FA Week 2 (8 Questions on elearn)

1. Journal entry for: Paid wages ($10,000) to employees for the month of December and pre-paid their salaries of 2 months for the next financial year.

1. DR Cash ($10,000), CR Wages ($10,000)
2. DR Employees expenses ($30,000), CR Bank ($30,000)
3. DR Wages ($10,000), CR Cash ($10,000)
4. DR Wages ($30,000), CR Cash ($30,000)

**Answer: C**

**Explanation:** Pre-paying of salaries for next financial year does not need to be reflected in the current financial year’s records. Hence, only need to record the $10,000 wages paid. It is a form of expense for the business, hence Debit Expense and Credit Cash to reflect a decrease in Cash level.

1. Purchasing fixed assets like furniture ($5,000) in cash will result in \_\_\_\_\_\_\_ and what will the journal entry be like if it is being bought on credit from Supplier XYZ?
2. Increase in Assets of $5000 and Decrease in Equity of $5000, Debit Furniture ($5000) and Credit Cash ($5000)
3. Decrease in Assets of $5000 and Increase in Equity of $5000, Debit Furniture ($5000) and Credit Supplier XYZ ($5000)
4. Zero net effect on Asset, Debit Supplier XYZ ($5000) and Credit Furniture ($5000)
5. Zero net effect on Asset, Debit Furniture ($5000) and Credit Supplier XYZ ($5000)

**Answer: D**
**Explanation:** Increase in Assets (furniture) of $5000 cancels out the decrease in Cash of $5000. Increase in liability results in a Credit not a Debit.

1. Revenues are
2. A decrease in liabilities resulting from paying off loans.
3. Increases in paid-in capital resulting from the owners investing in the business.
4. Increases in retained earnings resulting from selling products or performing services.
5. All of the above.

**Answer: C**

**Explanation:** Revenues are income earned from selling goods or providing services.

1. All of the following are current assets except
2. Inventory.
3. Cash.
4. Sales Revenue.
5. Accounts Receivable.

 **Answer: C**

**Explanation:** Assets and Sales revenue are very different things. Sales revenue appears on the income statement while assets appear on the balance sheet (statement of financial position). Revenue is what a company receives from the sale of products and Assets are anything a company owns, for instance, property and equipment.

1. In June, assets increased by $19,000 and liabilities increased by $6,000. Shareholders' equity must have
2. increased by $13,000.
3. increased by $25,000.
4. decreased by $13,000.
5. decreased by $25,000.

**Answer: A
Explanation:** Assets = Liabilities + Equity
+$19,000 = +$6,000 + Equity
Equity = $19,000 - $6,000 = Increase of $13,000

1. All of the following statements are true except one. Which statement is false?

a. The organization that formulates IFRSs is the International Accounting Standards Board.

1. Users of financial information are limited to shareholders of the company.
2. Professional accountants are held to a high standard of ethical conduct.
3. Bookkeeping is only a part of accounting.

**Answer: B**
**Explanation:** External stakeholders such as investors, government bodies, suppliers and customers are users of a company’s financial information to aid them in making decisions too. For instance, potential investors would wish to find out if the company’s financial stability and if the company faces any potential cash flow issues.

1. The nature of an asset is best described as an economic resource that's expected to benefit future operations. True/False?

**Answer: True**

1. Net income is most likely to affect the accounting equation by a decrease in shareholders’ equity and increase assets. True/False?

**Answer: False**
**Explanation:** Accounting Equation (A=L+E) should always be balanced. Increase in assets and decrease in equity does not balance. Both equity and assets increase. Net income leads to an increase in retained earnings which means an increase in equity. Net income is never an asset however when there is a net income, it means that your revenue is more than your expenses, which meant an increase in cash (assets).