

Exam

Name _____

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

1) The purpose of the statement of financial position is:

- A) to determine the cash inflows and outflows over a period of time.
- B) to determine the profit earned over a period of time.
- C) to list the assets of the business and the claims against the assets at a particular point of time.
- D) all of the above.

Answer: C

Diff: 1

Skill: Written and oral communication

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

2) Which of these is *not* always a characteristic of an asset?

- A) Ability of the benefit to be measured in money terms.
- B) Exclusive control of the economic benefits.
- C) Legal ownership by the entity.
- D) Probable expected future economic benefits.

Answer: C

Diff: 3

Skill: Analytical thinking

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

3) Identify the asset.

- A) Bank overdraft.
- B) Plant and equipment.
- C) Loan from ABC Ltd.
- D) Accrued expenses.

Answer: B

Diff: 1

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

4) Which of these is *not* an asset?

- A) Accounts payable.
- B) Loan to J Troja.
- C) Accounts receivable.
- D) Both A and B.

Answer: A

Diff: 1

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

5) Intangible assets have no physical substance but still provide expected future benefits. Which of the following is *not* an intangible asset?

- A) Newspaper masthead.
- B) Goodwill.
- C) Patent.
- D) None of the above, i.e., all are intangible assets.

Answer: D

Diff: 1

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

6) Identify the intangible asset.

- A) Brand name.
- B) Loan.
- C) Accounts payable.
- D) Inventory.

Answer: A

Diff: 1

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

7) In the accounting equation, claims on the business are of two broad types:

- A) bills payable and bills receivable.
- B) liabilities and equity.
- C) loans to and loans from outsiders.
- D) accounts receivable and accounts payable.

Answer: B

Diff: 1

Skill: Analytical thinking

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

8) 'A present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits,' is the generally acceptable definition of:

- A) an asset.
- B) equity.
- C) a liability.
- D) an expense.

Answer: C

Diff: 1

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

9) Identify the liability.

- A) Drawings.
- B) Prepaid insurance.
- C) Accounts payable.
- D) Cash at bank.

Answer: C

Diff: 1

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

10) The recognition criteria for liabilities includes:

- A) future obligation.
- B) probability of occurrence.
- C) reliability of measurement.
- D) Both B and C.

Answer: D

Diff: 3

Skill: Analytical thinking

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

11) Identify the item that would appear in the equity section of the statement of financial position.

- A) Loan from ABC Bank.

- B) Loan to family member.
- C) Bank overdraft.
- D) Drawings by the owner.

Answer: D

Diff: 1

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

12) Which of these does *not* belong with the others?

- A) Bank overdraft.
- B) Prepaid wages.
- C) Accounts payable.
- D) Mortgage loan.

Answer: B

Diff: 1

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

13) Which statement concerning the reserves component of equity is *not* correct?

- A) Reserves represent cash.
- B) Retained profits and reserves are often classified under the general heading of reserves.
- C) The higher the dividend paid by the company, the lower the reserves.
- D) Many reserves arise as transfers from retained profits.

Answer: A

Diff: 2

Skill: Analytical thinking

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

14) Another name for accounts receivable is:

- A) debtors.
- B) receivables.
- C) accounts payable.
- D) Both A and B.

Answer: D

Diff: 1

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

15) Which of these assets, which *could* be listed on a statement of financial position, is likely *not* to translate into future economic benefits?

- A) Large inventories of spare parts.
- B) Accounts receivable that have been outstanding for several months.
- C) Inventory that has been on the shelves for over a year.
- D) All of the above.

Answer: D

Diff: 2

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

16) Despite the uncertainty in relation to the exact amount to be paid and the actual timing of the payment, which of the following is still regarded as a liability?

- A) Deposit on services received in advance.
- B) Provision for employee bonuses.
- C) Accounts payable.

D) Money borrowed from an associate company.

Answer: B

Diff: 2

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

17) Identify the item which is *not* necessarily a liability.

A) Provision for holiday pay.

B) Bank overdraft.

C) Loan to employee.

