**Chapter 02 Analyzing and Recording Transactions**

# MULTIPLE CHOICE QUESTIONS

## The first step in the processing of a transaction is to analyze the transaction and source documents.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Preparation of a trial balance is the first step in processing a financial transaction.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Source documents identify and describe transactions and events entering the accounting process.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Items such as sales tickets, bank statements, checks, and purchase orders are examples of a business's source documents.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. An account is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense item.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## A customer's promise to pay on credit is classified as an *account payable* by the seller.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Withdrawals by the owner are a business expense.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## The purchase of land and buildings will generally be recorded in the same ledger account.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Unearned revenues are classified as liabilities.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Cash withdrawn by the owner of a proprietorship for personal expenses, should be treated as an expense of the business.

## True

* 1. False

Answer: B Explanation:

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. When a company provides services for which cash will not be received until some future date, the company should record the amount billed as accounts receivable.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Owner withdrawals always decrease equity.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Expenses always decrease equity.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Revenues always increase equity.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Owner investments always decrease equity.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## "Unearned" accounts are liabilities that must be fulfilled.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. A company's chart of accounts is a list of all the accounts used and includes an identification number assigned to each account.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. An account's balance is the difference between the total debits and total credits for the account, including any beginning balance.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## The right side of an account is called the *debit* side.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. In a double-entry accounting system, the total dollar amount debited must always equal the total dollar amount credited.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Increases in liability accounts are recorded as debits.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Debits increase asset and expense accounts.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## *Credits* always increase account balances.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. *Crediting* an expense account decreases it.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## A revenue account normally has a debit balance.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Asset accounts are decreased by debits.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. *Debit* means increase and *credit* means decrease for all accounts.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Asset accounts normally have debit balances and revenue accounts normally have credit balances.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## An owner's withdrawal account normally has a debit balance.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## A debit entry is always an increase in the account.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. A transaction that credits an asset account and credits a liability account must also affect one or more other accounts.

## True

* 1. False

Answer: A Explanation:

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. A transaction that decreases a liability and increases an asset must also affect one or more other accounts.

## True

* 1. False

Answer: A Explanation:

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. If insurance coverage for the next two years is paid for in advance, the amount of the payment is debited to an asset account called Prepaid Insurance.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. The purchase of supplies on credit should be recorded with a debit to Supplies and a credit to Accounts Payable.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. If a company purchases equipment paying cash, the journal entry to record this transaction will include a debit to Cash.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. If a company provides services to a customer on credit, the company providing the service should credit Accounts Receivable.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. When a company bills a customer for $700 for services rendered, the journal entry to record this transaction will include a $700 debit to Services Revenue.

## True

* 1. False

Answer: B Explanation:

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. The debt ratio helps to assess the risk a company has of failing to pay its debts and is helpful to both its owners and creditors.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. The higher a company's debt ratio, the lower the risk of a company not being able to meet its obligations.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## The debt ratio is calculated by dividing total assets by total liabilities.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. A company that finances a relatively large portion of its assets with liabilities is said to have a high degree of financial leverage.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. If a company is highly leveraged, this means that it has relatively high risk of not being able to repay its debt.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. Booth Industries has liabilities of $105 million and total assets of $350 million. Its debt ratio is 40.0%.

## True

* 1. False

Answer: B Explanation:

Diff: 3

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## A journal entry that affects no more than two accounts is called a compound entry.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Industry; FN Decision Making

## *Posting* is the transfer of journal entry information to the ledger.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Transactions are recorded first in the ledger and then transferred to the journal.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## The journal is known as a book of original entry.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. A general journal gives a complete record of each transaction in one place, and shows the debits and credits for each transaction.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. The general journal is known as the book of *final* entry because financial statements are prepared from it.

## True

* 1. False

Answer: B Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. At a given point in time, a business's trial balance is a list of all of its general ledger accounts and their balances.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. The ordering of accounts in a trial balance typically follows their identification number from the chart of accounts, that is, assets first, then liabilities, then owner's capital and withdrawals, followed by revenues and expenses.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. The trial balance can serve as a replacement for the balance sheet, since total debits must equal total credits.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. A balanced trial balance is proof that no errors were made in journalizing transactions, posting to the ledger, and preparing the trial balance.

## True

* 1. False

Answer: B Explanation:

Diff: 1

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. If cash was incorrectly debited for $100 instead of correctly crediting it for $100, the cash account's balance will be overstated (too high).

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. The financial statement that summarizes the changes in an owner's capital account is called the balance sheet.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. An income statement is also called an earnings statement, a statement of operations or a profit and loss statement.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. The detail of individual revenue and expense accounts is reported on the statement of owner's equity.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. The heading on every financial statement lists the three W's—Who (the name of the business); What (the name of the statement); and Where (the organization's address).

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. If an owner's capital account had a $10,000 credit balance at the beginning of the period, and during the period, the owner invests an additional $5,000, the balance in the capital account listed on the trial balance will be equal to a debit balance of $5,000.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Debits and Credits; Preparing a Trial Balance

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.; 02-P2 Prepare and explain the use of a trial balance.

Bloom's: Understand AACSB: Communication

AICPA: BB Industry; FN Reporting

## Owner's withdrawals are **not** reported on a business's income statement.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. An income statement reports the revenues earned less the expenses incurred by a business over a period of time.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

## The balance sheet reports the financial position of a company at a point in time.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

## The same four basic financial statements are prepared by both U.S. GAAP and IFRS.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: FN Reporting; BB Global

## Neither U.S. GAAP nor IFRS require the use of accrual basis accounting.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: FN Reporting; BB Global

## The amount of net income is added on the statement of owner's equity.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: FN Reporting; BB Global

## The accounting process begins with:

* 1. Analysis of business transactions and source documents.
  2. Presentation of financial information to decision-makers.
  3. Summarizing the recorded effect of business transactions.
  4. Preparing financial statements and other reports.
  5. Preparation of the trial balance. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Which of the following statements is ***not*** true:

* 1. Accounts receivable are increased by customer payments.
  2. Accounts receivable are held by a seller.
  3. Accounts receivable are classified as assets.
  4. Accounts receivable are increased by billings to customers.
  5. Accounts receivable arise from credit sales. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## A business's source documents may include all of the following ***except***:

* 1. Sales tickets.
  2. Bank statements.
  3. Ledgers.
  4. Purchase orders.
  5. Checks.

Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## A business's source documents:

* 1. Include the chart of accounts.
  2. Must be in electronic form.
  3. Include the ledger.
  4. Are prepared internally to ensure accuracy.
  5. Provide objective evidence that a transaction has taken place. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. A business's record of the increases and decreases in a specific asset, liability, equity, revenue, or expense is known as a(n):

## Posting.

* 1. Trial balance.
  2. Chart of accounts.
  3. Journal.
  4. Account.

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## An account used to record the owner's investments in a business is called a(n):

* 1. Capital account.
  2. Expense account.
  3. Liability account.
  4. Withdrawals account.
  5. Revenue account.

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Identify the account used by businesses to record the transfer of assets from a business to its owner for personal use:

## The owner's withdrawals account.

* 1. The owner's capital account.
  2. A revenue account.
  3. An expense account.
  4. A liability account. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Identify the statement below that is correct.

* 1. When a future expense is paid in advance, the payment is normally recorded in a liability account called Prepaid Expense.
  2. An account called Land is commonly used to record increases and decreases in both the land and buildings owned by a business.

## Promises of future payment by the customer are called accounts receivable.

* 1. Accrued liabilities include accounts receivable.
  2. Increases and decreases in cash are always recorded in the owner's capital account. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Unearned revenues are generally:

* 1. Increases to owners' capital.
  2. Recorded as an asset in the accounting records.
  3. Liabilities created when a customer pays in advance for products or services before the revenue is earned.

## Revenues that have been earned but not yet collected in cash.

* 1. Revenues that have been earned and received in cash. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

## Unearned revenues refer to a(n):

* 1. Expense incurred because a customer has paid in advance.
  2. Increase in revenues as a result of delivering products or services to a customer.
  3. Liability that is settled in the future when a company delivers its products or services.
  4. Decrease in an asset.
  5. Asset that will be used over time. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

## Prepaid accounts (also called prepaid expenses) are generally:

* 1. Decreases in equity.
  2. Payments made for products and services that never expire.
  3. Promises of payments by customers.
  4. Classified as liabilities on the balance sheet.
  5. Assets that represent prepayments of future expenses. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

## A company's formal promise to pay (in the form of a promissory note) a future amount is a(n):

* 1. Account receivable.
  2. Unearned revenue.
  3. Note payable.
  4. Prepaid expense.
  5. Credit account.

Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

## The record of all accounts and their balances used by a business is called a:

* 1. Balance column journal.
  2. Ledger (or General Ledger).
  3. General Journal.
  4. Book of original entry.
  5. Journal.

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## A company's ledger is:

* 1. A list of all accounts a company uses with an assigned identification number.
  2. A collection of documents that describe transactions and events entering the accounting process.
  3. A record containing increases and decreases in a specific asset, liability, equity, revenue, or expense item.

## A journal in which transactions are first recorded.

* 1. A record containing all accounts and their balances used by the company. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## A company's list of accounts and the identification numbers assigned to each account is called a:

* 1. General Journal.
  2. Source document.
  3. Trial balance.
  4. Chart of accounts.
  5. Journal.

Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

## The numbering system used in a company's chart of accounts:

* 1. Typically begins with balance sheet accounts.
  2. Is the same for all companies.
  3. Is determined by generally accepted accounting principles.
  4. Typically begins with income statement accounts.
  5. Depends on the source documents used in the accounting process. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

## A debit:

* 1. Always decreases an account.
  2. Is the left-hand side of a T-account.
  3. Is not needed to record a transaction.
  4. Is the right-hand side of a T-account.
  5. Always increases an account. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## The right side of a T-account is a(n):

* 1. Increase.
  2. Account balance.
  3. Decrease.
  4. Debit.
  5. Credit.

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Identify the statement below that is *incorrect*.

* 1. The normal balance of owner's withdrawals is a debit.
  2. The normal balance of the owner's capital account is a credit.
  3. The normal balance of an expense account is a credit.
  4. The normal balance of accounts receivable is a debit.
  5. The normal balance of unearned revenues is a credit. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## A credit is used to record an increase in all of the following accounts *except*:

* 1. Service Revenue
  2. Owner's Capital
  3. Unearned Revenue
  4. Accounts Payable
  5. Wages Expense

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## A debit is used to record an increase in all of the following accounts *except*:

* 1. Accounts Payable
  2. Cash
  3. Supplies
  4. Prepaid Insurance
  5. Owner's Withdrawals Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## Identify the account below that is classified as a liability in a company's chart of accounts:

* 1. Cash
  2. Accounts Receivable
  3. Supplies
  4. Salaries Expense
  5. Unearned Revenue Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## Identify the account below that is classified as an asset in a company's chart of accounts:

* 1. Accounts Payable
  2. Accounts Receivable
  3. Owner's Capital
  4. Unearned Revenue
  5. Service Revenue

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## Identify the account below that is classified as an *asset* account:

* 1. Accounts Payable
  2. Unearned Revenue
  3. J. Jackson, Capital
  4. Service Revenue
  5. Supplies

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## Identify the account below that is classified as a *liability* account:

* 1. J. Jackson, Capital
  2. Equipment
  3. Accounts Payable
  4. Salaries Expense
  5. Cash

Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## Identify the account below that impacts the *Equity* of a business:

* 1. Accounts Payable
  2. Utilities Expense
  3. Cash
  4. Accounts Receivable
  5. Unearned Revenue Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## Which of the following is NOT an equity account:

* 1. Owner, Capital
  2. Wages Expense
  3. Services Revenue
  4. Owner, Withdrawals
  5. Unearned Revenue Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## Which of the following is NOT an asset account:

* 1. Cash
  2. Land
  3. Services Revenue
  4. Equipment
  5. Buildings

Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## A business uses a credit to record:

* 1. A decrease in an asset account.
  2. A decrease in a capital account.
  3. A decrease in a revenue account.
  4. A decrease in an unearned revenue account.
  5. An increase in an expense account. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. A simple tool that is widely used in accounting to represent a ledger account and to understand how debits and credits affect an account balance is called a:

## Drawing account.

* 1. Balance column sheet.
  2. Withdrawals account.
  3. Capital account.
  4. T-account.

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Identify the statement below that is correct.

* 1. The left side of a T-account is the credit side.
  2. In certain circumstances the total amount debited need not equal the total amount credited for a particular transaction.

## The left side of a T-account is the debit side.

* 1. Debits decrease asset and expense accounts, and increase liability, equity, and revenue accounts.
  2. Credits increase asset and expense accounts, and decrease liability, equity, and revenue accounts.

## Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## An account balance is:

* 1. Assets = liabilities + equity.
  2. Always a credit.
  3. The difference between the total debits and total credits for an account including the beginning balance.

## The total of the debit side of the account.

* 1. The total of the credit side of the account. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## Select the account below that normally has a credit balance.

* 1. Owner, Withdrawals.
  2. Cash.
  3. Sales Salaries Expense.
  4. Office Equipment.
  5. Wages Payable.

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## A debit is used to record which of the following:

* 1. A decrease in an expense account.
  2. An increase in the owner's capital account.
  3. An increase in a revenue account.
  4. An increase in the owner's withdrawals account.
  5. A decrease in an asset account. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## A credit entry:

* 1. Is recorded on the left side of a T-account.
  2. Is always a decrease in an account.
  3. Increases asset and expense accounts, and decreases liability, owner's capital, and revenue accounts.

## Is always an increase in an account.

* 1. Decreases asset and expense accounts, and increases liability, owner's capital, and revenue accounts.

## Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## A double-entry accounting system is an accounting system:

* 1. That may only be used if T-accounts are used.
  2. That insures that errors never occur.
  3. In which each transaction affects and is recorded in two or more accounts but that could include two debits and no credits.
  4. That records the effects of transactions and other events in at least two accounts with equal debits and credits.

## That records each transaction twice. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. Ralph Pine Consulting received its telephone bill in the amount of $300, and immediately paid it. Pine's general journal entry to record this transaction will include a

## Debit to Cash for $300.

* 1. Debit to Accounts Payable for $300.
  2. Credit to Telephone Expense for $300.
  3. Debit to Telephone Expense for $300.
  4. Credit to Accounts Payable for $300. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Golddigger Services Inc. provides services to clients. On May 1, a client prepaid Golddigger Services $60,000 for 6-months services in advance. Golddigger Services' general journal entry to record this transaction will include a:

## Debit to Management Fees Earned for $60,000.

* 1. Credit to Management Fees Earned for $60,000.
  2. Credit to Unearned Management Fees for $60,000.
  3. Credit to Cash for $60,000.
  4. Debit to Unearned Management Fees for $60,000. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Willow Rentals purchased office supplies on credit. The general journal entry made by Willow Rentals will include a:

## Debit to Accounts Receivable.

* 1. Credit to Accounts Payable.
  2. Credit to Willow, Capital.
  3. Debit to Accounts Payable.
  4. Credit to Cash.

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

## An asset created by prepayment of an insurance premium is:

* 1. Recorded as a credit to Prepaid Insurance.
  2. Recorded as a credit to Unearned Revenue.
  3. Recorded as a debit to Prepaid Insurance.
  4. Not recorded in the accounting records until the insurance period expires.
  5. Recorded as a debit to Unearned Revenue. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Richard Redden contributed $70,000 in cash and land worth $130,000 to open a new business, RR Consulting. Which of the following general journal entries will RR Consulting make to record this transaction?

## Debit Assets $200,000; credit Redden, Capital, $200,000.

* 1. Debit Redden, Capital, $200,000; credit Cash $70,000, credit Land, $130,000.
  2. Debit Cash $70,000; debit Land $130,000; credit Redden, Capital, $200,000.
  3. Debit Redden, Capital, $200,000; credit Assets, $200,000.
  4. Debit Cash and Land, $200,000; credit Redden, Capital, $200,000. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Paul's Landscaping purchased $500 of office supplies on credit. The company's policy is to initially record prepaid and unearned items in balance sheet accounts. Which of the following general journal entries will Paul's Landscaping make to record this transaction?

## Debit Accounts payable, $500; credit Office supplies, $500.

* 1. Debit Cash, $500; credit Office supplies, $500.
  2. Debit Office supplies, $500; credit Accounts payable, $500.
  3. Debit Office supplies, $500; credit Cash, $500.
  4. Debit Office supplies expense, $500; credit Cash, $500. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Paul's Landscaping paid $500 on account for supplies purchased in the prior month. Which of the following general journal entries will Paul's Landscaping make to record this transaction?

