

# Chapter 2

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Practice te...

Accounting 1, 7th Edition

Name Morgan Karnitsky Score      /     

Date 09/23/21 Percent      %

## Chapter 2—Test 1

K/U 1. For each of the following, circle the best answer to each question.

A. Which is the best way to express the fundamental accounting equation?

- a. Assets + Owner's Equity = Liabilities
- b. Assets = Liabilities + Owner's Equity
- c. Assets = Liabilities - Owner's Equity
- d. Assets + Liabilities = Owner's Equity

B. Johnson Storage Solutions has the following list of assets.

1. Supplies      2. Accounts Receivable      3. Cash      4. Building

Which is the correct order of assets on a classified balance sheet?

- a. 1, 3, 2, 4
- b. 3, 2, 1, 4
- c. 3, 1, 2, 4
- d. 4, 1, 2, 3

C. If the total assets of a business are \$38 400.50 and the total liabilities are \$12 595.20, what is the owner's equity?

- a. \$50 995.70
- b. \$25 805.30
- c. \$38 400.50
- d. None of the above.

D. On December 31, 2021, a business had \$150 000 in assets and \$70 000 in liabilities. During the next year, assets increased by \$70 000 and liabilities decreased by \$20 000. What would be the owner's equity at December 31, 20-2?

- a. \$150 000
- b. \$130 000
- c. \$170 000
- d. \$60 000

E. Which of the following items would not be classified as an asset of a business?

- a. cash on hand
- b. the amount of a creditor's claim
- c. store equipment
- d. money a customer owes

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F. If dollar signs are used on a balance sheet, they should appear before

- a. every amount on the balance sheet.
- b. the first amount in a column.
- c. the first amount beneath a single-ruled line.
- d. Both b and c above.

G. Teresa Sedore has decided to close down her business and sell off her assets. Her Capital balance before liquidation is \$30 000. Assets valued at \$35 000 were sold for \$16 000 in cash. The total liabilities of \$5000 were paid in full. She paid the liquidator \$1000. After liquidation of her assets and liabilities, what would be Sedore's Capital balance?

- a. \$19 000
- b. \$11 000
- c. \$25 000
- d. \$10 000
- e. None of the above.

H. Property is best defined as

- a. a current asset.
- b. a current liability.
- c. a long-term asset.
- d. a long-term liability.
- e. equity.

I. Under IFRS, the balance sheet is called

- a. an income statement.
- b. a statement of financial position.
- c. a statement of financial equity.
- d. a classified balance sheet.
- e. None of the above.

J. When presenting assets under IFRS, current assets are listed

- a. after long-term Assets.
- b. before long-term assets.
- c. underneath the equity section.
- d. on the right side of the balance sheet.
- e. None of the above.

e. None of the above.

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2. A company's offices are located on property that the company owns. The market value of the property has increased by \$15 000.

A. Should the balance sheet be updated to include this \$15 000 increase in assets? Explain.

No. There is no way to prove the "current" price is legit and not made up, as well as if people would pay it.

B. Which accounting standard(s) affect this situation?

3. Complete each of the following statements by supplying the missing word or words.

A. If, for any reason, a business is closed down, the claims of the creditors are settled first, before the claim of the owner.

B. The governing body for accounting standards in Canada is called the Accounting standards board.

C. In 2011, public companies in Canada stopped using Canadian GAAP and replaced them with the IFRS.

D. The Business Entity concept keeps the accounting for a business separate from the personal affairs of its owner.

E. Listing assets in order of their Liquidity means ranking them according to how easily they can be converted into Cash.

F. The Continuing Concern concept assumes that a business will continue to operate, unless it is known that which is not the case.

G. Customers' accounts are listed in the Assets section of the balance sheet.

H. A less common term for capital, or equity, is Networth.

I. In spreadsheet software, A2 is an example of a(n) \_\_\_\_\_ and

~~B4-C\* is an example of a(n)~~

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4. John Pagoda owns and operates a service store called Kwik Cleaners in Dartmouth, Nova Scotia.

A. Indicate whether each of the items listed below is an asset (A) or a liability (L) of his business. If the item is neither, put the letter (N) in the space provided.

	Amount			
a. Mortgage on his service store	\$ 60 000	L	22 000	60 2
b. Delivery truck	22 000	A	1 000	
c. Money owed to Home Hardware	2 000	L	3 000	
d. Cash on hand	1 000	A	6 000	
e. Household furniture	6 000	N	3 000	
f. Money a customer owes	3 000	A	8 000	
g. Mortgage on his house	30 000	L	240 000	
h. Store equipment	8 000	A	2 500	
i. The land and building where his store is located	240 000	A	274 000	
j. A coffee dispenser placed in the store by a company that rents out equipment	2 500	N		
k. A company automobile leased (rented) from J. Grayson Leasing Company	18 000	N	62	
l. An old display counter that has no further dollar value	0	N	212	

B. Calculate John Pagoda's equity in Kwik Cleaners.

\$212,000.00

5. A. Jack Plummer, a factory worker, asks you to help him find out how much he is worth. From a discussion with him, you find out the following facts:

- a. His cash on hand is \$1800.
- b. He owns Canada Savings Bonds worth \$1000.
- c. He owns a home valued at \$385 000 that has a mortgage on it of \$84 000.
- d. He owns an automobile that he bought for \$16 200, and still owes Ace Finance \$1800 for it.
- e. He owns a summer property valued at \$130 000, which he bought with money borrowed from the bank. Since the time of purchase, he has paid \$37 000 of the loan.