D) None of the above, i.e., all are necessarily liabilities.

Answer: C

Diff: 3

Skill: Application of knowledge

Objective: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

18) The correct version of the accounting equation is:

A) liabilities = assets + equity.

B) equity = assets + liabilities.

C) assets = equity + liabilities.

D) none of the above.

Answer: C

Diff: 1

Skill: Analytical thinking

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

19) If liabilities are \$45,000 and equity is \$68,900, assets are:

A) \$23,100.

B) \$23,900.

C) \$113,900.

D) \$113,100.

Answer: C

Diff: 1

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

20) If liabilities are \$55,000 and assets are \$123,600, equity is:

A) \$178,400.

B) \$68,600.

C) \$178,600.

D) \$68,400.

Answer: B

Diff: 1

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

21) If assets are \$34,800 and equity is \$12,700, liabilities are:

A) \$47,500.

B) \$22,100.

C) \$47,000.

D) \$22,900.

Answer: B

Diff: 1

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

22) Calculate equity. Cash at bank \$3,400; inventory \$1,200; accounts receivable \$2,500; accounts payable \$1,700; loan from ABC bank \$3,500.

A) \$8,900.

B) \$5,300.

C) \$1,900.

D) \$12,300.

Answer: C

Diff: 2

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

23) Calculate the missing cash at bank account balance from these statement of financial position items. Equity \$5,700; accounts receivable \$890; accounts payable \$450; inventory \$360; loan to a business \$1,400.

A) \$4,900.

B) \$5,400.

C) \$2,600.

D) \$6,300.

Answer: A

Diff: 3

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

24) The effect on the statement of financial position of a business buying supplies for cash is to:

A) increase asset supplies; increase asset bank.

B) decrease asset supplies; decrease asset bank.

C) decrease asset supplies; increase asset bank.

D) increase asset supplies; decrease asset bank.

Answer: D

Diff: 1

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

25) What is the effect on the statement of financial position when the business buys inventory on credit?

A) Increase asset inventory; increase liability creditor.

B) Increase asset inventory; increase equity.

C) Decrease asset inventory; decrease liability creditor.

D) Decrease asset inventory; increase liability creditor.

Answer: A

Diff: 2

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

26) What is the effect on the statement of financial position when the business buys a car for \$25,000, paying a deposit of \$5,000 and promising to pay the balance within 60 days?

A) Increase asset vehicle by \$5,000; decrease asset bank by \$5,000.

B) Increase asset vehicle by \$20,000; increase liability accounts payable by \$20,000.

C) Increase asset vehicle by \$25,000; decrease asset bank by \$5,000; increase liability accounts payable by \$20,000.

D) None of the above.

Answer: C

Diff: 3

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

27) The effect on the statement of financial position when the business pays a creditor is:

- A) decrease asset creditor; decrease liability bank.
- B) decrease asset bank; decrease liability creditor.
- C) decrease asset bank; decrease equity.
- D) none of the above.

Answer: B

Diff: 1

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

28) The effect on the statement of financial position when a debtor pays the amount that is owed is:

- A) increase asset bank; decrease asset debtor; increase equity.
- B) increase asset bank; increase equity.
- C) increase asset bank; decrease asset debtor.
- D) none of the above.

Answer: C

Diff: 2

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

29) The effect on the statement of financial position when the owner withdraws money from the business is:

- A) decrease asset bank; decrease equity.
- B) decrease drawings; decrease equity.
- C) increase drawings; increase equity.
- D) decrease asset bank; increase equity.

Answer: A

Diff: 2

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

30) The effect on the statement of financial position when the owner contributes her private vehicle for the exclusive use of the business is:

- A) increase asset vehicle; increase equity.
- B) increase asset vehicle; decrease equity.
- C) increase asset vehicle; increase owner's drawings.
- D) none of the above.

Answer: A

Diff: 2

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

31) Calculate the profit for the year if capital at the beginning is \$35,000, capital at the end is \$40,000 and during the year the owner withdrew \$15,000.

