

## The Accounting Model

### Comprehension Quiz

**For questions 1 to 18, indicate whether the following statements are TRUE or FALSE, if you choose False, explain why**

1. The Balance Sheet (Statement of Financial Position) presents the financial situation of a firm for a specific financial period;
2. The Income Statement presents a firm's resources and obligations for a specific financial period;
3. A financial statement reader can find the amount of declared dividends in the income statement;
4. The accounting equation's equality is maintained with the following elements: an increase in Assets of 5 000\$ and an increase in expenses of 5 000\$
5. The accounting equation's equality is maintained with the following elements: a decrease in assets of 10 000\$ and a decrease in liabilities of 10 000\$;
6. The Statement of Cash flows illustrates the variation of cash inflows and outflows involved in the 3 main activities of a business for a given financial period;
7. The two fundamental principles of income measurement are the cost principle and the matching principle.
8. Marketable securities are cash substitutes temporarily invested to earn higher returns than bank accounts.
9. Accounting standard setters recommend to take an allowance for doubtful accounts mainly to comply with the cost principle;
10. The gain from sale of assets has a positive effect on cash flows and is presented in the Statement of Cash Flows under investing activities;

11. Prepaid expenses are certain expenses that are paid for and consumed before the balance sheet date.
12. Unearned revenues are amounts received for revenues that are not reported as sales before the balance sheet date;
13. Goodwill is the difference between the price paid to acquire a firm and the net book value of the acquired firm's assets.
14. The net book value (NBV) of an asset is the asset's cost less its cumulated depreciation;
15. When there is a payment of 5000 \$ (4000\$ on the capital and 1000\$ on the interest) on a long term debt, there is a decrease of 5000\$ in both assets and liabilities;
16. The two different methods (direct and indirect) that may be used to produce the Statement of Cash flows differ mainly in investing activities;
17. We should use the straight line depreciation method for assets that will be used evenly throughout the years of their useful life;
18. We should not use the FIFO (first in, first out) inventory method when we sell very different and very valuable goods.

**Indicate how the following values are determined:**

- a. Gain or loss on sale of assets;
- b. The year-end balance of retained earnings;
- c. The amount of sales in cash (or cash received from customers) that we find in the operating activities section of the Statement of Cash Flows