## Debit Accounts payable, $500; credit Cash, $500.

* 1. Debit Office supplies expense, $500; credit Cash, $500.
  2. Debit Cash, $500; credit Office supplies, $500.
  3. Debit Office supplies, $500; credit Accounts payable, $500.
  4. Debit Office supplies, $500; credit Cash, $500. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. A law firm billed a client $1,800 for work performed in the current month. Which of the following general journal entries will the firm make to record this transaction?

## Debit Cash, $1,800; credit Accounts Receivable, $1,800.

* 1. Debit Accounts Receivable, $1,800; credit Unearned Legal Fees Revenue, $1,800.
  2. Debit Accounts Receivable, $1,800; credit Legal Fees Revenue, $1,800.
  3. Debit Cash, $1,800; credit Unearned Legal Fees Revenue, $1,800.
  4. Debit Legal Fees Revenue, $1,800; credit Accounts Receivable, $1,800. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. A law firm collected $1,800 on account for work performed in the previous month. Which of the following general journal entries will the firm make to record this transaction?

## Debit Accounts Receivable, $1,800; credit Legal Fees Revenue, $1,800.

* 1. Debit Cash, $1,800; credit Unearned Legal Fees Revenue, $1,800.
  2. Debit Cash, $1,800; credit Accounts Receivable, $1,800.
  3. Debit Legal Fees Revenue, $1,800; credit Accounts Receivable, $1,800.
  4. Debit Accounts Receivable, $1,800; credit Unearned Legal Fees Revenue, $1,800. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. A law firm collected $1,800 for work to be performed in the following month. Which of the following general journal entries will the firm make to record this transaction?

## Debit Cash, $1,800; credit Accounts Receivable, $1,800.

* 1. Debit Accounts Receivable, $1,800; credit Legal Fees Revenue, $1,800.
  2. Debit Accounts Receivable, $1,800; credit Unearned Legal Fees Revenue, $1,800.
  3. Debit Cash, $1,800; credit Unearned Legal Fees Revenue, $1,800.
  4. Debit Legal Fees Revenue, $1,800; credit Accounts Receivable, $1,800. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Wiley Consulting purchased $7,000 worth of supplies and paid cash immediately. Which of the following general journal entries will Wiley Consulting make to record this transaction? Assume the company's policy is to initially record prepaid and unearned items in balance sheet accounts.

## A)

|  |  |  |
| --- | --- | --- |
| Supplies Expense | 7,000 |  |
| Accounts Payable |  | 7,000 |

B)

|  |  |  |
| --- | --- | --- |
| Supplies | 7,000 |  |
| Cash |  | 7,000 |

C)

|  |  |  |
| --- | --- | --- |
| Supplies | 7,000 |  |
| Accounts Payable |  | 7,000 |

D)

|  |  |  |
| --- | --- | --- |
| Accounts Payable | 7,000 |  |
| Supplies |  | 7,000 |

E)

|  |  |  |
| --- | --- | --- |
| Cash | 7,000 |  |
| Supplies |  | 7,000 |

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions; Journal Entries

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. J. Brown Consulting immediately paid $500 cash for utilities for the current month. Given the choices below, determine the general journal entry that J. Brown Consulting will make to record this transaction.

## A)

|  |  |  |
| --- | --- | --- |
| Prepaid Utilities | 500 |  |
| Accounts Payable |  | 500 |

B)

|  |  |  |
| --- | --- | --- |
| Utilities Expense | 500 |  |
| Cash |  | 500 |

C)

|  |  |  |
| --- | --- | --- |
| Cash | 500 |  |
| Accounts Payable |  | 500 |

D)

|  |  |  |
| --- | --- | --- |
| Utilities Expense | 500 |  |
| Accounts Payable |  | 500 |

E)

|  |  |  |
| --- | --- | --- |
| Cash | 500 |  |
| Utilities Expense |  | 500 |

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions; Journal Entries

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. J. Brown Consulting paid $2,500 cash for a 5-month insurance policy which begins on December

1. Given the choices below, determine the general journal entry that J. Brown Consulting will make to record the cash payment. Assume the company's policy is to initially record prepaid and unearned items in balance sheet accounts

## A)

|  |  |  |
| --- | --- | --- |
| Cash | 2,500 |  |
| Insurance Expense |  | 2,500 |

B)

|  |  |  |
| --- | --- | --- |
| Prepaid Insurance | 2,500 |  |
| Cash |  | 2,500 |

C)

|  |  |  |
| --- | --- | --- |
| Cash | 2,500 |  |
| Prepaid Insurance |  | 2,500 |

D)

|  |  |  |
| --- | --- | --- |
| Insurance Expense | 2,500 |  |
| Cash |  | 2,500 |

E)

|  |  |  |
| --- | --- | --- |
| Insurance Expense | 2,500 |  |
| Prepaid Insurance |  | 2,500 |

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions; Journal Entries

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. ABC Catering received $800 cash from a customer for catering services to be provided next month. Given the choices below, determine the general journal entry that ABC Catering will make to record the cash receipt. Assume the company's policy is to initially record prepaid and unearned items in balance sheet accounts.

## A)

|  |  |  |
| --- | --- | --- |
| Cash | 800 |  |
| Unearned Catering Revenue |  | 800 |

B)

|  |  |  |
| --- | --- | --- |
| Accounts Receivable | 800 |  |
| Catering Revenue |  | 800 |

C)

|  |  |  |
| --- | --- | --- |
| Cash | 800 |  |
| Accounts Receivable |  | 800 |

D)

|  |  |  |
| --- | --- | --- |
| Unearned Catering Revenue | 800 |  |
| Catering Revenue |  | 800 |

E)

|  |  |  |
| --- | --- | --- |
| Cash | 800 |  |
| Catering Revenue |  | 800 |

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions; Journal Entries

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Grills R Us Catering provided $1,000 of catering services and billed its client for the amount owed. Given the choices below, determine the general journal entry that Grills R Us Catering will make to record this transaction.

## A)

|  |  |  |
| --- | --- | --- |
| Cash | 1,000 |  |
| Catering Revenue |  | 1,000 |

B)

|  |  |  |
| --- | --- | --- |
| Unearned Catering Revenue | 1,000 |  |
| Catering Revenue |  | 1,000 |

C)

|  |  |  |
| --- | --- | --- |
| Catering Revenue | 1,000 |  |
| Accounts Receivable |  | 1,000 |

D)

|  |  |  |
| --- | --- | --- |
| Accounts Receivable | 1,000 |  |
| Catering Revenue |  | 1,000 |

E)

|  |  |  |
| --- | --- | --- |
| Accounts Receivable | 1,000 |  |
| Unearned Catering Revenue |  | 1,000 |

Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Trimble Graphic Design receives $1,500 from a client billed in a previous month for services provided. Which of the following general journal entries will Trimble Graphic Design make to record this transaction?

## A)

|  |  |  |
| --- | --- | --- |
| Accounts Receivable | 1,500 |  |
| Unearned Design Revenue |  | 1,500 |

B)

|  |  |  |
| --- | --- | --- |
| Cash | 1,500 |  |
| Unearned Design Revenue |  | 1,500 |

C)

|  |  |  |
| --- | --- | --- |
| Cash | 1,500 |  |
| Design Revenue |  | 1,500 |

D)

|  |  |  |
| --- | --- | --- |
| Accounts Receivable | 1,500 |  |
| Cash |  | 1,500 |

E)

|  |  |  |
| --- | --- | --- |
| Cash | 1,500 |  |
| Accounts Receivable |  | 1,500 |

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. J. Smith withdrew $100 from Jay's Limo Services for personal use. Which of the following general journal entries will Jay's Limo Services make to record this transaction?

## A)

|  |  |  |
| --- | --- | --- |
| J. Smith, Capital | 100 |  |
| J. Smith, Withdrawals |  | 100 |

B)

|  |  |  |
| --- | --- | --- |
| J. Smith, Withdrawals | 100 |  |
| J. Smith, Capital |  | 100 |

C)

|  |  |  |
| --- | --- | --- |
| Cash | 100 |  |
| J. Smith, Withdrawals |  | 100 |

D)

|  |  |  |
| --- | --- | --- |
| Cash | 100 |  |
| J. Smith, Capital |  | 100 |

E)

|  |  |  |
| --- | --- | --- |
| J. Smith, Withdrawals | 100 |  |
| Cash |  | 100 |

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Jay's Limo Services paid $300 cash to employees for work performed in the current period. Which of the following general journal entries will Jay's Limo Services make to record this transaction?

## A)

|  |  |  |
| --- | --- | --- |
| Salaries Expense | 300 |  |
| Accounts Payable |  | 300 |

B)

|  |  |  |
| --- | --- | --- |
| Salaries Expense | 300 |  |
| Cash |  | 300 |

C)

|  |  |  |
| --- | --- | --- |
| Salaries Expense | 300 |  |
| J. Smith, Withdrawals |  | 300 |

D)

|  |  |  |
| --- | --- | --- |
| Cash | 300 |  |
| Salaries Expense |  | 300 |

E)

|  |  |  |
| --- | --- | --- |
| Salaries Payable | 300 |  |
| Salaries Expense |  | 300 |

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Able Graphics received a $400 utility bill for the current month's electricity. It is not due until the end of the next month which is when they intend to pay it. Which of the following general journal entries will Able Graphics make to record this transaction?

## A)

|  |  |  |
| --- | --- | --- |
| No journal entry is required |  |  |
|  |  |  |

B)

|  |  |  |
| --- | --- | --- |
| Utilities Expense | 400 |  |
| Cash |  | 400 |

C)

|  |  |  |
| --- | --- | --- |
| Utilities Expense | 400 |  |
| Accounts Payable |  | 400 |

D)

|  |  |  |
| --- | --- | --- |
| Accounts Payable | 400 |  |
| Utilities Expense |  | 400 |

E)

|  |  |  |
| --- | --- | --- |
| Cash | 400 |  |
| Utilities Expense |  | 400 |

Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. HH Consulting & Design provided $800 of consulting work and $100 of design work to the same client. It billed the client for the total amount and is expecting to collect from the customer next month. Which of the following general journal entries will HH Consulting & Design make to record this transaction?

## A)

|  |  |  |
| --- | --- | --- |
| Cash | 900 |  |
| Consulting Revenue |  | 800 |
| Design Revenue |  | 100 |

B)

|  |  |  |
| --- | --- | --- |
| Consulting Revenue | 800 |  |
| Design Revenue | 100 |  |
| Cash |  | 900 |

C)

|  |  |  |
| --- | --- | --- |
| Accounts Payable | 800 |  |
| Design Revenue |  | 100 |
| Consulting Revenue |  | 800 |

D)

|  |  |  |
| --- | --- | --- |
| Accounts Receivable | 900 |  |
| Consulting Revenue |  | 800 |
| Design Revenue |  | 100 |

E)

|  |  |  |
| --- | --- | --- |
| Design Revenue | 100 |  |
| Consulting Revenue | 800 |  |
| Accounts Receivable |  | 900 |

Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions; Journalizing and Posting Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Gi Gi's Dance Studio provided $150 of dance instruction and rented out its dance studio to the same client for another $100. The client paid immediately. Identify the general journal entry below that Gi Gi's will make to record the transaction.

## A)

|  |  |  |
| --- | --- | --- |
| Accounts Receivable | 250 |  |
| Rental Revenue |  | 100 |
| Instruction Revenue |  | 150 |

B)

|  |  |  |
| --- | --- | --- |
| Unearned Revenue | 250 |  |
| Rental Revenue |  | 100 |
| Instruction Revenue |  | 150 |

C)

|  |  |  |
| --- | --- | --- |
| Rental Revenue | 100 |  |
| Instruction Revenue | 150 |  |
| Cash |  | 250 |

D)

|  |  |  |
| --- | --- | --- |
| Accounts Payable | 250 |  |
| Rental Revenue |  | 100 |
| Instruction Revenue |  | 150 |

E)

|  |  |  |
| --- | --- | --- |
| Cash | 250 |  |
| Rental Revenue |  | 100 |
| Instruction Revenue |  | 150 |

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions; Journalizing and Posting Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Geraldine Parker, the owner of Gi Gi's Dance Studio, started the business by investing $10,000 cash and donating a building worth $20,000. Identify the general journal entry below that Gi Gi's will make to record the transaction.

## A)

|  |  |  |
| --- | --- | --- |
| Cash | 10,000 |  |
| G. Parker, Capital |  | 30,000 |

B)

|  |  |  |
| --- | --- | --- |
| Cash & Building | 30,000 |  |
| G. Parker, Capital |  | 30,000 |

C)

|  |  |  |
| --- | --- | --- |
| Owner's Investments | 30,000 |  |
| G. Parker, Capital |  | 30,000 |

D)

|  |  |  |
| --- | --- | --- |
| Cash | 10,000 |  |
| Building | 20,000 |  |
| G. Parker, Capital |  | 30,000 |

E)

|  |  |  |
| --- | --- | --- |
| G. Parker, Capital | 30,000 |  |
| Cash |  | 10,000 |
| Building |  | 20,000 |

Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions; Journalizing and Posting Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. A company provided $12,000 of consulting services on account. The customer promises payment in 30 days. Identify the journal entry below that properly records this transaction.

## A)

|  |  |  |
| --- | --- | --- |
| Accounts payable | 12,000 |  |
| Consulting services revenue |  | 12,000 |

B)

|  |  |  |
| --- | --- | --- |
| Cash | 12,000 |  |
| Consulting services revenue |  | 12,000 |

C)

|  |  |  |
| --- | --- | --- |
| Accounts receivable | 12,000 |  |
| Cash |  | 12,000 |

D)

|  |  |  |
| --- | --- | --- |
| Accounts Receivable | 12,000 |  |
| Consulting services revenue |  | 12,000 |

E)

|  |  |  |
| --- | --- | --- |
| Consulting services revenue | 12,000 |  |
| Cash |  | 12,000 |

Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions; Journal Entries

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. A company provided $12,000 of consulting services, and was immediately paid in cash by the customer.Identify the journal entry below that properly records this transaction.

## A)

|  |  |  |
| --- | --- | --- |
| Accounts receivable | 12,000 |  |
| Consulting services revenue |  | 12,000 |

B)

|  |  |  |
| --- | --- | --- |
| Accounts receivable | 12,000 |  |
| Cash |  | 12,000 |

C)

|  |  |  |
| --- | --- | --- |
| Consulting services revenue | 12,000 |  |
| Cash |  | 12,000 |

D)

|  |  |  |
| --- | --- | --- |
| Cash | 12,000 |  |
| Consulting services revenue |  | 12,000 |

E)

|  |  |  |
| --- | --- | --- |
| Accounts payable | 12,000 |  |
| Consulting services revenue |  | 12,000 |

Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Mary Martin, the owner of Martin Consulting, withdrew $2,000 cash from the company for personal use. Identify the general journal entry below that Martin Consulting will make to record the transaction.

## A)

|  |  |  |
| --- | --- | --- |
| M. Martin, Capital | 2,000 |  |
| Cash |  | 2,000 |

B)

|  |  |  |
| --- | --- | --- |
| M. Martin, Withdrawals | 2,000 |  |
| M. Martin, Capital |  | 2,000 |

C)

|  |  |  |
| --- | --- | --- |
| Cash | 2,000 |  |
| M. Martin, Withdrawals |  | 2,000 |

D)

|  |  |  |
| --- | --- | --- |
| Cash | 2,000 |  |
| M. Martin, Capital |  | 2,000 |

E)

|  |  |  |
| --- | --- | --- |
| M. Martin, Withdrawals | 2,000 |  |
| Cash |  | 2,000 |

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions; Journal Entries

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Mary Martin, the owner of Martin Consulting, started the business by investing $40,000 cash. Identify the general journal entry below that Martin Consulting will make to record the transaction.

## A)

|  |  |  |
| --- | --- | --- |
| Investments | 40,000 |  |
| M. Martin, Capital |  | 40,000 |

B)

|  |  |  |
| --- | --- | --- |
| Cash | 40,000 |  |
| M. Martin, Capital |  | 40,000 |

C)

|  |  |  |
| --- | --- | --- |
| M. Martin, Capital | 40,000 |  |
| Cash |  | 40,000 |

D)

|  |  |  |
| --- | --- | --- |
| Investments | 40,000 |  |
| Cash |  | 40,000 |

E)

|  |  |  |
| --- | --- | --- |
| Cash | 40,000 |  |
| Increased Equity |  | 40,000 |

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. If cash is received from customers in payment for products or services that have not yet been delivered to the customers, the business would record the cash receipt as:

## A debit to a prepaid expense account.

* 1. A debit to an unearned revenue account.
  2. No entry is required at the time of collection.
  3. A credit to a prepaid expense account.
  4. A credit to an unearned revenue account. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

1. On May 31, the Cash account of Bottle's R US had a normal balance of $5,000. During May, the account was debited for a total of $12,200 and credited for a total of $11,500. What was the balance in the Cash account at the beginning of May?

