TT TEXTBOOK TESTBANKS

Test Bank for Financial Accounting: Tools for Business Decision Making Canadian 9th Kimmel

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CHAPTER 1

THE PURPOSE AND USE OF FINANCIAL STATEMENTS

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
True-False Statements																	
1.	1	E	K	F	AN	13.	2	E	K	F	AN	25.	4	M	K	F	AN
2.	1	E	C	F	AN	14.	2	E	K	F	AN	26.	4	M	K	F	AN
3.	1	E	C	F	AN	15.	2	M	K	F	AN	27.	4	E	K	F	AN
4.	1	E	K	F	AN	16.	2	E	K	F	AN	28.	4	M	K	F	AN
5.	1	E	K	F	AN	17.	3	E	K	F	AN	29.	4	E	K	F	AN
6.	1	E	K	F	AN	18.	3	E	K	F	AN	30.	4	M	C	F	AN
7.	1	M	C	F	AN	19.	3	M	K	F	AN	31.	4	E	C	F	AN
8.	1	M	C	F	AN	20.	3	E	K	F	AN	32.	4	E	K	F	AN
9.	1	M	C	F	AN	21.	3	M	K	F	AN	33.	4	M	C	F	AN
10.	1	M	C	F	AN	22.	3	E	C	F	AN	34.	4	E	K	F	AN
11.	1	M	C	F	AN	23.	4	M	K	F	AN						
12.	2	E	K	F	AN	24.	4	E	K	F	AN						
Multiple Choice Questions																	
35.	1	E	K	F	AN	61.	3	M	C	F	AN	87.	4	M	C	F	AN
36.	1	E	K	F	AN	62.	3	E	C	F	AN	88.	4	E	C	F	AN
37.	1	M	K	F	AN	63.	3	E	C	F	AN	89.	4	E	C	F	AN
38.	1	M	K	F	AN	64.	3	M	C	F	AN	90.	4	E	K	F	AN
39.	1	E	K	F	AN	65.	3	M	K	F	AN	91.	4	E	C	F	AN
40.	1	E	K	F	AN	66.	3	M	K	F	AN	92.	4	H	AP	F	AN
41.	1	E	K	F	AN	67.	3	M	C	F	AN	93.	4	M	AP	F	AN
42.	1	E	K	F	AN	68.	3	E	K	F	AN	94.	4	M	AP	F	AN
43.	1	E	K	F	AN	69.	3	E	C	F	AN	95.	4	M	AP	F	AN
44.	1	E	C	F	AN	70.	3	E	C	F	AN	96.	4	M	K	F	AN
45.	1	M	C	F	AN	71.	3	E	K	F	AN	97.	4	M	C	F	AN
46.	1	E	K	F	AN	72.	3	E	K	F	AN	98.	4	M	K	F	AN
47.	1	E	K	F	AN	73.	3	E	K	F	AN	99.	4	E	K	F	AN
48.	2	E	C	F	AN	74.	3	E	K	F	AN	100.	4	M	K	F	AN
49.	2	E	K	F	AN	75.	3	M	C	F	AN	101.	4	M	C	F	AN
50.	2	M	K	F	AN	76.	3	E	C	F	AN	102.	4	M	K	F	AN
51.	2	M	K	F	AN	77.	3	E	C	F	AN	103.	4	E	K	F	AN
52.	2	M	K	F	AN	78.	4	M	AP	F	AN	104.	4	E	C	F	AN
53.	2	E	K	F	AN	79.	4	E	C	F	AN	105.	4	E	K	F	AN
54.	2	E	K	F	AN	80.	4	M	K	F	AN	106.	4	E	C	F	AN
55.	2	E	C	F	AN	81.	4	M	C	F	AN	107.	4	E	C	F	AN
56.	2	E	K	F	AN	82.	4	E	K	F	AN	108.	4	H	C	F	AN
57.	2	M	K	F	AN	83.	4	E	C	F	AN	109.	4	M	C	F	AN
58.	2	E	C	F	AN	84.	4	M	K	F	AN	110.	4	M	C	F	AN
59.	2	M	K	F	AN	85.	4	H	C	F	AN						
60.	3	E	K	F	AN	86.	4	E	K	F	AN						