- A) \$5,000.
- B) \$15,000.
- C) \$10,000.
- D) \$20,000.

Answer: D

Diff: 3

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

32) What is the overall effect on the statement of financial position when the business sells inventory for a profit of \$3,000?

- A) Increase total assets \$3,000; decrease total equity \$3,000.
- B) Increase total assets \$3,000; increase total equity \$3,000.
- C) No change in total assets; no change in total equity.
- D) None of the above.

Answer: B

Diff: 2

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

33) What is the effect on the statement of financial position when the business has cash sales of \$12,000 of goods that were originally purchased for \$8,000?

- A) Increase asset bank \$12,000; increase equity \$12,000.
- B) Increase asset bank \$12,000; decrease asset inventory \$8,000; increase equity \$4,000.
- C) Increase asset bank \$4,000; increase equity \$4,000.
- D) None of the above.

Answer: B

Diff: 3

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

34) You are provided with the statement of financial position at the beginning of the period for a firm of accountants. You are also given four of the transactions that have occurred during the period.

REQUIRED:

- a) Complete the table to show how each transaction affects the accounts shown.
- b) Calculate the figures in the final column of the table from which the statement of financial position at the end of the period can be prepared.

	Beginning Balance Sheet	Transaction 1	Transaction 2	Transaction 3	Transaction 4	Ending Balance Sheet
<i>Assets</i>						
\$	\$	\$	\$	\$	\$	\$
Cash	10,000					
accounts receivable	5,500					
Plant & Equip	<u>50,000</u>					
	<u>65,000</u>					
<i>Liabilities</i>						
accounts payable	6,000					
<i>Equity</i>	<u>59,500</u>					
	<u>65,500</u>					

Transactions for the period:

- 1. Collected \$3,000 from debtors

2. Paid accounts payable \$6,000
3. Owner paid in additional capital contribution of \$10,000
4. Purchased on credit \$2,000 of additional plant.

Answer:

	Beginning Balance Sheet	Transaction 1	Transaction 2	Transaction 3	Transaction 4	Ending Balance Sheet
<i>Assets</i>	\$	\$	\$	\$	\$	\$
<i>Cash</i>	10,000	+3,000	-6,000	+10,000		17,000
<i>accounts receivable</i>	5,500	-3,000				2,500
<i>Plant & Equip</i>	<u>50,000</u>				+2,000	<u>52,000</u>
	<u>\$65,500</u>					<u>\$71,500</u>
<i>Liabilities</i>						
<i>accounts payable</i>	6,000		-6,000		+2,000	2,000
<i>Equity</i>	<u>59,500</u>			+10,000		<u>69,500</u>
	<u>65,500</u>					<u>\$71,500</u>

Diff: 3

Skill: Application of knowledge

Objective: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

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

35) Identify the current asset.

- A) Fixtures and fittings.
- B) Inventory.
- C) Delivery vehicle.
- D) Loan to L Hardie repayable in 2 years.

Answer: B

Diff: 1

Skill: Application of knowledge

Objective: Classify assets and claims

36) Assets are classified as either current or non-current. Current assets are:

- A) goodwill.
- B) expected to be turned into cash within 12 months.
- C) the infrastructure assets.
- D) all of the above.

Answer: B

Diff: 2

Skill: Analytical thinking

Objective: Classify assets and claims

37) Identify the non-current asset.

- A) 5-year loan to Ti Finance.
- B) Machinery.
- C) Long-term investment.
- D) All of the above.

Answer: D

Diff: 1

Skill: Application of knowledge

Objective: Classify assets and claims

38) Non-current liabilities represent:

A) amounts due to the owner of the business which are not payable within 12 months.

B) amounts due to outsiders which are not payable within 12 months.

C) amounts due and payable to outsiders within 12 months.

D) Both A and B.

Answer: B

Diff: 1

Skill: Analytical thinking

Objective: Classify assets and claims

39) Identify the current liability.

A) Wages owing.

B) Loan from B Buy (due in 4 months).

C) Bill payable (due in 2 years).

