

BAF3M - Introduction to Financial Accounting

Review Package for June Exam

Chapters 1-11

Please note: This review package does not cover all exam material. It is intended to give the student a sampling or overview of some of the topics. Every student is expected to study beyond the scope of this package by reviewing all GAAP's, the Accounting Cycle, source documents, financial statements, etc. covered this year.

FILL IN THE BLANK(S)

1. The financial statement, reporting assets, liabilities and owner's equity at a specific date, is called a _____.	BALANCE SHEET
2. A financial event changing the value of items on the balance sheet is called a(n) _____ of the business.	TRANSACTION
3. The fact that a(n) _____ is in balance does not necessarily mean that the books are completely accurate.	TRIAL BALANCE
4. After analyzing transactions, it is possible for several items to change, but never only _____.	ONE
5. After analyzing each transaction, the fundamental accounting equation must still _____.	BALANCE
6. When recording a journal entry, the accounts to be _____ are indented.	CREDITED
7. A file, group of accounts, is known as a(n) _____.	GENERAL LEDGER
8. The difference between the total debits and total credits in an account is called the _____.	BALANCE
9. A listing of ledger accounts and their balances is referred to as a(n) _____.	TRIAL BALANCE
10. The owner's withdrawal of cash for personal use reduces cash and _____.	CAPITAL
11. A(n) _____ is used to record changes in assets, liabilities, and equity accounts.	T-ACCOUNT
12. The financial statement on which the Drawings account appears is called the _____.	BALANCE SHEET
13. The period of time over which earnings are measured is called the accounting period or the _____ period.	FISCAL
14. When the balance sheet is prepared vertically, it is said to be in the _____ form.	REPORT
15. The accounting equation is based on three fundamental parts: _____, _____ and _____.	ASSETS, LIABIL. & O.E.

16. Listing assets in order of their _____ means that the assets are listed in order in which they can easily be converted into _____.
17. The basic feature of the double entry system of accounting is that, for each transaction, the amount of _____ must equal the amount of the _____.
18. A cash investment by the owner increases _____ and _____.
19. When an expense is incurred but not paid for, the creditor's account is _____, and the expense account is _____.

LIQUIDITY, CASH

DEBITS/CREDITS

CAPITAL, BANK

CREDITED, DEBITED

TRUE OR FALSE

20. Business debts owed to us by our customers are known as accounts payable.
21. The third line of the balance sheet heading contains the name of the business.
22. The term "debit" means increase, and the term "credit" means decrease.
23. All creditors have a claim against the assets of a business.
24. Debtor accounts are listed in the asset section of the balance sheet.
25. The Capital account represents the Owner's claim on the assets of his business.
26. If the total on the left side of an account is greater than the total on the right side, the account has a debit balance.
27. The cash purchase of an asset changes the capital of the business.
28. If a trial balance is in balance, the account balances are correct.
29. When cash is received from a debtor the debtor's account is credited.
30. When a cheque is issued to decrease the balance owed to a creditor, this money is said to be a payment on account.