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- He owns a home valued at \$385 000 that has a mortgage on it of \$84 000.
- He owns an automobile that he bought for \$16 200, and still owes Ace Finance \$1800 for it.
- He owns a summer property valued at \$130 000, which he bought with money borrowed from the bank. Since the time of purchase, he has paid \$37 000 of the loan.
- He has unpaid bills amounting to \$3000.
- He owes his father, M. Plummer, the sum of \$50 000, which he borrowed interest free several years ago at the time he bought his home.
- He owns furniture valued at \$6000.

Prepare a personal balance sheet for Jack Plummer dated June 1 of the current year.

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Jack Plummer  
Balance sheet  
June 1, 2021

Assets		Liabilities	
Cash	1800-	Unpaid bills	\$3000-
Canada savings bonds	1000-	Accounts Payable	
Furniture	6000-	Ace Finance	1800-
Automobile	16200-	M. Plummer	50000-
Home	385000-		
Summer home	130000-	Mortgage	84000-
		Summer home Mortgage	43000-
		<u>Total liabilities</u>	<u>231800-</u>
		Jack Plummer's Equity	308200
<u>Total Assets</u>	<u>549000</u>	<u>Total liabilities + Networth</u>	<u>540000</u>

- C. G. Armstrong is the new owner of Armstrong Hardware Store. He believes that he knows enough about accounting to prepare his first balance sheet, as illustrated below, before starting business on May 1, 20--.

G. ARMSTRONG  
BALANCE SHEET  
MAY 20--

Assets		Liabilities	
Accounts Receivable		Bank Loan	\$ 8 000
—W. Mitchell	\$ 500	Accounts Payable	
Building	\$ 80 000	—J. Mahoney	\$ 3 000
Less: Mortgage	\$ 30 000		\$ 11 000
Supplies	\$ 10 000	Armstrong Hardware Store Equity	\$ 65 500
Office Equipment	\$ 5 000		\$ 76 500
Household Furniture	\$ 4 000		
Bank Balance	\$ 7 000		
	\$ 76 500		

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- A. List the errors found on Armstrong's balance sheet. (Note: If you discover that a total is wrong, it is probable that other totals are wrong as well. Explain your discovery, but be aware that incorrect totals count only as one error.)
- Title should be Armstrong hardware store.
  - Date isn't showed as the 1<sup>st</sup>
  - Not listed by liquidity
  - Mortgage should be in liabilities
  - Only the first under a line should have a "\$"
  - 65,500 should be -'s capital not store
  - Total L+OE should be labeled
  - household furniture shouldn't be listed
  - Totals should have a single ruled line above + double under
  - Total Assets + L+OE should be on same line

Business → Financial

- i. Totals should have a single ruled line above + double under
- j. Total Assets + L+OE should be on same line
- k. \_\_\_\_\_

Business  $\Rightarrow$  Entity

B. Which accounting standard has G. Armstrong violated? Explain.

G Armstrong Business entity concept  
 Personal affairs must be separate from business

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A 7. From the following information as of June 30, 20-, prepare a balance sheet for Morgan & Associates, which is owned by Alice Morgan of Dryden, Ontario.

Land	\$ 45 000.00
Cash	1 449.55
Building	142 000.00
Bank Loan	3 000.00
Equipment	21 975.00
Mortgage Payable	63 251.00
Trucks	14 925.00

Amounts owed by Morgan & Associates to suppliers:

Dominion Supply Company	\$ 1 461.20
General Merchants Co.	1 105.63
Beneficial Finance Co.	3 163.00

Amounts owed to Morgan & Associates:

J. Radzio	\$ 375.00
N. Ulrich	600.00

Morgan & Associates  
Balance Sheet  
 June 30, 2021

Assets		Liabilities	
Cash	\$1449.55	Bank Loan	\$3000-
Accounts Receivable		Accounts Payable	
- J. Radzio	375-	- Dominion Supply Company	1461.20
- N. Ulrich	600-	- General Merchants Co.	1105.63
Trucks	14925-	- Beneficial Finance Co.	3163-
Equipment	21975-	Mortgage Payable	63251-
Building	142000-	Total Liabilities	\$71,980.83
Land	45000-	Owners Equity	
		A. Morgan's Capital	154343.72
Total Assets	\$226,324.55	Total Liabilities & Equity	\$226,324.55