D) Both A and B.

Answer: D

Diff: 1

Skill: Application of knowledge

Objective: Classify assets and claims

40) Which of the following statements in relation to non-current assets is *untrue*?

A) They are held for sale or consumption.

B) They may be tangible or intangible.

C) May vary in classification according to the nature of the business.

D) They are generally held for generating wealth.

Answer: A

Diff: 1

Skill: Analytical thinking

Objective: Classify assets and claims

41) Which of the following is regarded as a tangible asset?

A) Franchise.

B) Goodwill.

C) Long-term investment.

D) Copyright.

Answer: C

Diff: 1

Skill: Analytical thinking

Objective: Classify assets and claims

42) If current assets are \$15,200, current liabilities are \$3,100, non-current liabilities are \$45,000 and equity is \$60,000, non-current assets are:

A) \$108,100

B) \$48,100

C) \$92,900

D) \$105,000

Answer: C

Diff: 1

Skill: Application of knowledge

Objective: Classify assets and claims

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

43) Complete the following table concerning the classification of items in the statement of financial position.

ACCOUNT	ELEMENTS			CLASSIFICATION
	Assets	Liability	Equity	
				- Current, - Non-current, - Intangible, - Equity
e.g., Cash on hand	✓			Current
e.g., Land and buildings	✓			Non-current
1 Inventory				
2 Accounts receivable				
3 Bank overdraft				
4 Prepaid insurance				
5 Share capital				
6 Retained profits				
7 Accounts payable				
8 Goodwill				
9 Plant & equipment				
10 Franchise				
11 Loan from Eagle Finance (5 years)				

Answer:

ACCOUNT	ELEMENTS			CLASSIFICATION
	Assets	Liability	Equity	
				- Current, - Non-current - Intangible - Equity
e.g., Cash on hand	✓			Current
e.g., Land and buildings	✓			Non-current
1 Inventory	✓			Current
2 Accounts receivable	✓			Current
3 Bank overdraft		✓		Current
4 Prepaid insurance	✓			Current
5 Share capital			✓	Equity
6 Retained profits			✓	Equity
7 Accounts payable		✓		Current
8 Goodwill	✓			Intangible
9 Plant & equipment	✓			Non-current
10 Franchise	✓			Intangible
11 Loan from Eagle Finance (5 years)		✓		Non-current

Diff: 1

Skill: Application of knowledge

Objective: Classify assets and claims

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

44) Published statement of financial positions in Australia are mostly presented in which format?

- A) Horizontal format.
- B) Parallel format.
- C) Vertical format.

D) 'T' format.

Answer: C

Diff: 2

Skill: Written and oral communication

Objective: Apply the different possible formats for the statement of financial position

45) What are the possible approaches to presenting a narrative statement of financial position?

A) Entity.

B) Proprietary.

C) Horizontal.

D) Both A and B.

Answer: D

Diff: 2

Skill: Written and oral communication

Objective: Apply the different possible formats for the statement of financial position

46) The accounting convention that means only those transactions that are capable of being expressed in monetary terms are recorded, is the:

A) money measurement convention.

B) historical cost convention.

C) conservatism convention.

D) reliability convention.

Answer: A

Diff: 1

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

47) The accounting convention that requires the activities of the business to be kept separate from the activities of the owner is the:

A) dual aspect convention.

B) business entity convention.

C) conservatism convention.

D) accounting period convention.

Answer: B

Diff: 1

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

48) Which accounting convention has the effect that the employees will not appear as an asset on the entity's statement of financial position?

A) Money measurement convention.

B) Accounting period convention.

C) Stable monetary unit convention.

D) Entity convention.

Answer: A

Diff: 2

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

49) Without the business entity convention, which item in the statement of financial position would *not* exist?

A) Assets.

B) Equity.

C) Liabilities.

D) Cash at bank.

Answer: B

Diff: 2

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

50) The accounting convention that states that every transaction has at least two effects on the accounting equation, so that after the transaction is processed, the equation remains in balance is the:

- A) going concern/continuity convention.
- B) objectivity/reliability convention.
- C) conservatism/prudence convention.
- D) dual aspect convention.