FALSE

FALSE

FALSE

TRUE

TRUE

TRUE

TRUE

FALSE

FALSE

TRUE

TRUE

MULTIPLE CHOICE

31. Which of the following equations cannot be derived from the basic accounting equation (Assets=Liabilities + Owners Equity):
- (A) Assets - Liabilities = Owner's Equity
 - (B) Liabilities = Assets - Owner's Equity
 - (C) Owner's Equity = Liabilities - Assets
 - (D) Assets - Owner's Equity = Liabilities
- C
32. Magic Forest Land Development Corporation sold a portion of land at a profit. This will cause:
- (A) A decrease in assets and liabilities
 - (B) An increase in assets and liabilities
 - (C) An increase in assets and owner's equity
 - (D) A decrease in assets and owner's equity
- C
33. Arrowhead Lake Boat Shop bought a \$700 electric hoist to lift engines out of boats. The boat shop paid \$200 in cash and promised to pay the balance in 20 days. This transaction will cause:
- (A) The boat shop's assets to increase by \$700 and liabilities to increase by \$500
 - (B) Assets to increase by \$500 and owner's equity to decrease
 - (C) No change in total assets, but a \$500 increase in liabilities and a similar decrease in owner's equity
 - (D) No change in owner's equity, but a \$500 increase in both assets and liabilities
- D
34. The Holidex Company completed a transaction which caused both its total assets and its total liabilities to increase by \$6 000. The transaction could have been:
- (A) The purchase of a fork lift by paying \$14 000 and acceptance of an account payable for \$6 000
 - (B) The purchase of a drill, payment of \$2 000 in cash and acceptance of an account payable for \$4 000
 - (C) The sale of land costing \$24 000 for \$30 000 cash
 - (D) None of the above
- A
35. Which of the following errors would **NOT** be disclosed by the Trial Balance:
- (A) The collection of a \$520 accounts receivable was entered in t-accounts as a debit of \$520 to Cash and a credit of \$502 to Accounts Receivable
 - (B) The collection of \$200 accounts receivable was entered as a \$200 debit to Cash and a \$200 debit to Accounts Receivable
 - (C) The collection of a \$1 000 accounts receivable was entered in t-accounts as a debit to Land and a credit to Cash
 - (D) None of the above
- C
36. If the assets of a company are \$10 000 and the liabilities are \$7 000, then the correct figure for Owner's Equity is:
- (A) \$17 000
 - (B) \$10 000
 - (C) \$3 000
 - (D) \$5 000
- C

37. A business borrows \$10 000 from the bank. The entry to record the transaction is:
 (A) Debit Cash and credit Capital
 (B) Debit Cash and credit Bank Loan
 (C) Debit Bank Loan and credit Capital
 (D) Debit Bank Loan and credit Cash
B
-
38. A business buys land for \$50 000 on credit. In recording the transaction, the effect on the accounting equation will be:
 (A) Assets both increase and decrease
 (B) Assets increase and liabilities increase
 (C) Assets increase and liabilities decrease
 (D) Assets increase and capital increases
B
-
39. Equipment was sold to D. Malone for \$1 000 and a down payment of \$200 was made. The equipment had been listed in the books at \$1 500. The entry to record this transaction is:
 (A) Debit Cash, credit Equipment, credit Capital
 (B) Debit Cash, debit Malone, credit Equipment
 (C) Debit Cash, debit Malone, debit Capital, credit Equipment
 (D) Debit Cash, debit Malone, credit Equipment, credit Capital
C
-
40. If an entry involves a debit to an asset account, it may also involve a credit to:
 (A) a liability account
 (B) an asset account
 (C) a capital account
 (D) all of the above
D
-
41. If the owner of a business pays cash to repair the company's delivery truck:
 (A) Cash is debited and Delivery Truck is credited
 (B) Delivery Truck is debited and Cash is credited
 (C) An Expense account is debited and Cash is credited
 (D) The capital is credited and Delivery Truck is credited
C
-
42. A debit to an account may:
 (A) increase any asset
 (B) decrease any asset
 (C) increase any liability
 (D) increase capital
A
-
43. In reviewing the books for his company, the owner noted that one transaction was recorded as a \$500 debit to Cash and a \$500 debit to Furniture and Fixtures. The result of this error will cause:
 (A) the Cash to be overstated by \$500
 (B) the trial balance to be understated by \$500
 (C) the Furniture and Fixture account to be overstated by \$500
 (D) the Cash account to be overstated by \$1 000
D
-
44. Which account would appear on the Trial Balance, Income Statement and Balance Sheet?
 (A) Revenue
 (B) Cash
 (C) Drawings
 (D) None of the above
D
-