## A $4,300 debit balance.

* 1. A $4,300 credit balance.
  2. A $5,700 credit balance.
  3. A $5,700 debit balance.
  4. A $0 balance. Answer: A

Explanation: A) Beginning Cash Balance + Debits - Credits = Ending Cash Balance

Beginning Cash Balance + $12,200 - $11,500 = $5,000

Beginning Cash Balance + $700 = $5,000; Beginning Balance = $4,300 debit balance

Cash 4,300

12,200 11,500

5,000

* + 1. Beginning Cash Balance + Debits - Credits = Ending Cash Balance Beginning Cash Balance + $12,200 - $11,500 = $5,000

Beginning Cash Balance + $700 = $5,000; Beginning Balance = $4,300 debit balance

Cash 4,300

12,200 11,500

5,000

* + 1. Beginning Cash Balance + Debits - Credits = Ending Cash Balance Beginning Cash Balance + $12,200 - $11,500 = $5,000

Beginning Cash Balance + $700 = $5,000; Beginning Balance = $4,300 debit balance

Cash 4,300

12,200 11,500

5,000

* + 1. Beginning Cash Balance + Debits - Credits = Ending Cash Balance Beginning Cash Balance + $12,200 - $11,500 = $5,000

Beginning Cash Balance + $700 = $5,000; Beginning Balance = $4,300 debit balance

Cash 4,300

12,200 11,500

5,000

* + 1. Beginning Cash Balance + Debits - Credits = Ending Cash Balance Beginning Cash Balance + $12,200 - $11,500 = $5,000

Beginning Cash Balance + $700 = $5,000; Beginning Balance = $4,300 debit balance

Cash 4,300

12,200 11,500

5,000

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. On April 30, Victor Services had an Accounts Receivable balance of $18,000. During the month of May, total credits to Accounts Receivable were $52,000 from customer payments. The May 31 Accounts Receivable balance was $13,000. What was the amount of credit sales during May?

## A) $47,000. B) $5,000. C) $52,000. D) $32,000. E) $57,000.

Answer: A

Explanation: A) Beginning Accounts Receivable Balance + Credit Sales (Debits) - Customer Payments (Credits) = Ending Accounts Receivable Balance

$18,000 + Credit Sales (Debits) - $52,000 = $13,000 Credit Sales (Debits) - $34,000 = $13,000

Credit Sales (Debits) = $47,000

Accounts Receivable 18,000

47,000 52,000

13,000

1. Beginning Accounts Receivable Balance + Credit Sales (Debits) - Customer Payments (Credits) = Ending Accounts Receivable Balance

$18,000 + Credit Sales (Debits) - $52,000 = $13,000 Credit Sales (Debits) - $34,000 = $13,000

Credit Sales (Debits) = $47,000

Accounts Receivable 18,000

47,000 52,000

13,000

1. Beginning Accounts Receivable Balance + Credit Sales (Debits) - Customer Payments (Credits) = Ending Accounts Receivable Balance

$18,000 + Credit Sales (Debits) - $52,000 = $13,000 Credit Sales (Debits) - $34,000 = $13,000

Credit Sales (Debits) = $47,000

Accounts Receivable 18,000

47,000 52,000

13,000

1. Beginning Accounts Receivable Balance + Credit Sales (Debits) - Customer Payments (Credits) = Ending Accounts Receivable Balance

$18,000 + Credit Sales (Debits) - $52,000 = $13,000 Credit Sales (Debits) - $34,000 = $13,000

Credit Sales (Debits) = $47,000

Accounts Receivable 18,000

47,000 52,000

13,000

1. Beginning Accounts Receivable Balance + Credit Sales (Debits) - Customer Payments (Credits) = Ending Accounts Receivable Balance

$18,000 + Credit Sales (Debits) - $52,000 = $13,000 Credit Sales (Debits) - $34,000 = $13,000

Credit Sales (Debits) = $47,000

Accounts Receivable 18,000

47,000 52,000

13,000

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. During the month of February, Victor Services had cash receipts of $7,500 and cash disbursements of $8,600. The February 28 cash balance was $1,800. What was the February 1 beginning cash balance?

## A) $2,900. B) $700. C) $0. D) $4,300. E) $1,100.

Answer: A

Explanation: A) Beginning Cash Balance + Cash Receipts - Cash Disbursements = Ending Cash Balance

Beginning Cash Balance + $7,500 - $8,600 = $1,800 Beginning Cash Balance - $1,100 = $1,800 Beginning Cash Balance = $2,900

Cash 2,900

7,500 8,600

1,800

1. Beginning Cash Balance + Cash Receipts - Cash Disbursements = Ending Cash Balance

Beginning Cash Balance + $7,500 - $8,600 = $1,800 Beginning Cash Balance - $1,100 = $1,800 Beginning Cash Balance = $2,900

Cash 2,900

7,500 8,600

1,800

1. Beginning Cash Balance + Cash Receipts - Cash Disbursements = Ending Cash Balance

Beginning Cash Balance + $7,500 - $8,600 = $1,800 Beginning Cash Balance - $1,100 = $1,800 Beginning Cash Balance = $2,900

Cash 2,900

7,500 8,600

1,800

1. Beginning Cash Balance + Cash Receipts - Cash Disbursements = Ending Cash Balance

Beginning Cash Balance + $7,500 - $8,600 = $1,800 Beginning Cash Balance - $1,100 = $1,800 Beginning Cash Balance = $2,900

Cash 2,900

7,500 8,600

1,800

1. Beginning Cash Balance + Cash Receipts - Cash Disbursements = Ending Cash Balance

Beginning Cash Balance + $7,500 - $8,600 = $1,800 Beginning Cash Balance - $1,100 = $1,800 Beginning Cash Balance = $2,900

Cash 2,900

7,500 8,600

1,800

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. The following transactions occurred during July:

Received $900 cash for services provided to a customer during July.

Received $2,200 cash investment from Bob Johnson, the owner of the business.

Received $750 from a customer in partial payment of his account receivable which arose from sales in June.

Provided services to a customer on credit, $375.

Borrowed $6,000 from the bank by signing a promissory note.

Received $1,250 cash from a customer for services to be rendered next year.

What was the amount of revenue for July?

## A) $900. B) $3,275. C) $2,525. D) $1,275. E) $11,100.

Answer: D

Explanation: A) Revenues = $900 (from #1) + $375 (from #4) = $1,275 B) Revenues = $900 (from #1) + $375 (from #4) = $1,275 C) Revenues = $900 (from #1) + $375 (from #4) = $1,275 D) Revenues = $900 (from #1) + $375 (from #4) = $1,275 E) Revenues = $900 (from #1) + $375 (from #4) = $1,275

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. If Taylor Willow, the owner of Willow Hardware proprietorship, uses cash of the business to purchase a family automobile, the business should record this use of cash with an entry to:

## Debit Cash and credit T. Willow, Withdrawals.

* 1. Debit T. Willow, Withdrawals and credit Cash.
  2. Debit Automobiles and credit Cash.
  3. Debit Cash and credit Salary Expense.
  4. Debit Salary Expense and credit Cash. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Larry Bar opened a frame shop and completed these transactions:
2. Larry started the shop by investing $40,000 cash and equipment valued at $18,000.
3. Purchased $70 of office supplies on credit.
4. Paid $1,200 cash for the receptionist's salary.
5. Sold a custom frame service and collected $1,500 cash on the sale.
6. Completed framing services and billed the client $200.

What was the balance of the cash account after these transactions were posted?

## A) $38,700. B) $40,300. C) $300. D) $41,500. E) $38,500.

Answer: B

Explanation: A) Ending Cash Balance = $40,000 (#1) - $1,200 (#3) + $1,500 (#4) = $40,300 B) Ending Cash Balance = $40,000 (#1) - $1,200 (#3) + $1,500 (#4) = $40,300 C) Ending Cash Balance = $40,000 (#1) - $1,200 (#3) + $1,500 (#4) = $40,300 D) Ending Cash Balance = $40,000 (#1) - $1,200 (#3) + $1,500 (#4) = $40,300 E) Ending Cash Balance = $40,000 (#1) - $1,200 (#3) + $1,500 (#4) = $40,300

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. At the beginning of January of the current year, Little Mikey's Catering ledger reflected a normal balance of $52,000 for accounts receivable. During January, the company collected $14,800 from customers on account and provided additional services to customers on account totaling $12,500. Additionally, during January one customer paid Mikey $5,000 for services to be provided in the future. At the end of January, the balance in the accounts receivable account should be:

## A) $2,300. B) $49,300. C) $54,300. D) $49,700. E) $54,700.

Answer: D

Explanation: A) Beginning Accounts Receivable Balance + Services on Account - Collections from Customers = Ending Accounts Receivable Balance

$52,000 + $12,500 - $14,800 = Ending Accounts Receivable Balance Ending Accounts Receivable = $49,700

Accounts Receivable 52,000

12,500 14,800

49,700

1. Beginning Accounts Receivable Balance + Services on Account - Collections from Customers = Ending Accounts Receivable Balance

$52,000 + $12,500 - $14,800 = Ending Accounts Receivable Balance Ending Accounts Receivable = $49,700

Accounts Receivable 52,000

12,500 14,800

49,700

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Accounts Receivable 52,000

12,500 14,800

49,700

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. During the month of March, Harley's Computer Services made purchases on account totaling

$43,500. Also during the month of March, Harley was paid $8,000 by a customer for services to be provided in the future and paid $36,900 of cash on its accounts payable balance. If the balance in the accounts payable account at the beginning of March was $77,300, what is the balance in accounts payable at the end of March?

## A) $83,900. B) $91,900. C) $4,900. D) $75,900. E) $6,600.

Answer: A

Explanation: A) Beginning Accounts Payable Balance + Purchases on Account - Payments on Accounts = Ending Accounts Payable Balance

$77,300 + $43,500 - $36,900 = Ending Accounts Payable Balance Ending Accounts Payable = $83,900

Accounts Payable

77,300

36,900 43,500

83,900

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Accounts Payable

77,300

36,900 43,500

83,900

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. On January 1 of the current year, Jimmy's Sandwich Company reported owner's capital totaling

$122,500. During the current year, total revenues were $96,000 while total expenses were $85,500. Also, during the current year Jimmy withdrew $20,000 from the company. No other changes in equity occurred during the year. If, on December 31 of the current year, total assets are $196,000, the ***change*** in owner's capital during the year was:

## A decrease of $9,500.

* 1. An increase of $73,500.
  2. An increase of $9,500.
  3. A decrease of $30,500.
  4. An increase of $30,500. Answer: A

Explanation: A) Beg. Owner's Capital + Revenues - Expenses - Withdrawals = End. Owner's

Capital

$122,500 + $96,000 - $85,500 - $20,000 = Ending Owner's Capital Ending Owner's Capital = $113,000

Change in Equity = Beginning Owner's Capital - Ending Owner's Capital Change in Equity = $122,500 - $113,000 = $9,500 Decrease

* + 1. Beg. Owner's Capital + Revenues - Expenses - Withdrawals = End. Owner's Capital

$122,500 + $96,000 - $85,500 - $20,000 = Ending Owner's Capital Ending Owner's Capital = $113,000

Change in Equity = Beginning Owner's Capital - Ending Owner's Capital Change in Equity = $122,500 - $113,000 = $9,500 Decrease

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$122,500 + $96,000 - $85,500 - $20,000 = Ending Owner's Capital Ending Owner's Capital = $113,000

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Change in Equity = Beginning Owner's Capital - Ending Owner's Capital Change in Equity = $122,500 - $113,000 = $9,500 Decrease

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Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Andrea Apple opened Apple Photography on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:

Andrea invested $13,500 cash in the business.

Andrea contributed $20,000 of photography equipment to the business.

The company paid $2,100 cash for an insurance policy covering the next 24 months. The company received $5,700 cash for services provided during January.

The company purchased $6,200 of office equipment on credit.

The company provided $2,750 of services to customers on account. The company paid cash of $1,500 for monthly rent.

The company paid $3,100 on the office equipment purchased in transaction #5 above. Paid $275 cash for January utilities.

Based on this information, the balance in the cash account at the end of January would be:

## A) $12,225. B) $18,700. C) $13,500. D) $15,250. E) $41,450.

Answer: A

Explanation: A) Ending Cash Balance = $13,500 (#1) - $2,100 (#3) + $5,700 (#4) - $1,500 (#7) -

$3,100 (#8) - $275 (#9) = $12,225

B) Ending Cash Balance = $13,500 (#1) - $2,100 (#3) + $5,700 (#4) - $1,500 (#7) -

$3,100 (#8) - $275 (#9) = $12,225

C) Ending Cash Balance = $13,500 (#1) - $2,100 (#3) + $5,700 (#4) - $1,500 (#7) -

$3,100 (#8) - $275 (#9) = $12,225

D) Ending Cash Balance = $13,500 (#1) - $2,100 (#3) + $5,700 (#4) - $1,500 (#7) -

$3,100 (#8) - $275 (#9) = $12,225

E) Ending Cash Balance = $13,500 (#1) - $2,100 (#3) + $5,700 (#4) - $1,500 (#7) -

$3,100 (#8) - $275 (#9) = $12,225

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Andrea Apple opened Apple Photography on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:

Andrea invested $13,500 cash in the business.

Andrea contributed $20,000 of photography equipment to the business.

The company paid $2,100 cash for an insurance policy covering the next 24 months. The company received $5,700 cash for services provided during January.

The company purchased $6,200 of office equipment on credit.

The company provided $2,750 of services to customers on account. The company paid cash of $1,500 for monthly rent.

The company paid $3,100 on the office equipment purchased in transaction #5 above. Paid $275 cash for January utilities.

Based on this information, the balance in the A. Apple, Capital account reported on the Statement of Owner's Equity at the end of the month would be:

## A) $39,200. B) $40,175. C) $31,150. D) $30,875. E) $31,400.

Answer: B

Explanation: A) Ending Capital Balance = $13,500 (#1) + $20,000 (#2) + $5,700 (#4) + $2,750 (#6) - $1,500 (#7) - $275 (#9) = $40,175

B) Ending Capital Balance = $13,500 (#1) + $20,000 (#2) + $5,700 (#4) + $2,750 (#6) - $1,500 (#7) - $275 (#9) = $40,175

C) Ending Capital Balance = $13,500 (#1) + $20,000 (#2) + $5,700 (#4) + $2,750 (#6) - $1,500 (#7) - $275 (#9) = $40,175

D) Ending Capital Balance = $13,500 (#1) + $20,000 (#2) + $5,700 (#4) + $2,750 (#6) - $1,500 (#7) - $275 (#9) = $40,175

E) Ending Capital Balance = $13,500 (#1) + $20,000 (#2) + $5,700 (#4) + $2,750 (#6) - $1,500 (#7) - $275 (#9) = $40,175

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

## The debt ratio is used:

* 1. To determine how much debt a firm should pay off.
  2. To measure the ratio of equity to expenses.
  3. To determine how much debt a company should borrow.
  4. To assess the risk associated with a company's use of liabilities.
  5. Only by banks when a business applies for a loan. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

## Identify the correct formula below used to calculate the debt ratio.

* 1. Total Liabilities/Total Assets.
  2. Total Equity/Total Assets.
  3. Total Assets/Total Liabilities.
  4. Total Equity/Total Liabilities.
  5. Total Liabilities/Total Equity. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

1. Lu Lu's Catering has a debt ratio equal to .3 and its competitor, Able's Bakery, has a debt ratio equal to .7. Determine the statement below that is *correct*.
   1. Able's Bakery has a smaller percentage of its assets financed with liabilities as compared to Lu Lu's.

## Higher financial leverage involves lower risk.

* 1. Able's Bakery's financial leverage is *greater* than Lu Lu's.
  2. Able's Bakery's financial leverage is *less* than Lu Lu's.
  3. Lu Lu's has a higher risk from its financial leverage. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

1. Identify the statement that is *incorrect*.

## Lower financial leverage involves lower risk.

* 1. Higher financial leverage involves higher risk.
  2. The debt ratio is one measure of financial risk.
  3. Risk is higher if a company has more liabilities.
  4. Risk is higher if a company has higher assets. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

1. The debt ratio of Company A is .31 and the debt ratio of Company B is .21. Based on this information, an investor can conclude:

## Company A has a lower risk from its financial leverage.

* 1. Company B has more debt than Company A.
  2. Company A has 10% more assets than Company B.
  3. Company B has a lower risk from its financial leverage.
  4. Both companies have too much debt. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

1. The debt ratio of Jackson's Shoes is .9 and the debt ratio of Billy's Catering is 1.0. Based on this information, an investor can conclude:

## Billy's Catering has a lower risk from its financial leverage.

* 1. Billy's Catering has the exact same dollar amount of total liabilities and total assets.
  2. Billy's Catering finances a relatively lower portion of its assets with liabilities than Jackson's Shoes.