Answer: D

Diff: 2

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

51) The accounting convention that requires items in the statement of financial position to be valued at their acquisition cost is the:

- A) matching convention.
- B) realisation convention.
- C) money measurement convention.
- D) historic cost convention.

Answer: D

Diff: 1

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

52) If reported profits are reduced by \$5,000 in year one because of the operation of conservatism:

- A) profits in later years will be unaffected.
- B) profits in later years must be \$5,000 higher.
- C) profits in later years will be \$5,000 lower.
- D) none of the above.

Answer: B

Diff: 3

Skill: Application of knowledge

Objective: Identify the main factors that influence the content and values in a statement of financial position

53) The accounting convention that calls for financial reports to err on the side of caution is the:

- A) accounting period convention.
- B) stable monetary unit convention.
- C) conservatism (prudence) convention.
- D) objectivity convention.

Answer: C

Diff: 1

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

54) The accounting convention which results in the anticipation of losses but *not* of profits is:

- A) matching.
- B) prudence (conservatism).
- C) going concern.
- D) none of the above.

Answer: B

Diff: 2

Skill: Application of knowledge

Objective: Identify the main factors that influence the content and values in a statement of financial position

55) If the prudence (conservatism) convention conflicts with another convention, which will normally prevail?

- A) Prudence (conservatism).
- B) The other convention.
- C) 50% of the time prudence and 50% of the time the other convention.
- D) Conventions never conflict so the issue does not arise.

Answer: A

Diff: 3

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

56) Under the accounting standards, which alternative measure of value is *not* permitted to be used for valuing assets?

- A) Historical cost.
- B) Net realisable value.
- C) Fair value.
- D) None of the above. i.e., all are permitted methods in some circumstances.

Answer: D

Diff: 3

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

57) An example of where the prudence assumption leads to a reduction in the valuation of an asset is:

- A) development expenditure capitalised as an asset rather than written off as an expense.
- B) taking an upward revaluation of an asset to a reserve rather than including it in the profit calculation.
- C) valuing inventory at the lower of cost and net realisable value.
- D) All are examples.

Answer: C

Diff: 3

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

58) Which statement about current value is true?

- A) Current value can only be defined one way.
- B) An accounting system could be produced based on current value rather than historical cost.
- C) The second-hand sale value of an asset is *not* an example of current value.
- D) Current values are based on transactions.

Answer: B

Diff: 3

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

59) The accounting convention that the objectivity principle provides support for is:

- A) historic cost.
- B) prudence (conservatism).
- C) relevance.
- D) accounting period.

Answer: A

Diff: 3

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

60) There is a growing tendency for many non-current assets to be valued on the basis of market values. The item which is

most likely to be valued at market value is:

- A) the assets of a life insurer.
- B) goodwill.
- C) motor vehicles.
- D) accounts receivable.

Answer: A

Diff: 3

Skill: Application of knowledge

Objective: Identify the main factors that influence the content and values in a statement of financial position

61) The assumption that means accountants ignore inflation is:

- A) the stable monetary unit assumption.
- B) the going concern assumption.
- C) the monetary assumption.
- D) the prudence assumption.

Answer: A

Diff: 1

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

62) Application of the (prudence) conservatism assumption can produce:

- A) higher profits.
- B) higher values for assets.
- C) higher amounts for liabilities.
- D) lower amounts for expenses.

Answer: C

Diff: 1

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

63) Which of the following conventions dictates that a sole owner's personal transactions should not be included in the records of the business?

- A) Accounting period.
- B) Business entity.
- C) Prudence.
- D) Historic cost.

Answer: B

Diff: 3

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

64) The accounting assumption that a business will continue to operate into the foreseeable future is the:

- A) entity assumption.
- B) going concern assumption.
- C) accounting period assumption.
- D) historical cost assumption.