LOD:	E = Easy	M = Medium	H = Hard
Bloom's:	AP = Application	C = Comprehension	K = Knowledge
CPA:	F = Financial Reporting		
AACSB:	AN = Analytic		

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
Exercises																	
111.	1	E	C	F	AN	122.	4	E	K	F	AN	133.	4	E	AP	F	AN
112.	2	M	AP	F	AN	123.	4	H	AP	F	AN	134.	4	E	C	F	AN
113.	2	E	C	F	AN	124.	4	M	AP	F	AN	135.	4	E	C	F	AN
114.	2	M	C	F	AN	125.	4	E	AP	F	AN	136.	4	E	C	F	AN
115.	2	M	C	F	AN	126.	4	M	AP	F	AN	137.	4	E	AP	F	AN
116.	3	M	C	F	AN	127.	4	E	AP	F	AN	138.	4	E	C	F	AN
117.	3	M	C	F	AN	128.	4	E	C	F	AN	139.	4	M	AP	F	AN
118.	3	H	AP	F	AN	129.	4	M	AP	F	AN	140.	4	E	AP	F	AN
119.	3	M	AP	F	AN	130.	4	H	AP	F	AN	141.	4	M	AP	F	AN
120.	3	E	C	F	AN	131.	4	E	C	F	AN	142.	4	H	AP	F	AN
121.	3	M	AP	F	AN	132.	4	H	AP	F	AN						
Matching																	
143.	1-4	E,M	K	F	AN												
Short-Answer Essay																	
144.	1	E	C	F	AN	148.	2	E	K	F	AN	152.	4	E	C	F	AN
145.	1	E	C	F	AN	149.	4	H	C	F	AN	153.	4	M	C	F,CM	AN
146.	1	H	C	F	AN	150.	4	E	C	F	AN	154.	4	E	C	F	AN
147.	1,2	M	AP	F	AN, E	151.	4	M	C	F	AN	155.	4	M	AN	F	AN
Objective Format Questions																	
156.	1	M	C	F	AN	159.	2	M	K	F	AN	162.	4	M	AN	F	AN
157.	1	E	K	F	AN	160.	2	E	C	F	AN						
158.	2	M	K	F	AN	161.	4	E	K	F	AN						

LOD: E = Easy M = Medium H = Hard
Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge
CPA: F = Financial Reporting CM = Communication
AACSB: AN = Analytic E = Ethics

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	6.	TF	11.	TF	39.	MC	44.	MC	143.	Ma	156.	OF
2.	TF	7.	TF	35.	MC	40.	MC	45.	MC	144.	SAE	157.	OF
3.	TF	8.	TF	36.	MC	41.	MC	46.	MC	145.	SAE		
4.	TF	9.	TF	37.	MC	42.	MC	47.	MC	146.	SAE		
5.	TF	10.	TF	38.	MC	43.	MC	111.	Ex	147.	SAE		
Learning Objective 2													
12.	TF	16.	TF	51.	MC	55.	MC	59.	MC	115.	Ex	158.	OF
13.	TF	48.	MC	52.	MC	56.	MC	112.	Ex	143.	Ma	159.	OF
14.	TF	49.	MC	53.	MC	57.	MC	113.	Ex	147.	SAE	160.	OF
15.	TF	50.	MC	54.	MC	58.	MC	114.	Ex	148.	SAE		
Learning Objective 3													
17.	TF	22.	TF	64.	MC	69.	MC	74.	MC	117.	Ex	143.	Ma
18.	TF	60.	MC	65.	MC	70.	MC	75.	MC	118.	Ex		
19.	TF	61.	MC	66.	MC	71.	MC	76.	MC	119.	Ex		
20.	TF	62.	MC	67.	MC	72.	MC	77.	MC	120.	Ex		
21.	TF	63.	MC	68.	MC	73.	MC	116.	Ex	121.	Ex		
Learning Objective 4													
23.	TF	34.	TF	88.	MC	99.	MC	110.	MC	132.	Ex	143.	Ma
24.	TF	78.	MC	89.	MC	100.	MC	122.	Ex	133.	Ex	149.	SAE
25.	TF	79.	MC	90.	MC	101.	MC	123.	Ex	134.	Ex	150.	SAE
26.	TF	80.	MC	91.	MC	102.	MC	124.	Ex	135.	Ex	151.	SAE
27.	TF	81.	MC	92.	MC	103.	MC	125.	Ex	136.	Ex	152.	SAE
28.	TF	82.	MC	93.	MC	104.	MC	126.	Ex	137.	Ex	153.	SAE
29.	TF	83.	MC	94.	MC	105.	MC	127.	Ex	138.	Ex	154.	SAE
30.	TF	84.	MC	95.	MC	106.	MC	128.	Ex	139.	Ex	155.	SAE
31.	TF	85.	MC	96.	MC	107.	MC	129.	Ex	140.	Ex	161.	OF
32.	TF	86.	MC	97.	MC	108.	MC	130.	Ex	141.	Ex	162.	OF
33.	TF	87.	MC	98.	MC	109.	MC	131.	Ex	142.	Ex		