45. Complete the following table showing which account will be debited or credited for each transaction.

<u>Transaction</u>	<u>Debit</u>	<u>Credit</u>
(a) Received \$450 cash from customers who owed the business money.	<u>BANK</u>	<u>A/R</u>
(b) Bought a truck for \$18 500. Made a down payment of \$5 000 and will pay the rest later.	<u>TRUCK</u>	<u>BANK, A/P</u>
(c) Made the regular \$1 000 payment on the bank loan.	<u>BANK LOAN</u>	<u>BANK</u>
(d) Owner invested \$20 000 more in the business.	<u>BANK</u>	<u>CAPITAL</u>
(e) Paid \$250 to a creditor.	<u>A/P</u>	<u>BANK</u>
(f) Paid Bell Canada \$27 for monthly bill.	<u>TELEPHONE EX.</u>	<u>BANK</u>

46. Given the following Trial Balance for Playbill Cinema

- (A) Prepare an *Income Statement* for the month ended January 31, 20–
- (B) Prepare the *Equity Section* of the *Balance Sheet* **ONLY**, as at January 31, 20–

**Playbill Cinema
Trial Balance
January 31, 20–**

<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$ 5 653	
Equipment	89 563	
Accounts Payable		\$ 890
Bank Loan		10 387
V. Schulz, Capital		83 159
V. Schulz, Drawings	1 600	
Ticket Sales		20 453
Confection Income		2 407
Salaries Expense	6 801	
Advertising Expense	2 563	
Film Rental Expense	3 563	
Rent Expense	1 887	
Cleaning Expense	850	
Office Expense	1 235	
Equipment Repairs and Maintenance Expense	1 793	
Film Transportation Expense	248	
Heating Expense	658	
Electricity and Water Expense	532	
General Expense	350	
	\$117 296	\$117 296
	\$117 296	\$117 296

Playbill Cinema
Income Statement

Month Ended January 31, 20-

[illegible]

[illegible]

FILL IN THE BLANKS

47. The accounting department learns of transactions from business papers called _____.
48. A _____ is a business form prepared whenever goods or services are sold for cash.
49. A _____ is a business form prepared whenever goods or services are sold on account.
50. The account debited for all sales on account is _____.
51. In any sales transaction, the party that sells is known as the _____.
52. A _____ is a business form representing a purchase of goods on account.
53. The account debited for all sales on account is _____.
54. The _____ is the business paper that records payments coming in from customers.
55. A bank _____ memo, initiated by the bank, will decrease the Bank account of a business.

SOURCE DOCUMENTS

CASH SALES SLIP

SALES INVOICE

A/R

VENDOR

PURCHASE INVOICE

BANK

**CASH RECEIPTS
DAILY SUMMARY**

DEBIT

56. Complete the chart below to show the effect of errors on a trial balance.

ERROR SITUATIONS	TRIAL BALANCE WILL NOT BALANCE		TRIAL BALANCE WILL BALANCE BUT WILL NOT BE CORRECT
	Debits greater than credits by \$ amount	Credits greater than debits by \$ amount	
(A) An \$80 debit is posted as \$800.	\$720		
(B) An entire general journal entry for \$80 is not posted.			X
(C) The wages account balance of \$22 000 is posted on the trial balance as a credit.		\$44 000	
(D) An entire general journal entry for \$200 is posted in reverse. That is, the debit amount was posted to the credit account, and the credit amount was posted to the debit account.			X
(E) A \$500 credit is posted as a debit.	\$1 000		
(F) The Bank account is understated by \$160.		\$160	
(G) The Drawings account balance of \$3 500 is listed on the trial balance as a credit.		\$7 000	

57. Classify the accounts listed below, using the following abbreviations: **CA** (Current Assets), **CL** (Current Liabilities), **P&E** (Plant and Equipment), **LTL** (Long-Term Liabilities), **OE** (Owner's Equity), **R** (Revenue), **E** (Expenses)

(A) A/P	<u>CL</u>	(I) GST Payable	<u>CL</u>
(B) Supplies	<u>CA</u>	(J) R. Tymko, Drawings	<u>OE</u>
(C) A/R	<u>CA</u>	(K) Wages	<u>E</u>
(D) Bank Loan	<u>CL</u>	(L) Bank	<u>CA</u>
(E) Mortgage Payable (Current Installment)	<u>CL</u>	(M) Commissions Earned	<u>R</u>
(F) Loss on Sale of Assets	<u>E</u>	(N) Postage	<u>E</u>
(G) PST Payable	<u>CL</u>	(O) GST Recoverable	<u>CL</u>
(H) Mortgage Payable (Non-current)	<u>LTL</u>	(P) Rent	<u>E</u>

58. In the chart below, write the numbers of the accounts that are debited and credited when the given adjustments are made. For (B), (C), and (D), assume that accounting clerks debited asset accounts when they received the appropriate invoices.