## Jackson's Shoes has a higher risk from its financial leverage.

* 1. Jackson's Shoes has less equity per dollar of assets than Billy's Catering. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

1. Gi Gi's Bakery has total assets of $425 million. Its total liabilities are $110 million. Its equity is

$315 million. Calculate the debt ratio.

## A) 25.9%. B) 14.9%. C) 38.6%. D) 34.9%. E) 13.4%.

Answer: A

Explanation: A) Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = $110 million/$425 million; Debt Ratio = 0.2588 = 25.9%

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Debt Ratio = $110 million/$425 million; Debt Ratio = 0.2588 = 25.9%

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Debt Ratio = $110 million/$425 million; Debt Ratio = 0.2588 = 25.9%

Diff: 3

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

1. Happiness Catering has total assets of $385 million. Its total liabilities are $100 million and its equity is $285 million. Calculate its debt ratio.

## A) 28.5%. B) 26.0%. C) 58.8%. D) 38.5%. E) 35.1%.

Answer: B

Explanation: A) Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = $100 million/$385 million; Debt Ratio = 0.2597 = 26.0%

1. Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = $100 million/$385 million; Debt Ratio = 0.2597 = 26.0%

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Debt Ratio = $100 million/$385 million; Debt Ratio = 0.2597 = 26.0%

Diff: 3

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

## All of the following statements accurately describe the debt ratio *except*.

* 1. The dividing line for a high and low ratio varies from industry to industry.
  2. The ratio might be used to help determine if a company is capable of increasing its income by obtaining further debt.

## A relatively high ratio is always desirable.

* 1. Many factors such as a company's age, stability, profitability and cash flow influence the determination of what would be interpreted as a high versus a low ratio.

## It is of use to both internal and external users of accounting information. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

1. At the end of the current year, Leer Company reported total liabilities of $300,000 and total equity of $100,000. The company's debt ratio on the last year-end was:

## A) $400,000. B) 66.67%. C) 33.3%. D) 75.0%. E) 300%.

Answer: D

Explanation: A) Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = $300,000/$400,000\*; Debt Ratio = 0.75 = 75%

\*Total Assets = Total Liabilities + Total Equity

Total Assets = $300,000 + $100,000; Total Assets = $400,000

1. Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = $300,000/$400,000\*; Debt Ratio = 0.75 = 75%

\*Total Assets = Total Liabilities + Total Equity

Total Assets = $300,000 + $100,000; Total Assets = $400,000

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\*Total Assets = Total Liabilities + Total Equity

Total Assets = $300,000 + $100,000; Total Assets = $400,000

1. Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = $300,000/$400,000\*; Debt Ratio = 0.75 = 75%

Diff: 3

Topic: Debt Ratio

\*Total Assets = Total Liabilities + Total Equity

Total Assets = $300,000 + $100,000; Total Assets = $400,000

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

1. At the beginning of the current year, Trenton Company's total assets were $248,000 and its total liabilities were $175,000. During the year, the company reported total revenues of $93,000, total expenses of $76,000 and owner withdrawals of $5,000. There were no other changes in owner's capital during the year and total assets at the end of the year were $260,000. Trenton Company's debt ratio at the end of the current year is:

## A) 1.42%. B) 70.6%. C) 48.6%. D) 67.3%. E) 32.7%.

Answer: D

Explanation: A) Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = $175,000\*\*/$260,000; Debt Ratio = 0.6730 = 67.3%

\*Beginning Total Assets = Beginning Total Liabilities + Beginning Total Equity

$248,000 = $175,000 + Beginning Total Equity; Beginning Total Equity = $73,000

\*\*Ending Total Assets = Ending Total Liabilities + Ending Total Equity

$260,000 = Ending Total Liabilities + (Beginning Equity + Revenues - Expenses - Withdrawals)

$260,000 = Ending Total Liabilities + ($73,000 + $93,000 - $76,000 - $5,000)

$260,000 = Ending Total Liabilities + $85,000; Ending Total Liabilities = $175,000

1. Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = $175,000\*\*/$260,000; Debt Ratio = 0.6730 = 67.3%

\*Beginning Total Assets = Beginning Total Liabilities + Beginning Total Equity

$248,000 = $175,000 + Beginning Total Equity; Beginning Total Equity = $73,000

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$260,000 = Ending Total Liabilities + (Beginning Equity + Revenues - Expenses - Withdrawals)

$260,000 = Ending Total Liabilities + ($73,000 + $93,000 - $76,000 - $5,000)

$260,000 = Ending Total Liabilities + $85,000; Ending Total Liabilities = $175,000

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$260,000 = Ending Total Liabilities + ($73,000 + $93,000 - $76,000 - $5,000)

$260,000 = Ending Total Liabilities + $85,000; Ending Total Liabilities = $175,000

1. Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = $175,000\*\*/$260,000; Debt Ratio = 0.6730 = 67.3%

Diff: 3

Topic: Debt Ratio

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$248,000 = $175,000 + Beginning Total Equity; Beginning Total Equity = $73,000

\*\*Ending Total Assets = Ending Total Liabilities + Ending Total Equity

$260,000 = Ending Total Liabilities + (Beginning Equity + Revenues - Expenses - Withdrawals)

$260,000 = Ending Total Liabilities + ($73,000 + $93,000 - $76,000 - $5,000)

$260,000 = Ending Total Liabilities + $85,000; Ending Total Liabilities = $175,000

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

## The process of transferring general journal entry information to the ledger is called:

* 1. Journalizing.
  2. Double-entry accounting.
  3. Balancing.
  4. Posting.
  5. Balancing an account. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. A column in journals and ledger accounts that is used to cross reference journal and ledger entries is the:

## Debit column.

* 1. Credit column.
  2. Account balance column.
  3. Description column.
  4. Posting reference column. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## The chronological record of each complete transaction that has occurred is called the:

* 1. Journal.
  2. Trial balance.
  3. Ledger.
  4. Account balance.
  5. Cash account.

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## A business's general journal provides a place for recording all of the following ***except***:

* 1. The names of the accounts involved.
  2. An explanation of the transaction.
  3. The amount of each debit and credit.
  4. The balance in each account.
  5. The transaction date. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## The balance column in a ledger account is:

* 1. A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction.

## Another name for the withdrawals account.

* 1. An account entered on the balance sheet.
  2. An account used to record the transfers of assets from a business to its owner.
  3. A column for showing the balance of the account after each entry is posted. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## A general journal is:

* 1. A ledger in which amounts are posted from a balance column account.
  2. A complete record of all transactions in chronological order from which transaction amounts are posted to the ledger accounts.

## Not required if T-accounts are used.

* 1. A book of final entry because financial statements are prepared from it.
  2. Not necessary in electronic accounting systems. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):

## Trial balance.

* 1. Balance column account.
  2. Journal.
  3. T-account.
  4. Account.

Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Smiles Entertainment had the following accounts and balances at December 31:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Account** | **Debit** | | **Credit** | |
| Cash | $10,000 | |  | |
| Accounts Receivable | 2,000 | |  | |
| Prepaid Insurance | 2,400 | |  | |
| Supplies | 1,000 | |  | |
| Accounts Payable |  | | $5,000 | |
| T. Happy, Capital |  | | 4,900 | |
| Service Revenue |  | | 7,000 | |
| Salaries Expense | 500 | |  | |
| Utilities Expense | 1,000 | |  | |
| Totals | $16,900 | | $16,900 | |
|  |  |  |  |

Using the information in the table, calculate the company's reported net income for the period.

## A) $8,500 B) $4,000. C) $1,100. D) $5,500. E) $10,400.

Answer: D

Explanation: A) Net Income = Total Revenues - Total Expenses.

(Service Revenue $7,000 - Salaries Expense $500 - Utilities Expense $1,000 =

$5,500)

Diff: 2

1. Net Income = Total Revenues - Total Expenses.

(Service Revenue $7,000 - Salaries Expense $500 - Utilities Expense $1,000 =

$5,500)

1. Net Income = Total Revenues - Total Expenses.

(Service Revenue $7,000 - Salaries Expense $500 - Utilities Expense $1,000 =

$5,500)

1. Net Income = Total Revenues - Total Expenses.

(Service Revenue $7,000 - Salaries Expense $500 - Utilities Expense $1,000 =

$5,500)

1. Net Income = Total Revenues - Total Expenses.

(Service Revenue $7,000 - Salaries Expense $500 - Utilities Expense $1,000 =

$5,500)

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Jackson Consulting had the following accounts and balances at December 31:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Account** | **Debit** | | **Credit** | |
| Cash | $20,000 | |  | |
| Accounts Receivable | 6,000 | |  | |
| Prepaid Insurance | 1,500 | |  | |
| Supplies | 5,000 | |  | |
| Accounts Payable |  | | $ 500 | |
| R. Jackson, Capital |  | | 16,200 | |
| R. Jackson, Withdrawals | 1,000 | |  | |
| Service Revenue |  | | 20,000 | |
| Utilities Expense | 2,000 | |  | |
| Salaries Expense | 1,200 | |  | |
| Totals | $36,700 | | $36,700 | |
|  |  |  |  |

Using the information in the table, calculate Jackson Consulting's reported net income for the period.

## A) $16,800 B) $15,800. C) $23,200 D) $10,300. E) $15,300

Answer: A

Explanation: A) Net Income = Total Revenues - Total Expenses.

Service Revenue $20,000 - Utilities Expense $2,000 - Salaries Expense $1,200 =

$16,800

Diff: 2

1. Net Income = Total Revenues - Total Expenses.

Service Revenue $20,000 - Utilities Expense $2,000 - Salaries Expense $1,200 =

$16,800

1. Net Income = Total Revenues - Total Expenses.

Service Revenue $20,000 - Utilities Expense $2,000 - Salaries Expense $1,200 =

$16,800

1. Net Income = Total Revenues - Total Expenses.

Service Revenue $20,000 - Utilities Expense $2,000 - Salaries Expense $1,200 =

$16,800

1. Net Income = Total Revenues - Total Expenses.

Service Revenue $20,000 - Utilities Expense $2,000 - Salaries Expense $1,200 =

$16,800

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Bologna Lodging had the following accounts and balances as of December 31:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Account** | **Debit** | | **Credit** | |
| Cash | $20,000 | |  | |
| Accounts Receivable | 2,000 | |  | |
| Salaries Expense | 500 | |  | |
| Accounts Payable |  | | $4,000 | |
| Lodging Revenue |  | | 7,000 | |
| Utilities Expense | 500 | |  | |
| Prepaid Insurance | 1,400 | |  | |
| Supplies | 1,500 | |  | |
| B. Oscar, Capital |  | | 14,900 | |
| Totals | $25,900 | | $25,900 | |
|  |  |  |  |

Using the information in the table, calculate the **total assets** reported on Bologna's balance sheet for the period.

## A) $25,400. B) $24,900. C) $23,400. D) $22,500. E) $25,900.

Answer: B

Explanation: A) (Cash $20,000 + Accounts Receivable $2,000 + Prepaid Insurance $1,400 + Supplies $1,500 = $24,900)

Diff: 3

1. (Cash $20,000 + Accounts Receivable $2,000 + Prepaid Insurance $1,400 + Supplies $1,500 = $24,900)
2. (Cash $20,000 + Accounts Receivable $2,000 + Prepaid Insurance $1,400 + Supplies $1,500 = $24,900)
3. (Cash $20,000 + Accounts Receivable $2,000 + Prepaid Insurance $1,400 + Supplies $1,500 = $24,900)
4. (Cash $20,000 + Accounts Receivable $2,000 + Prepaid Insurance $1,400 + Supplies $1,500 = $24,900)

Topic: The Account and Its Analysis; Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-C2 Describe an account and its use in recording transactions.; 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. At the end of its first month of operations, Michael's Consulting Services reported net income of

$25,000. They also had account balances of: Cash, $18,000; Office Supplies, $2,000 and Accounts Receivable $10,000. The owner's total investment for this first month was $5,000. There were no owner withdrawals in the first month.

Calculate the **ending** balance in the Owner's Capital account to be reported on the Statement of Owner's Equity.

## A) $20,000 B) $7,000 C) $30,000 D) $5,000 E) $25,000

Answer: C

Explanation: A) Investments $5,000 + Net Income $25,000 = $30,000

* 1. Investments $5,000 + Net Income $25,000 = $30,000
  2. Investments $5,000 + Net Income $25,000 = $30,000
  3. Investments $5,000 + Net Income $25,000 = $30,000
  4. Investments $5,000 + Net Income $25,000 = $30,000

Diff: 3

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Identify the accounts that would normally have balances in the *debit* column of a business's trial balance.

## Assets and revenues.

* 1. Revenues and expenses.
  2. Liabilities and expenses.
  3. Assets and expenses.
  4. Liabilities and withdrawals. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Identify the accounts that would normally have balances in the *credit* column of a business's trial balance

## Revenues and liabilities.

* 1. Liabilities and expenses.
  2. Revenues and expenses.
  3. Assets and revenues.
  4. Withdrawals and liabilities. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

## Which of the following is not a step in the accounting process?

* 1. Verify that revenues and expenses are equal
  2. Analyzing each transaction
  3. Record relevant transactions and events in a journal
  4. Post journal information to the ledger accounts
  5. Prepare and analyze the trial balance Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Remember

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. A bookkeeper has debited an asset account for $3,500 and credited a liability account for $2,000. Which of the following would be an ***incorrect*** way to complete the recording of this transaction:

## Credit another liability account for $1,500.

* 1. Credit another asset account for $1,500.
  2. Credit the owner's capital account for $1,500.
  3. Credit a revenue account for $1,500.
  4. Debit another asset account for $1,500. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. A report that lists a business's accounts and their balances, in which the total debit balances should equal the total credit balances, is called a(n):

## Trial balance.

* 1. Account balance.
  2. General Journal.
  3. Ledger.
  4. Chart of accounts.

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

## Identify the statement below that is *true*.

* 1. The trial balance is another name for the balance sheet as long as debits balance with credits.
  2. Another name for the trial balance is the chart of accounts.
  3. If the trial balance is in balance, it proves that no errors have been made in recording and posting transactions.

## The trial balance is a list of all accounts from the ledger with their balances at a point in time.

* 1. The trial balance is a book of original entry. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

1. While in the process of posting from the journal to the ledger, a company failed to post a $500 debit to the Equipment account. The effect of this error will be that:

## The error will overstate the credits listed in the journal.

* 1. The trial balance will not balance.
  2. The total debits in the trial balance will be larger than the total credits.
  3. The error will overstate the debits listed in the journal.
  4. The Equipment account balance will be overstated. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

## A $15 credit to Sales was posted as a $150 credit. By what amount is the Sales account in error?

* 1. $135 overstated.
  2. $150 overstated.
  3. $15 understated.
  4. $150 understated.
  5. $135 understated. Answer: A

Explanation: A) $150 - 15 = $135

B) $150 - 15 = $135 C) $150 - 15 = $135 D) $150 - 15 = $135 E) $150 - 15 = $135

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. At year-end, a trial balance showed total credits exceeding total debits by $4,950. This difference could have been caused by:
   1. An error in the general journal where a $4,950 increase in Accounts Receivable was recorded as an increase in Cash.

## A net income of $4,950.

* 1. The balance of $49,500 in Accounts Payable being entered in the trial balance as $4,950.
  2. An error in the general journal where a $4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable.
  3. The balance of $5,500 in the Office Equipment account being entered on the trial balance as a debit of $550.

## Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

## Identify the item below that would cause the trial balance to *not* balance?

* 1. The cash payment of a $750 account payable was posted as a debit to Accounts Payable and a debit to Cash for $750.

## A $50 cash receipt for the performance of a service was not recorded at all.

* 1. A $1,000 collection of an account receivable was erroneously posted as a debit to Accounts Receivable and a credit to Cash.
  2. The purchase of office supplies on account for $3,250 was erroneously recorded in the journal as $2,350 debit to Office Supplies Normal 0 false false false EN-IN X-NONE X-NONE and

$2,350 credit to Accounts Payable.

* 1. The purchase of office equipment for $1,200 was posted as a debit to Office Supplies and a credit to Cash for $1,200.

## Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. The credit purchase of a new oven for $4,700 was posted to Kitchen Equipment as a $4,700 debit and to Accounts Payable as a $4,700 debit. What effect would this error have on the trial balance?
   1. The total of the Debit column of the trial balance will exceed the total of the Credit column by $9,400.

## The total of the Debit column of the trial balance will equal the total of the Credit column.

* 1. The total of the Credit column of the trial balance will exceed the total of the Debit column by $4,700.
  2. The total of the Credit column of the trial balance will exceed the total of the Debit column by $9,400.
  3. The total of the Debit column of the trial balance will exceed the total of the Credit column by $4,700.

## Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

## On a trial balance, if the Debit and Credit column totals are equal, then:

* 1. All entries from the journal have been posted to the ledger correctly.
  2. The balance sheet would be correct.
  3. All ledger account balances are correct.
  4. Equal debits and credits have been recorded for transactions.
  5. All transactions have been recorded correctly. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Given the following errors, identify the one by itself that will cause the trial balance to be out of balance.
   1. A $200 cash salary payment posted as a $200 debit to Cash and a $200 credit to Salaries Expense.
   2. A $75 cash receipt from a customer in payment of her account posted as a $75 debit to Cash and a $75 credit to Cash.
   3. A $100 cash receipt from a customer in payment of her account posted as a $100 debit to Cash and a $10 credit to Accounts Receivable.
   4. An $800 prepayment from a customer for services to be rendered in the future was posted as an $800 debit to Unearned Revenue and an $800 credit to Cash.
   5. A $50 cash purchase of office supplies posted as a $50 debit to Office Equipment and a $50 credit to Cash.

## Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. A $130 credit to Supplies was credited to Fees Earned by mistake. By what amounts are the accounts under- or overstated as a result of this error?

## Supplies, understated $130; Fees Earned, overstated $130.

* 1. Supplies, overstated $130; Fees Earned, understated $130.
  2. Supplies, overstated $130; Fees Earned, overstated $130.
  3. Supplies, understated $260; Fees Earned, overstated $130.
  4. Supplies, overstated $260; Fees Earned, understated $130. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

## All of the following are asset accounts *except*:

* 1. Prepaid insurance.
  2. Supplies expense.
  3. Accounts Receivable.
  4. Equipment.
  5. Buildings.

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Compare the list of accounts below and choose the list that contains only accounts that would be classified as asset accounts on the Chart of Accounts.

## Unearned Revenue; Accounts Payable; Owner's Withdrawals.

* 1. Notes Payable; Cash; Owner's Withdrawals.
  2. Building; Prepaid Insurance; Supplies Expense.
  3. Accounts Payable; Cash; Supplies.
  4. Cash; Prepaid Insurance; Equipment. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Which financial statement reports an organization's financial position at a single point in time?

* 1. Balance sheet.
  2. Cash flow statement.
  3. Trial balance.
  4. Income statement.
  5. Statement of owner's equity. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Joe Jackson opened Jackson's Repairs on March 1 of the current year. During March, the following transactions occurred and were recorded in the company's books:

Jackson invested $25,000 cash in the business.

Jackson contributed $100,000 of equipment to the business.

The company paid $2,000 cash to rent office space for the month of March. The company received $16,000 cash for repair services provided during March. The company paid $6,200 for salaries for the month of March.

The company provided $3,000 of services to customers on account. The company paid cash of $500 for utilities for the month of March.

8. The company received $3,100 cash in advance from a customer for repair services to be provided in April.

Jackson withdrew $5,000 for his personal use from the company.

Based on this information, net income for March would be:

## A) $8,400. B) $13,500. C) $5,300. D) $13,400. E) $10,300.

Answer: E

Explanation: A) Net Income = Revenues - Expenses

Net Income = $16,000 (#4) - $2,000 (#3) - $6,200 (#5) + $3,000 (#6) - $500 (#7) =

$10,300

1. Net Income = Revenues - Expenses

Net Income = $16,000 (#4) - $2,000 (#3) - $6,200 (#5) + $3,000 (#6) - $500 (#7) =

$10,300

Diff: 3

1. Net Income = Revenues - Expenses

Net Income = $16,000 (#4) - $2,000 (#3) - $6,200 (#5) + $3,000 (#6) - $500 (#7) =

$10,300

1. Net Income = Revenues - Expenses

Net Income = $16,000 (#4) - $2,000 (#3) - $6,200 (#5) + $3,000 (#6) - $500 (#7) =

$10,300

1. Net Income = Revenues - Expenses

Net Income = $16,000 (#4) - $2,000 (#3) - $6,200 (#5) + $3,000 (#6) - $500 (#7) =

$10,300

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Joel Consulting received $3,000 from a customer for services provided. Joel's general journal entry to record this transaction will be:

## Debit Cash, credit Accounts Receivable.

* 1. Debit Accounts Payable, credit Services Revenue.
  2. Debit Services Revenue, credit Accounts Receivable.
  3. Debit Cash, credit Accounts Payable.
  4. Debit Cash, credit Services Revenue. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

1. Wiley Hill opened Hill's Repairs on March 1 of the current year. During March, the following transactions occurred and were recorded in the company's books:

Wiley invested $25,000 cash in the business.

Wiley contributed $100,000 of equipment to the business.

The company paid $2,000 cash to rent office space for the month of March. The company received $16,000 cash for repair services provided during March. The company paid $6,200 for salaries for the month of March.

The company provided $3,000 of services to customers on account.

The company paid cash of $500 for utilities for the month of March.

The company received $3,100 cash in advance from a customer for repair services to be provided in April.

Wiley withdrew $5,000 for his personal use from the company.

Based on this information, the balance in Wiley Hill, Capital reported on the Statement of Owner's Equity at the end of March would be:

## A) $13,500. B) $8,400. C) $133,400. D) $130,300. E) $125,300.

Answer: D

Explanation: A) Ending Capital = $25,000 (#1) + $100,000 (#2) + $16,000 (#4) + $3,000 (#6) -

$2,000 (#3) - $6,200 (#5) - $500 (#7) - $5,000 (#9) = $130,300

B) Ending Capital = $25,000 (#1) + $100,000 (#2) + $16,000 (#4) + $3,000 (#6) -

$2,000 (#3) - $6,200 (#5) - $500 (#7) - $5,000 (#9) = $130,300

C) Ending Capital = $25,000 (#1) + $100,000 (#2) + $16,000 (#4) + $3,000 (#6) -

$2,000 (#3) - $6,200 (#5) - $500 (#7) - $5,000 (#9) = $130,300

D) Ending Capital = $25,000 (#1) + $100,000 (#2) + $16,000 (#4) + $3,000 (#6) -

$2,000 (#3) - $6,200 (#5) - $500 (#7) - $5,000 (#9) = $130,300

E) Ending Capital = $25,000 (#1) + $100,000 (#2) + $16,000 (#4) + $3,000 (#6) -

$2,000 (#3) - $6,200 (#5) - $500 (#7) - $5,000 (#9) = $130,300

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

# SHORT ANSWER QUESTIONS

1. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

\_\_\_\_\_ 1. Source documents

\_\_\_\_\_ 2. Debit

\_\_\_\_\_ 3. Posting

4. Double-entry accounting

\_\_\_\_\_ 5. Ledger

6. Journal

\_\_\_\_\_ 7. Account

8. Credit

\_\_\_\_\_ 9. T-account

\_\_\_\_\_ 10. Trial balance

1. Decrease in an asset, owner withdrawal and expense account, and increase in a liability, owner's capital and revenue account; recorded on the right side of a T-account.
2. A record containing all the accounts of a company and their balances.
3. An accounting system where each transaction affects and is recorded in at least two accounts; the sum of the debits for each entry must equal the sum of its credits.
4. A company's chronological record of each transaction in one place that shows debits and credits for each transaction.
5. An increase in an asset and expense account, and decrease in a liability, owner's capital, and revenue account; recorded on the left side of a T-account.
6. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.
7. A representation of a ledger account used to understand the effects of transactions.
8. A list of accounts and their balances at a point in time.
9. The process of transferring journal entry information to the ledger accounts.
10. Verifiable evidence that transactions have occurred used to record accounting information.

## Answer: 1. J; 2. E; 3. I; 4. C; 5. B; 6. D; 7. F; 8. A; 9. G; 10. H

Explanation:

Diff: 1

Topic: Analyzing and Recording Process; The Account and Its Analysis; Ledger and Chart of Accounts; Debits and Credits; Trial Balance

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.; 02-C2 Describe an account and its use in recording transactions.; 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.; 02-P2 Prepare and explain the use of a trial balance.

Bloom's: Remember AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Provided below is a list of definitions and terms. Match them by placing the letter that identifies the best definition in the blank space next to each term.

\_\_\_\_\_ 1. Debit \_\_\_\_\_ 6. Chart of accounts

\_\_\_\_\_ 2. Note payable

\_\_\_\_\_ 3. Ledger

7. Trial balance

8. Credit

4. Journal \_\_\_\_\_ 9. Account balance

\_\_\_\_\_ 5. Debt ratio \_\_\_\_\_ 10. Balance column account

d

|  |  |
| --- | --- |
| A. | An increase in an asset, owner withdrawal, and expense account, and a decrease in a  liability, owner's capital, and revenue account; recorded on the left side of a T-account. |
| B. | A decrease in an asset, owner withdrawal, and expense account, and an increase in a  liability, owner's capital, and revenue account; recorded on the right side of a T-account. |
| C. | A written promise to pay a definite sum of money on a specified future date. |
| D. | The difference between total debits and total credits for an account including the  beginning balance. |
| E. | A list of accounts and their balances at a point in time; the total debit balances shoul  equal the total credit balances. |
| F. | A list of all accounts used by a company and the identification number assigned to |
|  |

102

|  |  |
| --- | --- |
| F. | A list of all accounts used by a company and the identification number assigned to  each account. |
| G. | The ratio of total liabilities to total assets; used to reflect the risk associated with the  company's debts. |
| H. | An account with debit and credit columns for recording entries and another column  for showing the balance of the account after each entry. |
| I. | A chronological record of each transaction in one place that shows debits and credits  for each transaction. |
| J. | A record containing all accounts of a company and their balances. |

## Answer: 1. A; 2. C; 3. J; 4. I; 5. G; 6. F; 7. E; 8. B; 9. D; 10. H

Explanation:

Diff: 1

Topic: Debt Ratio; Analyzing and Recording Process; The Account and Its Analysis; Ledger and Chart of Accounts; Debits and Credits

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.; 2-C1 Explain the steps in processing transactions and the role of source documents.; 02-C2 Describe an account and its use in recording transactions.; 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Provided below is a list of definitions and terms. Match them by placing the letter that identifies the best definition in the blank space next to each term.

\_\_\_\_\_ 1. General journal

\_\_\_\_\_ 2. Chart of accounts

\_\_\_\_\_ 3. Note receivable

\_\_\_\_\_ 4. T-account

\_\_\_\_\_ 5. Unearned revenues

\_\_\_\_\_ 6. Compound journal entry

\_\_\_\_\_ 7. Posting reference column

\_\_\_\_\_ 8. Posting

\_\_\_\_\_ 9. Account

\_\_\_\_\_ 10. Trial Balance

1. A simple form used as a helpful tool in understanding the effect of transactions and events on specific accounts.
2. The most flexible type of journal, it can be used to record any kind of transaction.
3. A journal entry that affects at least three accounts.
4. A written promise from a customer to pay a definite sum of money on a specified future date.
5. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.
6. A list of all accounts used by a company and the identification number assigned to each account.
7. The process of transferring journal entry information to the ledger.
8. A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.
9. A column in journals where individual account numbers are entered when entries are posted to ledger accounts.
10. Liabilities created when customers pay in advance for products or services; satisfied by delivering the products or services in the future.

## Answer: 1. B; 2. F; 3. D; 4. A; 5. J; 6. C; 7. I; 8. G; 9. E; 10. H

Explanation:

Diff: 1

Topic: Analyzing and Recording Process; The Account and Its Analysis; Ledger and Chart of Accounts; Debits and Credits Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.; 2-C1 Explain the steps in

processing transactions and the role of source documents.; 02-C2 Describe an account and its use in recording transactions.; 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember AACSB: Communication

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1. Identify each of the following accounts as a revenue (R), expense (E), asset (A), liability (L), or equity (OE) by placing initials (R,E,A,L or OE) in the blanks.

\_\_\_\_\_ 1. Salary Expense

2. Cash

\_\_\_\_\_ 3. Equipment

\_\_\_\_\_ 4. Owner, Capital

5. Fees Revenue

6. Accounts Receivable

\_\_\_\_\_ 7. Accounts Payable

\_\_\_\_\_ 8. Owner, Withdrawals

9. Supplies

\_\_\_\_\_ 10. Unearned Revenue

\_\_\_\_\_ 11. Prepaid Insurance

12. Office Furniture

## Answer: 1. E; 2. A; 3. A; 4. OE; 5. R; 6. A; 7. L; 8. OE; 9. A; 10. L; 11. A; 12. A

Explanation:

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Review the transactions below and identify with an "X" those that would be posted as a *credit* in the ledger (The first one has been done for you):

\_\_X\_\_ 1. Salary Payable was increased.

2. Cash was decreased

\_\_\_\_\_ 3. Equipment was increased

4. Owner, Capital was increased

\_\_\_\_\_ 5. Salaries Expense was increased

\_\_\_\_\_ 6. Accounts Receivable was decreased

\_\_\_\_\_ 7. Unearned Revenue was increased

\_\_\_\_\_ 8. Owner, Withdrawals was increased

9. Supplies was increased

\_\_\_\_\_ 10. Building was increased

\_\_\_\_\_ 11. Utilities Expense was increased

\_\_\_\_\_ 12. Service Revenue was increased

Answer: \_\_X\_\_ 1. Salary Payable was increased.

\_\_X\_\_ 2. Cash was decreased

\_\_\_\_\_ 3. Equipment was increased

X

4. Owner, Capital was increased

\_\_\_\_\_ 5. Salaries Expense was increased

X

6. Accounts Receivable was decreased

\_\_X\_\_ 7. Unearned Revenue was increased

\_\_\_\_\_ 8. Owner, Withdrawals was increased

9. Supplies was increased

\_\_\_\_\_ 10. Building was increased

\_\_\_\_\_ 11. Utilities Expense was increased

X 12. Service Revenue was increased

## Explanation:

Diff: 2

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

105

1. The following accounts appear on either the Income Statement (IS) or Balance Sheet (BS). In the space to the left of each account, write the letters, IS or BS to identify the statement on which the account appears.

\_\_\_\_\_ 1. Office Equipment

\_\_\_\_\_ 2. Rent Expense

3. Unearned Fees Revenues

\_\_\_\_\_ 4. Rent Expense

\_\_\_\_\_ 5. Accounts Payable

\_\_\_\_\_ 6. Owner, Capital

7. Fees Revenue

8. Cash

\_\_\_\_\_ 9. Notes Receivable

\_\_\_\_\_ 10. Wages Payable

## Answer: 1. BS; 2. IS; 3. BS; 4. IS; 5. BS; 6. BS; 7. IS; 8. BS; 9. BS; 10. BS

Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

# ESSAY QUESTIONS

1. Miley Block is a building consultant. Shown below are (a) several accounts in her ledger with each account preceded by an identification number, and (b) several transactions completed by Block. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

|  |  |  |  |
| --- | --- | --- | --- |
| 1. | Accounts Payable | 7. | Telephone Expense |
| 2. | Accounts Receivable | 8. | Unearned Revenue |
| 3. | Cash | 9. | Miley Block, Capital |
| 4. | Consulting Fees Earned | 10. | Miley Block, Withdrawals |
| 5. | Office Supplies | 11. | Insurance Expense |
| 6. | Office Supplies Expense | 12. | Prepaid Insurance |

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Debit | Credit |
|  | Example: | 2 | 4 |
|  | Completed consulting work for a client  who will pay at a later date. |  |  |
| A. | Received cash in advance from a  customer for designing a building |  |  |
| B. | Purchased office supplies on credit. |  |  |
| C. | Paid for the supplies purchased in B. |  |  |
| D. | Received the telephone bill of the 1 | 06 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| D. | Received the telephone bill of the  business and immediately paid it. |  |  |
| E. | Paid for a 3-year insurance policy |  |  |

## Answer:

|  |  |  |
| --- | --- | --- |
|  | Debit | Credit |
| A | 3 | 8 |
| B | 5 | 1 |
| C | 1 | 3 |
| D | 7 | 3 |
| E | 12 | 3 |

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Drew Castle is an insurance appraiser. Shown below are (a) several accounts in his ledger with each account preceded by an identification number, and (b) several transactions completed by Castle. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.
2. Accounts Payable 8. Office Supplies Expense
3. Accounts Receivable 9. Prepaid Insurance
4. Appraisal Fees Earned 10. Salaries Expense
5. Cash 11. Telephone Expense
6. Insurance Expense 12. Unearned Appraisal Fees
7. Office Equipment 13. Drew Castle, Capital
8. Office Supplies 14. Drew Castle, Withdrawals

107

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Debit | Credit |
| Example: | |  |  |
| Completed an appraisal for a client who  promised to pay at a later date. | | 2 | 3 |
| A. | Received cash in advance for appraising a  hail damage claim…………………………. |  |  |
| B. | Purchased office supplies on credit……… |  |  |
| C. | Drew Castle used cash from the business to  pay his home telephone bill. There were no business calls on the bill…………………. |  |  |
| D. | Received the telephone bill of the business  and immediately paid it……………………. |  |  |
| E. | Paid the salary of the office assistant…. |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| E. | Paid the salary of the office assistant…. |  |  |
| F. | Paid for the supplies purchased  in transaction B………………………….. |  |  |
| G. | Completed an appraisal for a client and  immediately collected cash for the work done… |  |  |

## Answer:

|  |  |  |
| --- | --- | --- |
|  | Debit | Credit |
| A | 4 | 12 |
| B | 7 | 1 |
| C | 14 | 4 |
| D | 11 | 4 |
| E | 10 | 4 |
| F | 1 | 4 |
| G | 4 | 3 |

Diff: 3

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

# SHORT ANSWER QUESTIONS

## List the steps in processing transactions.

Answer: Business transactions and events are the starting point. Source documents are analyzed for the effects of the transactions and events on the accounting records. The information is recorded into the journal. The information is then posted to the accounts and a trial balance is prepared from the ledger balances. The final step is the preparation of financial statements for decision makers.