Note: TF = True-False; MC = Multiple Choice; Ma = Matching; Ex = Exercise; CP = CPA Questions; SAE = Short-Answer Essay

CHAPTER LEARNING OBJECTIVES

1. ***Identify the uses and users of accounting information.*** The purpose of accounting is to provide useful information for decision-making. There are two types of decision makers who use accounting information: internal users and external users. The primary internal users are managers, who work for the business and need internal accounting information to manage and run its operations. The primary external users are investors and creditors. Investors (existing and potential shareholders) use accounting information to help decide whether to buy, hold, or sell shares. Creditors, which include lenders such as bankers and suppliers, use accounting information to evaluate the risk of lending money or granting credit to a business. Other external users include non-management employees, potential employees, customers, regulators, and taxing authorities.

2. ***Describe the primary forms of business organization.*** There are three types of business organizations: proprietorships, partnerships, and corporations. A proprietorship is a business owned by one person. A partnership is a business owned by two or more people. A corporation is a separate legal entity whose shares provide evidence of ownership. Corporations can be public, which means their shares trade on a stock exchange, or private, which means their shares are closely held and do not trade on a stock exchange. Generally accepted accounting principles are a common set of guidelines that are used to record and report economic events. These can differ depending on the form of business organization. Public corporations follow International Financial Reporting Standards (IFRS) and private corporations have the choice of using Accounting Standards for Private Enterprises (ASPE) or IFRS. Proprietorships and partnerships generally use ASPE.

3. ***Explain the three main types of business activity.*** Financing activities involve obtaining the necessary funds (through the issue of equity or the assumption of debt) to support the business. Repayments of debt, the declaration and payment of dividends, and share repurchases are also financing activities. Investing activities primarily involve purchasing the long-term assets (such as property, plant, and equipment) that are needed to run the business, but also include the disposition of these items. Operating activities involve putting the resources of the business into action to generate net income. These involve the day-to-day activities of the business as it earns revenues and incurs expenses doing so.

4. ***Describe the purpose and content of each of the financial statements.*** The statement of income presents the revenues and expenses of a company for a specific period of time. The statement of changes in equity summarizes the changes in shareholders' equity that have occurred for a specific period of time including those related to the issue of shares, generation of net income, and distribution of dividends. The statement of financial position reports the assets, liabilities, and shareholders' equity of a business at a specific date. The statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time. Notes to the financial statements add explanatory detail where required. The financial statements are included in an annual report, along with the management discussion and analysis (MD&A), the auditor's report, and the notes to the financial statements.

TRUE-FALSE STATEMENTS

1. Accounting identifies and records economic events of a business.

2. High standards of ethics are *not* required for preparers of financial information.

3. Accounting information is *not* important to marketing managers.

4. Authorities, such as the Canada Revenue Agency, want to know whether a business complies with the tax laws.

5. Accounting communicates financial information about a business to both internal and external users.

6. Two internal users of accounting information are investors and managers.

7. Accounting provides financial comparisons of operating alternatives, projections of income from new sales campaigns, analyses of sales costs, and forecasts of cash needs for external users.
Solution: Accounting provides financial comparisons of operating alternatives, projections of income from new sales campaigns, analyses of sales costs, and forecasts of cash needs for internal users.