Answer: B

Diff: 1

Skill: Analytical thinking

Objective: Identify the main factors that influence the content and values in a statement of financial position

65) Which aspect of business performance does the statement of financial position directly provide insight into?

- A) Cash flows.
- B) Profitability.

- C) Share price.
- D) The relative proportions of funds contributed by owners and outsiders.

Answer: D

Diff: 1

Skill: Reflective thinking

Objective: Explain the main ways in which the statement of financial position can be useful for users of accounting information

66) The statement of financial position assists users in terms of:

- A) Assessing the value of a business.
- B) Determining the liquidity of a business.
- C) The effectiveness of wealth generation.
- D) All of the above.

Answer: D

Diff: 1

Skill: Reflective thinking

Objective: Explain the main ways in which the statement of financial position can be useful for users of accounting information

67) A limitation of the statement of financial position in portraying the financial position of an entity is:

- A) items which cannot be measured in money are not included.
- B) the historical cost approach means that assets are not shown at their estimated market values.
- C) there is no adjustment to values for inflation.
- D) All of the above are limitations.

Answer: D

Diff: 2

Skill: Analytical thinking

Objective: Identify the main deficiencies or limitations in the statement of financial position

68) Which of the following is *not* considered a deficiency of the statement of financial position?

- A) The amount of discretion in recording some transactions.
- B) The lack of recognition of inflation.
- C) The disclosure of assets and the claims against such assets.
- D) The conflict between relevant and reliable information.

Answer: C

Diff: 2

Skill: Analytical thinking

Objective: Identify the main deficiencies or limitations in the statement of financial position

- 1) C
- 2) C
- 3) B
- 4) A
- 5) D
- 6) A
- 7) B
- 8) C
- 9) C
- 10) D
- 11) D
- 12) B
- 13) A
- 14) D
- 15) D
- 16) B
- 17) C
- 18) C
- 19) C
- 20) B
- 21) B
- 22) C
- 23) A
- 24) D
- 25) A
- 26) C
- 27) B
- 28) C
- 29) A
- 30) A
- 31) D
- 32) B
- 33) B
- 34)

	Beginning Balance Sheet	Transaction 1	Transaction 2	Transaction 3	Transaction 4	Ending Balance Sheet
<i>Assets</i>	\$	\$	\$	\$	\$	\$
<i>Cash</i>	10,000	+3,000	-6,000	+10,000		17,000
<i>accounts receivable</i>	5,500	-3,000				2,500
<i>Plant & Equip</i>	<u>50,000</u>				+2,000	<u>52,000</u>
	<u>\$65,500</u>					<u>\$71,500</u>
<i>Liabilities</i>						
<i>accounts payable</i>	6,000		-6,000		+2,000	2,000
<i>Equity</i>	<u>59,500</u>			+10,000		<u>69,500</u>
	<u>65,500</u>					<u>\$71,500</u>

- 35) B
- 36) B
- 37) D
- 38) B
- 39) D
- 40) A
- 41) C
- 42) C

43) ACCOUNT	ELEMENTS			CLASSIFICATION
	Assets	Liability	Equity	
				- Current, - Non-current - Intangible - Equity
e.g., Cash on hand	✓			Current
e.g., Land and buildings	✓			Non-current
1 Inventory	✓			Current
2 Accounts receivable	✓			Current
3 Bank overdraft		✓		Current
4 Prepaid insurance	✓			Current
5 Share capital			✓	Equity
6 Retained profits			✓	Equity
7 Accounts payable		✓		Current
8 Goodwill	✓			Intangible
9 Plant & equipment	✓			Non-current
10 Franchise	✓			Intangible
11 Loan from Eagle Finance (5 years)		✓		Non-current

- 44) C
- 45) D
- 46) A
- 47) B
- 48) A
- 49) B
- 50) D
- 51) D
- 52) B
- 53) C
- 54) B
- 55) A
- 56) D
- 57) C
- 58) B
- 59) A
- 60) A
- 61) A
- 62) C
- 63) B
- 64) B
- 65) D
- 66) D
- 67) D

68) C