## Explanation:

Diff: 2

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Describe what source documents are and the purpose they serve in a business.

Answer: Source documents are the proof that transactions and events have occurred and should be recorded in the accounting records. They provide objective and reliable evidence about transactions and their amounts. Examples of source documents include checks, invoices, sales receipts, credit card statements, and bank statements. They can be in hard copy or electronic form.

## Explanation:

Diff: 1

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Explain how accounts are used in recording information about a business's transactions.

Answer: Accounts are classified into three general categories: assets, liabilities and equity accounts. Accounts are records of increases and decreases in specific items in these categories. Information from an account is analyzed, summarized, and presented in reports and financial statements.

## Explanation:

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Explain the difference between a general ledger and a chart of accounts.

Answer: A ledger is a record containing all of the accounts of a business and their balances. The chart of accounts is a list of all of the accounts a company uses and includes an identification number assigned to each account.

## Explanation:

Diff: 3

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Explain debits and credits and their role in the accounting system of a business.

Answer: Debit refers to the left side of an account and credit refers to the right side of an account. Debits and credits are part of the double-entry accounting system. This system is based on the concept that all transactions and events affect at least two accounts. The double entry system is organized around the accounting equation which states that assets = liabilities + equity. Assets, expenses and the owner's withdrawal account, all have normal debit balances, and liabilities, revenues and the owner's capital account, all have normal credit balances.

## Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

## Explain the debt ratio and its use in analyzing a company's financial condition.

Answer: The debt ratio is calculated by dividing total liabilities by total assets. It reveals the percentage of the company's assets that are financed by creditors. The higher the ratio, the more risk a company has in trying to repay the debt and interest.

## Explanation:

Diff: 2

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Understand

AACSB: Analytic

AICPA: BB Industry; FN Risk Analysis

## Explain the recording and posting processes.

Answer: Information from business transactions and events is recorded in the journal in the form of journal entries. The journal entries include the date, the account titles, and debit and credit amounts. Journal entries may also include a further description of the transaction. During the posting process the debit and credit amounts recorded in the journal are transferred to the individual accounts in the ledger.

## Explanation:

Diff: 2

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## What is a trial balance? What is its purpose?

Answer: The trial balance is a list of all of the accounts in the ledger with balances at a point in time presented in debit and credit columns according to their balance. The purpose of the trial balance is to summarize the account totals and to verify the accuracy of the total debits and credits. If the total debits and credits are not equal, it indicates an error in the accounting records. However, even if debits do equal credits this is no guarantee that no errors were made in recording and posting transactions.

## Explanation:

Diff: 1

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Describe the link between a business's income statement, the statement of owner's equity, and the balance sheet.

Answer: The income statement shows the amount of net income the company has earned. That income is carried to the statement of owner's equity. The net income is added to the beginning owner's equity, and owner's withdrawals are subtracted to determine the ending owner's equity. The ending owner's equity is then carried to the balance sheet.

## Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

# ESSAY QUESTIONS

1. Identify by marking an X in the appropriate column, whether each of the following items would likely serve as a source document. The first one is done as an example.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Yes | No |
| Ex. | Credit card |  | X |
| a. | Credit card receipt |  |  |
| b. | Purchase order |  |  |
| c. | Invoice |  |  |
| d. | Balance sheet |  |  |
| e. | Bank statement |  |  |
| f. | Journal entry |  |  |
| g. | Telephone bill |  |  |
| h. | Employee earnings record |  |  |

## Answer:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Yes | No |
| Ex. | Credit card |  | X |
| a. | Credit card receipt | X |  |
| b. | Purchase order | X |  |
| c. | Invoice | X |  |
| d. | Balance sheet |  | X |
| e. | Bank statement | X |  |
| f. | Journal entry |  | X |
| g. | Telephone bill | X |  |
| h. | Employee earnings record | X |  |

Diff: 2

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Understand

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

1. Indicate whether a debit or credit entry would be required to record the following changes in each account.
2. To decrease Cash
3. To increase Owner, Capital
4. To decrease Accounts Payable.
5. To increase Salaries Expense.
6. To decrease Supplies.
7. To increase Revenue.
8. To decrease Accounts Receivable.
9. To increase Owner, Withdrawals.

## Answer: a. Credit, b. Credit, c. Debit, d. Debit, e. Credit, f. Credit, g. Credit, h. Debit

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

1. Using the following list of accounts and identification letters A through J for Homer's Management Co., enter the type of account and its normal balance into the table below. The first item is filled in as an example:
2. Homer, Capital F. Prepaid Rent
3. Interest Payable G. Advertising Expense
4. Land H. Unearned Rent Revenue
5. Homer, Withdrawals I. Commissions Earned
6. Fees Earned J. Notes Receivable

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Type of Account | | | Normal Balance | |
|  | Asset | Liability | Equity | Debit | Credit |
| A |  |  | X |  | X |
| B |  |  |  |  |  |
| C |  |  |  |  |  |
| D |  |  |  |  |  |
| E |  |  |  |  |  |
| F |  |  |  |  |  |
| G |  |  |  |  |  |
| H |  |  |  |  |  |
| I |  |  |  |  |  |
| J |  |  |  |  |  |

## Answer:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Type of Account | | | Normal Balance | |
|  | Asset | Liability | Equity | Debit | Credit |
| A |  |  | X |  | X |
| B |  | X |  |  | X |
| C | X |  |  | X |  |
| D |  |  | X | X |  |
| E |  |  | X |  | X |
| F | X |  |  | X |  |
| G |  |  | X | X |  |
| H |  | X |  |  | X |
| I |  |  | X |  | X |
| J | X |  |  | X |  |

Diff: 2

Topic: Accounts; Ledger and Chart of Accounts; Debits and Credits

Learning Objective: 02-C2 Describe an account and its use in recording transactions.; 02-C3 Describe a ledger and a chart of accounts; 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand AACSB: Analytic

AICPA: BB Industry; FN Decision Making

1. Rowdy Bolton began Bolton Office Services in October and during that month completed these transactions:
2. Invested $10,000 cash, and $15,000 of computer equipment.
3. Paid $500 cash for an insurance premium covering the next 12 months.
4. Completed a word processing assignment for a customer and collected $1,000 cash.
5. Paid $200 cash for office supplies.
6. Paid $2,000 for October's rent.

Prepare journal entries to record the above transactions. Explanations are unnecessary.

|  |  |  |  |
| --- | --- | --- | --- |
| Answer: a. | Cash | 10,000 |  |
|  | Computer Equipment | 15,000 |
| b. | R. Bolton, Capital Prepaid Insurance | 500 | 25,000 |
| c. | Cash Cash | 1,000 | 500 |
| d. | Office Services Revenue Office Supplies | 200 | 1,000 |
| e. | Cash  Rent Expense | 2,000 | 200 |
|  | Cash |  | 2,000 |

Diff: 3

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. BBB Company sends a $2,500 invoice to a customer for catering services it provided during the month. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

## Answer:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Accounts Receivable | |  |  |  | Catering Fees Earned | |
| 2,500 |  |  |  |  |  | 2,500 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. ABC Company made a $2,500 payment on account, to satisfy a previously recorded account payable. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

## Answer:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Accounts Payable | |  |  |  | Cash | |
| 2,500 |  |  |  |  |  | 2,500 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. A business paid $100 cash to Charles Nice (the owner of the business) for his personal use. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

## Answer:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Charles Nice, Withdrawals | |  |  |  | Cash | |
| 100 |  |  |  |  |  | 100 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

Diff: 2

Topic: Analyzing Transactions

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. On December 3, the ABBJ Company paid $1,400 cash in salaries to office personnel. Prepare the general journal entry to record this transaction.

Answer: 12/3 Office Salaries Expense 1,400

Cash 1,400

Diff: 2

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. On February 5, Teddy's Catering purchased an oven that cost $35,000. The firm made a down payment of $5,000 cash and signed a long-term note payable for the balance. Show the general journal entry to record this transaction.

Answer: 2/5 Oven 35,000

Cash 5,000

Note Payable 30,000

Diff: 3

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Jarrod Automotive, owned and operated by Jarrod Johnson, began business in September of the current year. Jarrod, a mechanic, had no experience with recording business transactions. As a result, Jarrod entered all of September's transactions directly into the ledger accounts. When he tried to locate a particular entry he found it confusing and time consuming. He has hired you to improve his accounting procedures. The accounts in his General Ledger follow:

Prepare the general journal entries, in chronological order (a) through (e), from the T-account entries shown. Include a brief description of the probable nature of each transaction.

|  |  |  |  |
| --- | --- | --- | --- |
| Answer: a. | Sept. 1 Cash | 4,200 |  |
|  | Equipment | 800 |  |
|  | J. Jarrod, Capital  To record initial investment. |  | 5,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | 4 Equipment | 2,550 |  |
|  | Cash |  | 550 |
|  | Notes Payable |  | 2,000 |
|  | To record purchase of equipment, |  |  |
|  | paying $550 in cash and paying a $2,000 |  |  |
|  | note payable for the balance due. |  |  |

* 1. 9 Accounts Receivable 275

Revenue 275

To record sale of services.

* 1. 11 Cash 150

Revenue 150

To record cash sale of service.

118

Answer: e. 15 Cash 190

Accounts Receivable 190

To record collection from customer.

Diff: 3

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Pippa's Paralegal Services completed these transactions in February:
2. Purchased office supplies on account, $300.
3. Completed work for a client on credit, $500.
4. Paid cash for the office supplies purchased in (*a*).
5. Completed work for a client and received $800 cash.
6. Received $500 cash for the work described in (*b*).
7. Received $1,000 from a client for paralegal services to be performed in March. Prepare journal entries to record the above transactions. Explanations are not necessary.

Diff: 3

|  |  |  |  |
| --- | --- | --- | --- |
| Answer: a.  b. | Office Supplies Accounts Payable Accounts Receivable | 300  500 | 300 |
| c. | Services Revenue Accounts Payable | 300 | 500 |
| d. | Cash Cash | 800 | 300 |
| e. | Services Revenue Cash | 500 | 800 |
| f. | Accounts Receivable Cash | 1,000 | 500 |
|  | Unearned Revenue |  | 1,000 |

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Larry Matt completed these transactions during December of the current year:

|  |  |
| --- | --- |
| Dec. 1 | Began a financial services practice by investing $15,000 cash and office  equipment having a $5,000 value. |
| 2 | Purchased $1,200 of office equipment on credit. |
| 3 | Purchased $300 of office supplies on credit. |
| 4 | Completed work for a client and i1m19mediately received a payment of $900 |
|  |

|  |  |
| --- | --- |
| 4 | Completed work for a client and immediately received a payment of $900  cash. |
| 8 | Completed work for Precept Paper Co. on credit, $1,700. |
| 10 | Paid for the supplies purchased on credit on December 3. |
| 14 | Paid for the annual $960 premium on an insurance policy. |
| 18 | Received payment in full from Precept Paper Co. for the work completed on  December 8. |
| 27 | Larry withdrew $650 cash from the practice to pay personal expenses. |
| 30 | Paid $175 cash for the December utility bills. |
| 30 | Received $2,000 from a client for financial services to be rendered next year. |

Prepare general journal entries to record these transactions.

|  |  |  |
| --- | --- | --- |
| Answer: Dec. 1 | Cash | 15,000 |
|  | Office Equipment | 5,000 |
|  | L Matt, Capital  *Owner invested in business.* | 20,000 |

1. Office Equipment 1,200

Accounts Payable 1,200

*Purchased office equipment and supplies on credit.*

1. Office Supplies 300

Accounts Payable 300

1. Cash 900

Fees Earned 900

*Rendered services for cash.*

8 Accounts Receivable 1,700

Fees Earned 1,700

*Rendered services on account.*

10 Accounts Payable 300

Cash 300

*Paid amount owed for supplies.*

14 Prepaid Insurance 960

Cash 960

*Paid insurance premium for one year.*

18 Cash 1,700

Accounts Receivable 1,700

Answer: *Received payment on account.*

27 L. Matt, Withdrawals 650

Cash 650

*Owner withdrew cash.*

30 Utility Expense 175

Cash 175

*Paid utility bills.*

Diff: 3

30 Cash 2,000

Unearned Fees 2,000

*Received cash for services to be provided next year.*

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Mary Sunny began business as Sunny Law Firm on November 1. Record the following

November transactions by making entries directly to the T-accounts provided. Then, prepare a trial balance, as of November 30.

1. Mary invested $15,000 cash and a law library valued at $6,000.
2. Purchased $7,500 of office equipment from John Bronx on credit.
3. Completed legal work for a client and received $1,500 cash in full payment.
4. Paid John Bronx. $3,500 cash in partial settlement of the amount owed.
5. Completed $4,000 of legal work for a client on credit.
6. Mary withdrew $2,000 cash for personal use.
7. Received $2,500 cash as partial payment for the legal work completed for the client in (*e*).
8. Paid $2,500 cash for the legal secretary's salary.

## Answer:

Sunny Law Firm

Answer: Trial Balance

November 30

**Account Debit** Credit

Cash $11,000

Accounts Receivable 1,500

Law Library 6,000

Office Equipment 7,500

Accounts Payable $4,000

M. Sunny, Capital 21,000

M. Sunny, Withdrawal 2,000

Legal Fees Earned 5,500

Salaries Expense 2,500

Totals $30,500 $30,500

Diff: 3

Topic: Analyzing Transactions; Journalizing and Posting Transactions; Preparing a Trial Balance

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.; 02-P2 Prepare and explain the use of a trial balance.

Bloom's: Apply AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

Beginning of the year $114,000 $68,000 End of the year 135,000 73,000

Assets Liabilities

If Jerry made no investments in the business and withdrew no assets during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer: Beginning owner's equity = $114,000 - $68,000 = $46,000 Ending owner's equity = $135,000 - $73,000 = $62,000 Increase in owner's equity = $62,000 - $46,000 = $16,000

Since there were no investments or withdrawals during the year, the net income is $16,000.

Diff: 3

Topic: Analyzing Transactions; Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements; 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

Beginning of the year $114,000 $68,000 End of the year 135,000 73,000

Assets Liabilities

If Jerry invested an additional $12,000 in the business during the year, but withdrew no assets during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer: Beginning owner's equity = $114,000 - $68,000 = $46,000 Ending owner's equity = $135,000 - $73,000 = $62,000 Increase in owner's equity = $62,000 - $46,000 = $16,000 Net income = $16,000 - $12,000 = $4,000

Diff: 3

Topic: Analyzing Transactions; Financial Statements

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements; 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

Beginning of the year $114,000 $68,000 End of the year 135,000 73,000

Assets Liabilities

If Jerry made no investments in the business but withdrew $5,000 during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer: Beginning owner's equity = $114,000 - $68,000 = $46,000 Ending owner's equity = $135,000 - $73,000 = $62,000 Increase in owner's equity = $62,000 - $46,000 = $16,000 Net income = $16,000 + $5,000 = $21,000

Diff: 3

Topic: Analyzing Transactions; Financial Statements

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements; 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

Beginning of the year $114,000 $68,000 End of the year 135,000 73,000

Assets Liabilities

If Jerry invested an additional $12,000 in the business and withdrew $5,000 during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer: Beginning owner's equity = $114,000 - $68,000 = $46,000 Ending owner's equity = $135,000 - $73,000 = $62,000 Increase in owner's equity = $62,000 - $46,000 = $16,000 Net income = $16,000 - $12,000 + $5,000 = $9,000

Diff: 3

Topic: Analyzing Transactions; Financial Statements

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements; 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. A company had total assets of $350,000, total liabilities of $101,500 and total equity of

$248,500. Calculate the company's debt ratio.