8. Companies present summarized financial information in the form of financial statements for both internal and external use.

9. Anyone who works for a company but does not necessarily have access to accounting information to assist them in managing and operating the company is still considered to be an internal user.
Solution: Anyone who works for a company but does not necessarily have access to accounting information to assist them in managing and operating the company is considered to be an external user.

10. Potential employees who use annual reports to learn about the company and evaluate job prospects are regarded as external users.

11. As labour unions represent employees, they are also regarded as internal users.
Solution: Labour unions who represent employees are regarded as external users.

12. A partnership is a business organized as a separate legal entity.

13. A proprietor has unlimited liability.

14. The liability of corporate shareholders is limited to the amount of their investment.

15. The users of private company financial statements do not have access to financial information beyond that available to the users of public company financial statements.

16. A proprietorship is usually operated by the owner.

17. Expenses are the cost of assets consumed or services used in the process of generating revenue.

18. Assets are resources owned by a business that provide only current services or benefits to the business.

19. Economic resources that are owned by a business are called shareholders' equity.

20. Payments to shareholders are called dividends.

21. Expenses are identified by the type of liability associated with them.

22. Depreciation is the cost of certain long-lived assets allocated to expense for each period.

23. Net income for the period is determined by subtracting total expenses and dividends declared from revenues.

24. Net income is another term for revenue.

25. The issue of shares and distribution of dividends are used in determining net income.

26. Financial statement users are interested in net income because it may be a predictor of future net income.

27. The statement of cash flows shows how cash was used during the period.

28. Claims of creditors and shareholders on the assets of a business are called liabilities.

29. Shareholder’s equity consists of at least two parts: share capital and retained earnings.

30. Any deficiency in cash from operating activities must be made up by issuing shares.

31. The statement of changes in equity is *not* dependent on the results from the statement of income.

32. The statement of financial position is always the first statement prepared and presented.

33. The reasons for a decrease in cash can be determined by examining the statement of income.

34. A negative balance in retained earnings is called a deficit.

ANSWERS TO TRUE-FALSE STATEMENTS

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	7.	F	13.	T	19.	F	25.	F	31.	F
2.	F	8.	T	14.	T	20.	T	26.	T	32.	F
3.	F	9.	F	15.	F	21.	F	27.	T	33.	F
4.	T	10.	T	16.	T	22.	T	28.	F	34.	T
5.	T	11.	F	17.	T	23.	F	29.	T		
6.	F	12.	F	18.	F	24.	F	30.	F		

MULTIPLE CHOICE QUESTIONS

35. The world's economic systems depend on financial reporting that is
(a) highly transparent.
(b) accurate.
(c) reliable.
(d) All of the above are correct.

36. Which of the following is the most appropriate definition of accounting?
(a) the information system that identifies, records, and communicates the economic events of an organization to interested users
(b) a means of collecting information
(c) the interconnected network of subsystems necessary to operate a business
(d) electronic collection, organization, and communication of vast amounts of information

37. Which of the following would *not* be considered an internal user of accounting data for XYZ Inc.?
(a) the company president
(b) production manager
(c) purchasing clerk
(d) receptionist of the employees' labour union

38. Which of the following groups uses accounting information primarily to ensure the company is operating within prescribed rules?
(a) shareholders
(b) regulatory agencies
(c) labour unions
(d) management

39. Which of the following uses accounting information to determine whether a company can pay its obligations?
(a) shareholders
(b) marketing managers
(c) creditors
(d) Canada Revenue Agency

40. Which of the following uses accounting information to determine whether a company's net income will result in a share price increase?
(a) shareholders
(b) marketing managers
(c) creditors
(d) Chief Financial Officer

41. Which of the following uses accounting information to determine whether a marketing proposal will be cost effective?
(a) shareholders
(b) marketing managers
(c) creditors
(d) human resource managers

42. Which of the following would *not* be considered an external user of accounting data?
(a) Canada Revenue Agency
(b) management
(c) creditors
(d) customers

43. Which of the following would *not* be considered an internal user of accounting data?
(a) the president of a company
(b) the controller of a company
(c) a creditor of a company
(d) a sales manager of a company

44. External users want answers to all of the following questions, *except*
(a) Is the company earning satisfactory income?
(b) Will the company be able to pay its debts as they come due?
(c) How many employees can the company hire this year?
(d) How does the company compare in profitability with competitors?

