
- 63) FALSE
- 64) FALSE
- 65) D
- 66) C
- 67) C
- 68) B
- 69) D
- 70) B
- 71) C
- 72) A
- 73) C
- 74) B
- 75) C
- 76) A
- 77) D
- 78) D
- 79) A
- 80) TRUE
- 81) FALSE
- 82) TRUE
- 83) FALSE
- 84) TRUE
- 85) TRUE
- 86) B
- 87) C
- 88) C
- 89) C
- 90) D
- 91) D
- 92) D
- 93) A
- 94) C
- 95) D
- 96) A
- 97) C
- 98) FALSE
- 99) TRUE
- 100) TRUE

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- 101) C
- 102) D
- 103) A
- 104) FALSE
- 105) FALSE