Answer: *Debt Ratio = Total Liabilities/Total Assets =* $101,500/$350,000 = 29%

Diff: 3

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Decision Making, Risk Analysis

1. Jackson Advertising Co. had assets of $475,000; liabilities of $275,500; and equity of $199,500. Calculate its debt ratio.

Answer: *Debt Ratio = Total Liabilities/Total Assets =* $275,500/$475,000 = 58%

Diff: 3

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Decision Making, Risk Analysis

## List the four steps in recording transactions.

Answer: 1. Analyze each transaction and event from source documents.

* 1. Record relevant transactions and events in a journal.
  2. Post journal entry information to ledger accounts.
  3. Prepare and analyze the trial balance.

Diff: 1

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Given each of the following errors, indicate on the table below the amount by which the trial balance will be out of balance and which trial balance column (debit or credit) will have the larger total as a result of the error.
2. $100 debit to Cash was debited to the Cash account twice.
3. $1,900 credit to Sales was posted as a $190 credit.
4. $5,000 debit to Office Equipment was debited to Office Supplies.
5. $625 debit to Prepaid Insurance was posted as a $62.50 debit.
6. $520 credit to Accounts Payable was not posted.

|  |  |  |
| --- | --- | --- |
| Error | Amount Out of Balance | Column Having Larger Total |
| a.  b. | \_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_ |
| c.  d.  e. | \_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_ |

|  |  |  |  |
| --- | --- | --- | --- |
| Answer: | Error | Amount Out of Balance | Column Having Larger Total |
|  | a. | $100\_\_\_\_\_\_\_\_ | Debit\_\_\_\_\_\_\_ |
|  | b.  c.  d.  e. | $1,710\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_  $562.50\_\_\_\_\_  $520\_\_\_\_\_\_\_\_ | Debit\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_ Credit\_\_\_\_\_\_\_ Debit\_\_\_\_\_\_\_ |

Diff: 3

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

126

1. After preparing an (unadjusted) trial balance at year-end, R. Chang of Chang Window Company discovered the following errors:
2. Cash payment of the $225 telephone bill for December was recorded twice.
3. Cash payment of a note payable was recorded as a debit to Cash and a debit to Notes Payable for

$1,000.

1. A $900 cash withdrawal by the owner was recorded to the correct accounts as $90.
2. An additional investment of $5,000 cash by the owner was recorded as a debit to R, Chang, Capital and a credit to Cash.
3. A credit purchase of office equipment for $1,800 was recorded as a debit to the Office Equipment account with no offsetting credit entry.

Using the form below, indicate whether the error would cause the trial balance to be out of balance by placing an X in either the yes or no column. Would the errors cause the trial balance to be out of balance?

|  |  |  |
| --- | --- | --- |
| Error | Yes | No |
| 1. | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ |
| 2. | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ |
| 3. | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ |
| 4. | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ |
| 5. | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ |

Would the errors cause the trial balance to be out of balance?

|  |  |  |
| --- | --- | --- |
| Answer: Error  1 | Yes  \_\_\_\_\_\_\_\_ | No X\_\_\_\_\_\_\_ |
| 2 | X\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ |
| 3 | \_\_\_\_\_\_\_\_ | X\_\_\_\_\_\_\_ |
| 4 | \_\_\_\_\_\_\_\_ | X\_\_\_\_\_\_\_ |
| 5 | X\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ |

Diff: 3

Yes, the trial balance will be out of balance.

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

1. The balances for the accounts of Milo's Management Co. for the year ended December 31 are shown below. Each account shown had a normal balance.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts Payable….. | $ 6,500 | Wages Expense……… | 36,000 |
| Accounts Receivable... | 7,000 | Rent Expense………... | 6,000 |
| Cash………………… | ? |  |  |
| Office Supplies. | 1,200 | 127 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Office Supplies. | 1,200 |  |  |
| Building……………. | 125,000 |  |  |
| Supplies Expense…… | 21,500 | Land…………………. | 50,000 |
| D. Milo, Capital……….. | 118,700 | Unearned Management Fees | 4,000 |
| Management Revenue. | 175,000 | D. Milo, Withdrawals | 48,000 |

Calculate the correct balance for Cash and prepare a trial balance.

Answer: MILOS MANAGEMENT CO.

Trial Balance December 31

|  |  |  |
| --- | --- | --- |
| Cash\*\* | $9,500 |  |
| Accounts Receivable | 7,000 |  |
| Office Supplies | 1,200 |  |
| Land | 50,000 |  |
| Building | 125,000 |  |
| Accounts Payable |  | $6,500 |
| Unearned Management Fees |  | 4,000 |
| D. Milo, Capital |  | 118,700 |
| D. Milo, Withdrawal | 48,000 |  |
| Management Revenue |  | 175,000 |
| Wages Expense | 36,000 |  |
| Rent Expense | 6,000 |  |
| Supplies Expense | 21,500 |  |
| Totals | $304,200 | $304,200 |
| \*\*Total credits | $304,200 |  |
| Total debits (excluding cash) | 294,700 |  |
| Cash | $9,500 |  |

Diff: 3

Topic: Preparing a Trial Balance

Learning Objective: 02-P2 Prepare and explain the use of a trial balance. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. At year-end, Henry Laundry Service noted the following errors in its trial balance:
2. It understated the total debits to the Cash account by $500 when computing the account balance.
3. A credit sale for $311 was recorded as a credit to the revenue account, but the offsetting debit was not posted.
4. A cash payment to a creditor for $2,600 was never recorded.
5. The $680 balance of the Prepaid Insurance account was listed in the credit column of the trial

128

balance.

1. A $24,900 van purchase was recorded as a $24,090 debit to Equipment and a $24,090 credit to Notes Payable.
2. A purchase of office supplies for $150 was recorded as a debit to Office Equipment. The offsetting credit entry was correct.
3. An additional investment of $4,000 by Del Henry was recorded as a debit to Del Henry, Capital and as a credit to Cash.
4. The cash payment of the $510 utility bill for December was recorded (but not paid) twice.
5. The revenue account balance of $79,817 was listed on the trial balance as $97,817.
6. A $1,000 cash withdrawal was recorded as a $100 debit to Del Henry, Withdrawal and $100 credit to cash.

Using the form below, indicate whether each error would cause the trial balance to be out of balance, the amount of any imbalance, and whether a correcting journal entry is required.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Would the error  cause the trial balance to be out of balance? | | Amount of  Imbalance | Correcting  Journal Entry Required | |
| Error | Yes | No |  | Yes | No |
| 1. |  |  |  |  |  |
| 2. |  |  |  |  |  |
| 3. |  |  |  |  |  |
| 4. |  |  |  |  |  |
| 5. |  |  |  |  |  |
| 6. |  |  |  |  |  |
| 7. |  |  |  |  |  |
| 8. |  |  |  |  |  |
| 9. |  |  |  |  |  |
| 10. |  |  |  |  |  |

## Answer:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Would the error  cause the trial balance to be out of balance? | | | Amount of  Imbalance | | Correcting  Journal Entry Required | | |
| Error | Yes | No |  |  | | Ye | s | No |
| 1. | X |  | | $500 | |  | | X |
| 2. | X |  | | 311 | |  | | X |
| 3. |  | X | | 0 | | X | |  |
| 4. | X |  | | 1,360 | |  | | X |
| 5. |  | X | | 0 | | X | |  |
| 6. |  | X | | 0 | | X | |  |
| 7. |  | X | | 0 | 129 | X | |  |

## Answer:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 7. |  | X | 0 | X |  |
| 8. |  | X | 0 | X |  |
| 9. | X |  | 18,000 |  | X |
| 10. |  | X | 0 | X |  |

Diff: 3

Topic: Journalizing and Posting Transactions; Preparing a Trial Balance

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.; 02-P2 Prepare and explain the use of a trial balance.

Bloom's: Apply AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. The following trial balance is prepared from the general ledger of HG's Auto Maintenance.

HG’S AUTO MAINTENANCE

Trial Balance October 31

|  |  |  |  |
| --- | --- | --- | --- |
|  | Debit | Credit | |
| Cash | $1,975 |  | |
| Accounts receivable | 2,800 |  | |
| Supplies | 500 |  | |
| Shop equipment | 13,000 |  | |
| Office equipment | 6,600 |  | |
| Accounts payable |  | $ 4,510 | |
| Hal Griffin, Capital |  | 22,000 | |
| Hal Griffin, Withdrawals | 4,200 |  | |
| Repair fees earned |  | 11,875 | |
| Supplies expense | 8,600 |  | |
| Totals | $37,675 | $38,385 |  |

Because the trial balance did not balance, you decided to examine the accounting records. You found that the following errors had been made:

1. A purchase of supplies on account for $245 was posted as a debit to Supplies and as a debit to Accounts Payable.
2. An investment of $500 cash by the owner was debited to Hal Griffin, Capital and credited to Cash.
3. In computing the balance of the Accounts Receivable account, a debit of $600 was omitted from the computation.
4. One debit of $300 to the Hal Griffin, Withdrawals account was posted as a credit.
5. Office equipment purchased for $800 was posted to the Shop Equipment account.
6. One entire entry was not posted to the general ledger. The transaction involved the receipt of $125 cash for repair services performed for cash.

Prepare a corrected trial balance for the HG's Auto Maintenance as of October 31.

Answer: HG’S AUTO MAINTENANCE

Trial Balance October 31

|  |  |  |  |
| --- | --- | --- | --- |
|  | Debit | Credit | |
| Casha | $3,100 |  | |
| Accounts receivableb | 3,400 |  | |
| Supplies | 500 |  | |
| Shop equipmentc | 12,200 |  | |
| Office equipmentd | 7,400 |  | |
| Accounts payablee |  | $5,000 | |
| Hal Griffin, Capitalf |  | 23,000 | |
| Hal Griffin, Withdrawalsg. | 4,800 |  | |
| Repair fees earnedh |  | 12,000 | |
| Supplies expense | 8,600 |  | |
| Totals | $40,000 | $40,000 |  |
|  |
|  |  |  | |

Diff: 3

aCash: Balance $1,975 + $1,000 (2) + 125 (#6) = $3,100

bAccounts Receivable: Bal. $2,800 + 600 (#3) = $3,400 cShop Equipment: Bal. $13,000 — 800 (#5) = $12,200 dOffice Equipment: Bal. $6,600 + 800 (#5) = $7,400 eAccounts Payable: Bal $4,510 + 490 (#1) = $5,000

fHal Griffin, Capital: Bal. $22,000 + 1,000 (#2) = $23,000 gHal Griffin, Withdrawals: Bal. $4,200 + 600 (#4) = $4,800 hRepair fees earned: Bal $11,875 + 125 (#6) = $12,000

Topic: Analyzing Transactions; Preparing a Trial Balance

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P2 Prepare and explain the use of a trial balance.

Bloom's: Apply AACSB: Analytic

AICPA: BB Industry; FN Measurement

131

1. Figgaro Company's accounts and their balances, as of the end of August, are included below. All accounts have normal balances:

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts receivable….. | $36,000 | Cash……………………. | $27,000 |
| Equipment…………….. | 59,000 | Advertising expense… | 5,000 |
| Service revenues earned. | 75,000 | Accounts payable……… | 31,000 |
| Rent expense………….. | 3,600 | J. Figgaro, Withdrawals.. | 24,000 |
| Office supplies……… | 1,500 | Salaries expense……….. | 30,000 |
| Notes payable………… | 22,000 | J. Figgaro, Capital…….. | 58,100 |

1. Calculate net income.
2. Determine the amount of owner's equity to be shown on the August 31 balance sheet.

Answer: A. $75,000 Service revenues earned

(3,600) Rent expense

(5,000) Advertising expense

(30,000) Salaries expense

$36,400 Net income

B. $58,100 J. Figgaro, Capital (beginning) 36,400 Net income

(24,000) J. Figgaro, Withdrawals

$70,500 J. Figgaro, Capital (ending)

Diff: 3

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Reporting

1. Based on the following trial balance for Sally's Salon, prepare an income statement, statement of owner's equity, and a balance sheet. Sally Crawford made no additional investments in the company during the year.

Sally’s Salon Trial Balance December 31

|  |  |  |
| --- | --- | --- |
| Cash | $ 6,500 |  |
| Accounts receivable | 475 |  |
| Beauty supplies | 2,500 |  |
| Beauty shop equipment | 17,000 |  |
| Accounts payable |  | $ 745 |
| S. Crawford, Capital |  | 21,155 |
| S. Crawford, Withdrawals | 36,000 |  |
| Revenue earned |  | 72,000 |
| Beauty supplies expense | 3,425 132 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Beauty supplies expense | 3,425 |  | |
| Rent expense | 6,000 |  | |
| Wages expense | 22,000 |  | |
| Totals | $93,900 | $93,900 |  |

Answer: Sally’s Salon

Income Statement

For Year Ended December 31

|  |  |  |  |
| --- | --- | --- | --- |
| Revenue earned……………... |  |  | $72,000 |
| Expenses: |  |  |  |
| Beauty supplies expense…. |  | $ 3,425 |  |
| Rent expense………………. |  | 6,000 |  |
| Wages expense……………. |  | 22,000 |  |
| Total expenses…………….. |  |  | 31,425 |
| Net Income………………….. |  |  | $40,575 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | Sally’s Salon  Statement of Owner’s Equity For Year Ended December 31 | | |
|  | S. Crawford, Capital, January 1……………………. | $21,155 | |
|  | Plus: Net income………………………………………….. | 40,575 | |
|  |  | $61,730 | |
|  | Less: Withdrawals by owner…………………………….. | (36,000) | |
|  | S. Crawford, Capital, December 31………………. | $25,730 |  |
|  |
|  |  |  | |

Sally’s Salon Balance Sheet At December 31

|  |  |  |  |
| --- | --- | --- | --- |
| Assets |  | Liabilities |  |
| Cash…………………….. | $ 6,500 | Accounts payable | $ 745 |
| Accounts receivable…….. | 475 |  |  |
| Beauty supplies…………. | 2,500 | Equity |  |
| Beauty shop equipment…. | 17,000 | S. Crawford, Capital | $25,730 |
| Total assets……………… | $26,475 | Total liabilities and equity | $26,475 |

Diff: 3

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Reporting

1. George Butler owned a tugboat and was tired of his current job. He decided to open a business that provides day tugboat tours to tourists along the Mississippi River near his hometown. Prepare journal entries to record the following transactions.

May 1 Butler invested $20,000 cash and his tugboat valued at $90,000 in the business.

May 2 Butler paid $3,000 cash for office equipment to help him keep track of business activities.

May 3 Butler bought boating supplies costing $2,500 on credit.

May 4 Butler paid the river master $500 cash for the first month's dock rental. May 5 Butler paid $1,800 cash for a six-month insurance policy.

May 10 Butler received $2,000 cash from clients for his first tour.

May 12 Butler provided a $3,500 tour on credit, the customer has agreed to pay within 10 days

May 19 Butler paid for the boating supplies originally purchased on May 3.

May 22 Butler receives payment on the account from the client entry on May 12. May 25 Butler received $2,750 cash for additional tours that he completed that day. May 31 Butler paid his crew member a salary of $1,000.

May 31 Butler withdrew $2,000 for personal use.

Answer: May 1

|  |  |  |
| --- | --- | --- |
| Cash……………………………………. | 20,000 |  |
| Tugboat………………………….………  G. Butler, Capital…………………. | 90,000 | 110,000 |

*Owner invested in business*.

2 Office Equipment……………………….. 3,000

Cash……………………………... 3,000

*Purchased office equipment*.

3 Boating Supplies…………………………. 2,500

Accounts Payable…….…………. 2,500

*Purchased supplies on account*.