45. Which of the following statements regarding external users is true?
(a) Shareholders and creditors are the only people who need accounting information.
(b) Canada Revenue Agency is the primary external user of financial information.
(c) External users of accounting information include the managers who plan, organize, and run a business.
(d) The information needs and questions of external users vary considerably.

46**.** An internal user of accounting information.
(a) is not involved in managing a company.
(b) is not involved in the sales of the company.
(c) is any employee in the company.
(d) includes company officers.

47. Which of the following is *not* one of the four common types of data analytics?
(a) descriptive
(b) prescriptive
(c) diagnostic
(d) prognostic

48. Which of the following is true regarding the reporting entity concept?
(a) The concept applies to proprietorships, but not partnerships or corporations.
(b) The concept is to ensure that the entity's financial statements faithfully represent only its economic activities.
(c) The concept requires that the economic activity that can be identified with a particular business be kept separate and distinct from the personal or non-business activities of the owner, but not of all other economic entities.
(d) The concept applies to proprietorships and partnerships, but not to corporations as corporations are a separate legal entity.

49. The reporting entity concept applies to
(a) sole proprietorships only.
(b) partnerships only.
(c) corporations only.
(d) all three forms of business organization.

50. The proprietorship form of business organization
(a) in most provinces, must have at least two owners.
(b) is often chosen for single owner operated businesses.
(c) is difficult to set up.
(d) is classified as a separate legal entity.

51. A business organized as a corporation
(a) is not a separate legal entity in most provinces.
(b) requires that shareholders be personally liable for the debts of the business.
(c) is owned by its shareholders.
(d) has income tax disadvantages over a proprietorship or partnership.

52. The partnership form of business organization
(a) is a separate legal entity.
(b) is a common form of organization for service-type businesses.
(c) enjoys an unlimited life.
(d) has limited liability.

53. Which form of business would have its shares listed on a stock exchange?
(a) proprietorship
(b) partnership
(c) private corporation
(d) public corporation

54. A business organized as a separate legal entity is a
(a) corporation.
(b) proprietorship.

(c) government unit.
(d) partnership.

55. The concept that economic activity which can be identified with a particular company must be kept separate and distinct from the owner(s) and from all other economic entities is known as
(a) the separation concept.
(b) the reporting entity concept.
(c) the economic concept.
(d) the business organization concept.

56. An advantage of the corporate form of business is that
(a) it has limited life.
(b) its shareholders' personal resources are at stake.
(c) its ownership is easily transferable via the sale of shares.
(d) it is simple to establish.

57. A corporation has which of the following set of characteristics?
(a) shareholder control, income tax disadvantages, increased skills and resources
(b) simple to set up and maintains control with founder
(c) harder to raise funds and gives shareholders control
(d) easier to transfer ownership and raise funds, limited liability

58. A small neighbourhood barber shop that is operated by its owner would likely be organized as a
(a) public corporation.
(b) partnership.
(c) private corporation.
(d) proprietorship.

59. Which of the following statements is *not* true?
(a) Public corporations must use International Financial Reporting Standards.
(b) Private corporations can choose to use either International Financial Reporting Standards (IFRS) or Accounting Standards for Private Enterprises (ASPE).
(c) Both public and private corporations issue shares.
(d) All private corporations are small.

60. The liability created by a business when it purchases coffee beans and coffee cups on credit from suppliers is called a(n)
(a) account payable.
(b) account receivable.
(c) revenue.
(d) expense.

61. The right to receive money in the future is called a(n)