Adjustments	DR	CR
(A) Adjust for late arriving telephone bill.	11	1
(B) Adjust for insurance used.	4	8
(C) Adjust for prepaid insurance.	3	9
(D) Adjust for supplies used.	10	7

Accounts	
A/P	1
Customer's Account	2
Licence Expense	3
Insurance Expense	4
Insured Assets	5
Merchandise Inventory	6
Supplies	7
Prepaid Insurance	8
Prepaid Licences	9
Supplies Expense	10
Telephone Expense	11

59. For the following transactions, write the names of the accounts to be debited and credited.

	Account Debited	Account Credited
(A) Sold merchandise on account	A/R	SALES
(B) Purchased merchandise on account.	PURCHASES	A/P
(C) Paid cash for transportation charges on incoming goods.	FREIGHT-IN	BANK
(D) Closed out the Purchase account.	INCOME SUMMARY	PURCHASES
(E) Set up the merchandise inventory for the next fiscal period.	MERCHANDISE INVENTORY	INCOME SUMMARY
(F) Closed out the beginning merchandise inventory.	INCOME SUMMARY	MERCHANDISE INVENTORY

60. At the end of December, the balance in the Accounts Payable account was \$16 200, and the total balance in the accounts payable ledger was \$15 400. Complete the following chart, correcting each error and showing the effect of the correction on the ledgers. For each error, show the amount of the increase or decrease.

Error		Effect on the Subsidiary Ledger Increase (+) Decrease (-)	Effect on the General Ledger Increase (+) Decrease (-)
Opening Balance -		\$15 400	\$16 200
(A)	A purchase invoice for \$200 recorded correctly in the control account, was not posted to the subsidiary ledger.	+200	
(B)	A cash payment of \$500, recorded properly in the subsidiary ledger, was omitted from the control account.		-500
(C)	A credit invoice received for \$100 was properly posted in the subsidiary ledger, but not recorded in the control account.		-100
(D)	A purchase invoice for \$500 was not posted in the subsidiary ledger. It was recorded properly in the control account.	+500	
(E)	A cash payment of \$100, recorded correctly in the control account, was posted in the wrong side of the creditor's account in the subsidiary ledger.	-200	
(F)	A purchase invoice for \$300, recorded correctly in the control account, was posted twice to the creditor's account in the subsidiary ledger.	-300	
Final Balance -		\$15 600	\$15 600

61. M. E. Arson Enterprises suffered a fire on August 1, 20-2. The entire inventory was destroyed by the fire. A physical inventory had not been taken since the end of the previous fiscal period, December 31, 20-1. At that time the inventory was \$37 000. The company had realised a consistent gross profit of 40% of sales for the past four years.

The company's accounting records, which were not destroyed in the fire, indicated that, from January 1 to August 1, the cost of merchandise purchased was \$170 000 and sales were \$300 000.

Calculate the cost of inventory lost in the fire by filling in the blanks below.

Sales 300 000 (Given)

Cost of Goods Sold

Beginning Inventory 37 000 (Given)

Plus Purchases 170 000 (Given)

Total Cost of Goods Available for Sale 207 000

Less Ending Inventory 27 000

Cost of Goods Sold 180 000

Gross Profit (40% of Sales) 120 000

Cost of Goods Sold = 300 000 (Sales)
- 120 000 (Gross Profit)
= 180 000

Ending Inventory = 207 000 (Total Cost of Goods Available for Sale)
- 180 000 (Cost of Goods Sold)
= 27 000

Therefore, the cost of the inventory lost in the fire was - \$27 000