4 Rent Expense…………………………….. 500

Cash………..…………………….. 500

*Paid for dock rent.*

5 Prepaid Insurance……………………….. 1,800

Cash………..……………………. 1,800

*Paid for six month insurance policy.*

|  |  |  |
| --- | --- | --- |
| 10 | Cash……………………………………... | 2,000 |
|  | Tugboat Tour Revenue…….… .. | 2,000 |

*Recorded tour revenue.*

134

## Answer:

Diff: 3

12 Accounts Receivable……………………. 3,500 Tugboat Tour Revenue ……… 3,500

*Recorded tour revenue provided on account*.

19 Accounts Payable……………………….. 2,500

Cash……..………….…………….. 2,500

*Paid on account.*

22 Cash……………………………………... 3,500

Accounts Receivable…………….. 3,500

*Record collection on account.*

25 Cash……………………………………... 2,750 Tugboat Tour Revenue …..…….. 2,750

*Recorded tour revenue.*

31 Salary Expense………………………….. 1,000

Cash……………….…………….. 1,000

*Paid assistant’s salary.*

31 G. Butler, Withdrawals………………... 2,000

Cash……………………………. 2,000

*Record owner’s withdrawals.*

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Based on the following trial balance for Barry's Automotive Shop, prepare an income statement, statement of owner's equity, and a balance sheet. Barry made no additional investments in the company during the year.

Barry’s Automotive Shop Trial Balance December 31

|  |  |  |
| --- | --- | --- |
| Cash | $ 12,500 |  |
| Accounts receivable | 1,500 |  |
| Supplies | 500 |  |
| Repair shop equipment | 27,000 |  |
| Service truck | 33,000 |  |
| Accounts payable |  | $2,600 |
| Barry, Capital 135 |  | 38,525 |

|  |  |  |
| --- | --- | --- |
| Barry, Capital |  | 38,525 |
| Barry, Withdrawals | 36,000 |  |
| Service revenue |  | 125,000 |
| Supplies expense | 3,425 |  |
| Rent expense | 18,000 |  |
| Utilities expense | 5,000 |  |
| Gas expense | 7,200 |  |
| Wages expense | 22,000 |  |
| Totals | $166,125 | $166,125 |

## Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| Barry’s Automotive Shop | | | |
| Income Statement | | | |
| For Year Ended December 31 | | | |
| Service revenue |  | $125,000 | |
| Expenses: |  |  | |
| Supplies expense | $ 3,425 |  | |
| Rent expense | 18,000 |  | |
| Utilities expense | 5,000 |  | |
| Gas expense | 7,200 |  | |
| Wages expense | 22,000 |  | |
| Total expenses |  | 55,625 | |
| Net Income |  | $69,375 |  |
|  |

|  |  |
| --- | --- |
| Barry’s Automotive Shop | |
| Statement of Owner’s Equity | |
| For Year Ended December 31 | |
| Barry, Capital, January 1 | $38,525 |
| Plus: Net income | 69,375 |
|  | $107,900 |
| Less: Withdrawals by owner | (36,000) |
| Barry, Capital, December 31 | $71,900 |

Barry’s Automotive Shop Balance Sheet December 31

136

|  |  |  |  |
| --- | --- | --- | --- |
| Assets | | Liabilities | |
| Cash | $ 12,500 | Accounts payable | $ 2,600 |
| Accounts receivable | 1,500 |  |  |
| Supplies | 500 | Equity |  |
| Repair shop equipment | 27,000 |  |  |

## Answer:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Repair shop equipment | 27,000 | |  |  | |
| Service truck | 33,000 | | Barry, Capital | $71,900 | |
| Total assets | $74,500 | | Total liabilities and equity | $74,500 |  |
|  |  |  |
|  |  | |  |  | |

Diff: 3

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. For each of the accounts in the following table (1) identify the type of account as an asset, liability, equity, revenue, or expense, and (2) identify the normal balance of the account.

|  |  |  |
| --- | --- | --- |
|  | Account Type | Normal Balance |
| a. Wages Expense |  |  |
| b. Accounts Receivable |  |  |
| c. Commissions Earned |  |  |
| d. Salaries Payable |  |  |
| e. Owner, Capital |  |  |
| f. Unearned Advertising Revenue |  |  |
| g. Salaries Expense |  |  |
| h. Magazine Subscription Revenue |  |  |
| i. Owner, Withdrawal |  |  |
| j. Prepaid Insurance |  |  |

## Answer:

|  |  |  |
| --- | --- | --- |
|  | Account Type | Normal Balance |
| a. Wages Expense | expense | debit |
| b. Accounts Receivable | asset | debit |
| c. Commissions Earned | revenue | credit |
| d. Salaries Payable | liability | credit |
| e. Owner, Capital | equity | credit |
| f. Unearned Advertising Revenue | liability | credit |
| g. Salaries Expense | expense | debit |
| h. Magazine Subscription Revenue | revenue | credit |
| i. Owner, Withdrawal | equity | debit |
| j. Prepaid Insurance | asset | debit |

137

Diff: 2

Topic: Ledger and Chart of Accounts; Debits and Credits

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. For each of the following accounts, identify whether a debit or credit yields the indicated change

|  |  |
| --- | --- |
| a. To increase Fees Earned |  |
| b. To decrease Cash |  |
| c. To decrease Unearned Revenue |  |
| d. To increase Accounts Receivable |  |
| e. To increase Owner, Capital |  |
| f. To decrease Notes Payable |  |
| g. To increase Prepaid Rent |  |
| h. To increase Salaries Expense |  |
| i. To increase Accounts Payable |  |
| j. To decrease Prepaid Insurance |  |

## Answer:

|  |  |
| --- | --- |
| a. To increase Fees Earned | credit |
| b. To decrease Cash | credit |
| c. To decrease Unearned Revenue | debit |
| d. To increase Accounts Receivable | debit |
| e. To increase Owner, Capital | credit |
| f. To decrease Notes Payable | debit |
| g. To increase Prepaid Rent | debit |
| h. To increase Salaries Expense | debit |
| i. To increase Accounts Payable | credit |
| j. To decrease Prepaid Insurance | credit |

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

1. Indicate on which of the financial statements the following items appears. Use I for income statement, E for statement of owner's equity, and B for balance sheet. More than one statement may be appropriate for some items.

|  |  |
| --- | --- |
| a. Fees Earned |  |
| b. Cash | 138 |

|  |  |
| --- | --- |
| b. Cash |  |
| c. Unearned Revenue |  |
| d. Rent expense |  |
| e. Owner, Capital |  |
| f. Notes Payable |  |
| g. Prepaid Rent |  |
| h. Salaries Expense |  |
| i. Notes Payable |  |
| j. Owner, Withdrawal |  |

## Answer:

|  |  |
| --- | --- |
| a. Fees Earned | I |
| b. Cash | B |
| c. Unearned Revenue | B |
| d. Rent expense | I |
| e. Owner, Capital | E,B |
| f. Notes Payable | B |
| g. Prepaid Rent | B |
| h. Salaries Expense | I |
| i. Notes Payable | B |
| j. Owner, Withdrawal | E |

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions. Bloom's: Remember

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

1. Jason Hope decided to open a hotel in his hometown. Prepare journal entries to record the following transactions. Hope uses the accounts Room Rental Revenue and Event Revenue. All expenses for special events are recorded as Event Expense. (Omit explanations.)

t

|  |  |
| --- | --- |
| June 1 | Hope invested $400,000 into the business |
| June 2 | Hope purchased an existing building and land for the hotel costing $900,000.  The purchase appraisal allocated $100,000 for land and $800,000 to the building. Hope paid $250,000 and financed the remainder with a mortgage note payable. |
| June 3 | Paid $6,000 for a six month insurance policy on the hotel. |
| June 5 | Purchased linens and other supplies costing $4,000 on account. |
| June 10 | Received advance payments of $12,000 from customers that will be staying a  the hotel in July. Payments will be refunded if the customer cancels within 7 days of their scheduled arrival time. |
| June 14 | Received cash payments of $13,000 from current customers staying at the |
|  |

139

|  |  |
| --- | --- |
| June 14 | Received cash payments of $13,000 from current customers staying at the  hotel in June. |
| June 15 | Paid the staff $2,000 for the first semi-monthly payroll. |
| June 16 | Paid $500 for general maintenance and repairs expense. |
| June 17 | Received $10,000 payment for a wedding reception during the weekend. |
| June 18 | Paid the caterer $2,500 for providing catering services for the wedding  reception. |
| June 18 | Paid Fixture Rentals $1,000 for table and chair rental. |
| June 19 | Paid the florist $2,000 for flowers for the event. |
| June 24 | Paid for the linens and supplies purchased on June 5. |
| June 25 | Recorded an additional $5,000 from current hotel customers for June. |
| June 30 | Paid the staff $2,000 for the second semi-monthly payroll. |
| June 30 | The owner withdrew $4,000 for personal use. |

## Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| June 1 | Cash | 400,000 |  |
|  | J. Hope, Capital |  | 400,000 |
|  |  |  |  |
| June 2 | Land | 100,000 |  |
|  | Building | 800,000 |  |
|  | Cash |  | 250,000 |
|  | Mortgage Note Payable |  | 650,000 |
|  |  |  |  |
| June 3 | Prepaid Insurance | 6,000 |  |
|  | Cash |  | 6,000 |
|  |  |  |  |
| June 5 | Supplies | 4,000 |  |
|  | Accounts Payable |  | 4,000 |
|  |  |  |  |
| June 10 | Cash | 12,000 |  |
|  | Unearned Rental Revenue |  | 12,000 |
|  |  |  |  |
| June 14 | Cash | 13,000 |  |
|  | Room Rental Revenue |  | 13,000 |
|  |  |  |  |
| June 15 | Salaries Expense | 2,000 |  |
|  | Cash |  | 2,000 |
|  |  |  |  |
| June 16 | Maintenance and Repairs Expense | 500 |  |
|  | Cash |  | 500 |
|  |  |  |  |
| June 17 | Cash | 10,000 |  |
|  | Event Revenue  140 |  | 10,000 |

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Event Revenue |  | 10,000 |
|  |  |  |  |
| June 18 | Catering Expense | 2,500 |  |
|  | Cash |  | 2,500 |
|  |  |  |  |
| June 18 | Event Expense | 1,000 |  |
|  | Cash |  | 1,000 |
|  |  |  |  |
| June 19 | Event Expense | 2,000 |  |
|  | Cash |  | 2,000 |
|  |  |  |  |
| June 24 | Accounts Payable | 4,000 |  |
|  | Cash |  | 4,000 |
|  |  |  |  |
| June 25 | Cash | 5,000 |  |
|  | Room Rental Revenue |  | 5,000 |
|  |  |  |  |
| June 30 | Salaries Expense | 2,000 |  |
|  | Cash |  | 2,000 |
|  |  |  |  |
| June 30 | J. Hope, Withdrawals | 4,000 |  |
|  | Cash |  | 4,000 |

Diff: 3

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. For each of the following (1) identify the type of account as an asset, liability, equity, revenue, or expense, and (2) identify the normal balance of the account.

|  |  |  |
| --- | --- | --- |
| Account Title | Account Type | Normal Balance  (Debit or Credit) |
| a. Prepaid Insurance |  |  |
| b. Accounts Payable |  |  |
| c. J. Jason, Capital |  |  |
| d. Utilities Expense |  |  |
| e. Land |  |  |
| f. Services Revenue |  |  |
| g. Notes Receivable |  |  |
| h. Advertising Expense |  |  |
| i. Unearned Revenue 141 |  |  |

|  |  |  |
| --- | --- | --- |
| i. Unearned Revenue |  |  |
| j. Service Revenue |  |  |

## Answer:

|  |  |  |
| --- | --- | --- |
| Account Title | Account Type | Normal Balance |
| a. Prepaid Insurance | asset | debit |
| b. Accounts Payable | liability | credit |
| c. J. Jason, Capital | equity | credit |
| d. Utilities Expense | expense | debit |
| e. Land | asset | debit |
| f. Services Revenue | revenue | credit |
| g. Notes Receivable | asset | debit |
| h. Advertising Expense | expense | debit |
| i. Unearned Revenue | liability | credit |
| j. Service Revenue | revenue | credit |

Diff: 2

Topic: Ledger and Chart of Accounts; Debits and Credits

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. The steps in the accounting process focus on analyzing and recording financial transactions and events within a company. Those steps are shown below. Using the number system of 1 as the first step and 4 as the last step in the process, number the steps in the correct order in which they would occur (1 thru 4).

\_\_\_\_\_ Record relevant transactions and events in a journal,

\_\_\_\_\_ Post journal information to the ledger accounts

Prepare and analyze the trial balance

Analyzing each transaction

Answer: *2\_\_ Record relevant transactions and events in a journal,*

*3\_\_ Post journal information to the ledger accounts*

*4\_\_ Prepare and analyze the trial balance*

*1\_\_ Analyzing each transaction*

Diff: 1

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Remember

AACSB: Analytic

AICPA: BB Industry; FN Reporting

# SHORT ANSWER QUESTIONS

## \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_ are the starting points for the *analyzing and recording* process. Answer: Business transactions; Events

Explanation:

Diff: 2

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. The second step in the analyzing and recording process is to record the transactions and events in the book of original entry, called the .

## Answer: journal Explanation:

Diff: 2

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## The third step in the analyzing and recording process is to post the information to the \_\_\_\_\_\_\_\_. Answer: ledger accounts

Explanation:

Diff: 2

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. \_\_\_\_\_\_\_\_ documents identify and describe transactions and events and provide objective evidence and amounts for recording.

## Answer: Source Explanation:

Diff: 2

Topic: Analyzing and Recording Process

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Revenues and expenses are two categories of \_\_\_\_\_\_\_\_ accounts. Answer: equity

Explanation:

Diff: 2

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. The \_\_\_\_\_\_\_\_ is a record containing all accounts used by a company as well as the transactions and ending balances of each of the accounts.

Answer: general ledger (or ledger) Explanation: *either answer is acceptable* Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. In a seller's accounting records, \_ are promises of payment waiting to be received from customers.

## Answer: Accounts receivable Explanation:

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Unearned revenue is classified as a(an) on a business's balance sheet. Answer: liability

Explanation:

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## The four categories of equity accounts are \_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_. Answer: owner, capital; owner, withdrawals; revenues; expenses

Explanation: *answers can appear in any order*

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. A \_\_\_\_\_\_\_\_ is a *list* of all the accounts used by a company and their identification codes but does not contain the balances.

## Answer: chart of accounts Explanation:

Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. A record containing all the separate accounts for a company as well as all of their balances is called the \_\_\_\_\_\_\_\_.

## Answer: ledger Explanation:

Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. requires that each transaction affect, and be recorded in, at least two accounts. It also means that total amounts debited must equal total amounts credited for each transaction.

## Answer: double-entry accounting Explanation:

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. The is found by determining the difference between total debits and total credits for an account, including any beginning balance.

## Answer: account balance Explanation:

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. To increase an asset account we would \_\_\_\_\_\_\_\_ it and to increase a liability account, we would

\_\_\_\_\_\_\_\_ it.

## Answer: debit; credit

Explanation: answers need to appear in the order shown above

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Funky Music purchased $25,000 of equipment for cash. The Equipment asset account is

\_\_\_\_\_\_\_\_ for $25,000 and the Cash account is \_\_\_\_\_\_\_\_ for $25,000.

## Answer: debited; credited

Explanation: answers need to appear in the order as shown above

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Understand

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

1. Jackson Brown Footwear had total liabilities of $130 million and total assets of $375 million. Its debt ratio was \_\_\_\_\_\_\_\_. (round to one decimal place)

## Answer: 34.7%

Explanation: Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = $130 million/$375 million = 34.7%

Diff: 3

Topic: Debt Ratio

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

## is the process of transferring journal entry information from the journal to the ledger. Answer: Posting

Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. A \_\_\_\_\_\_\_\_ gives a complete record of each transaction in one place, and shows debits and credits for each transaction.

## Answer: journal Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. A more structured format that is similar to a T-account in that it has columns for debits and credits, but that is different in that it has columns for transaction date, explanation, and the account balance is the \_\_\_\_\_\_\_\_.

## Answer: balance column account Explanation:

Diff: 1

Topic: The Account and Its Analysis

Learning Objective: 02-C2 Describe an account and its use in recording transactions. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## The posting process is the link between the \_\_\_\_\_\_\_\_ and the \_\_\_\_\_\_\_\_. Answer: journal; ledger

Explanation: answers can be recorded in either order

Diff: 1

Topic: Journalizing and Posting Transactions

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## You increase the *Service Revenue* account on the \_\_\_\_\_\_\_\_ side of its account. Answer: right or credit

Explanation:

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## You decrease the *Accounts Payable* account on the \_\_\_\_\_\_\_\_ side of its account. Answer: left or debit

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making