Financial and Managerial Accounting 7th edition Wild Test Bank

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Chapter 2
ACCOUNTING FOR BUSINESS TRANSACTIONS

True /False Questions

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

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

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

Answer: False

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

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

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

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

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

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

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

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

Answer: False

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

7. Dividends paid to stockholders are a business expense.

Answer: False

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

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

Answer: False

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

9. Unearned revenues are classified as liabilities.

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

10. Dividends distributed to stockholders should be treated as an expense of the business.

Answer: False

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

11. 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.

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty:2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

12. Dividends always decrease equity.

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty:2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

13. Expenses always decrease equity.

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty:2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

14. Revenues always increase equity.

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty:2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

15. Stockholder investments always decrease equity.

Answer: False

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty:2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

16. “Unearned” accounts are liabilities that must be fulfilled.

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty:2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

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

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C3
Topic: Ledger and Chart of Accounts

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

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and its Analysis

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

Answer: False

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C4
Topic: Debits and Credits

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

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C4
Topic: Debits and Credits

21. Increases in liability accounts are recorded as debits.

Answer: False

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

22. Debits increase asset and expense accounts.

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

23. *Credits* always increase account balances.

Answer: False

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

24. *Crediting* an expense account decreases it.

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

25. A revenue account normally has a debit balance.

Answer: False

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

26. Asset accounts are decreased by debits.

Answer: False

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

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

Answer: False

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

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

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

29. The dividends account normally has a debit balance.

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C4
Topic: Debits and Credits

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

Answer: False

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

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

Answer: True

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

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

Answer: True

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

33. 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.

Answer: True

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

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

Answer: True

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

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

Answer: False

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

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

Answer: False

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

37. 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.

Answer: False

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

38. 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.

Answer: True

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-A2
Topic: Debt Ratio

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

Answer: False

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-A2

Topic: Debt Ratio

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

Answer: False

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-A2
Topic: Debt Ratio

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

Answer: True

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-A2
Topic: Debt Ratio

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

Answer: True

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-A2
Topic: Debt Ratio

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

Answer: False

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty:3 Hard
Learning Objective: 02-A2
Topic: Debt Ratio

Feedback: Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = $105 million/$350 million = 30%

44. A journal entry that affects <u>no more than two accounts</u> is called a compound entry.

Answer: False

Blooms: Remember
AACSB: Reflective Thinking
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning 1 Objective: 02-A1
Topic: Analyzing Transactions

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

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

46. Transactions are recorded <u>first</u> in the ledger and then transferred to the journal.

Answer: False

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

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

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

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

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

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

Answer: False

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

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

Answer: True

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

51. 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 common stock and dividends, followed by revenues and expenses.

Answer: True

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P2

Topic: Preparing a Trial Balance

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

Answer: False

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

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

Answer: False

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

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

Answer: True

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

55. The financial statement that summarizes the changes in the retained earnings account is called the balance sheet.

Answer: False

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

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

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

57. The detail of individual revenue and expense accounts is reported on the statement of retained earnings.

Answer: False.

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

58. 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)

Answer: False

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

59. If the common stock account had a $10,000 credit balance at the beginning of the period, and during the period, stockholders invest an additional $5,000, the balance in the common stock account listed on the trial balance will be equal to a debit balance of $5,000.

Answer: False

Feedback: $10,000cr + $5,000cr =$15,000 credit balance

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective 02-C4
Learning Objective: 02-P2
Topic: Debits and Credits
Topic: Preparing a Trial Balance

60. Dividends are **not** reported on a business's income statement.

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

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

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

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

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

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

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Global
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

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

Answer: False

Blooms: Understand
AACSB: Communication
AICPA BB: Global
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

65. The amount of net income is added on the statement of retained earnings.

Answer: True

Blooms: Understand
AACSB: Communication
AICPA BB: Global
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

Multiple Choice Questions

66. The accounting process begins with:
A. Analysis of business transactions and source documents.
B. Preparing financial statements and other reports.
C. Summarizing the recorded effect of business transactions.
D. Presentation of financial information to decision-makers.
E. Preparation of the trial balance.

Answer: A

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

67. Which of the following statements is ***not*** true:

A. Accounts receivable are held by a seller.

B. Accounts receivable arise from credit sales.

C. Accounts receivable are increased by customer payments.

D. Accounts receivable are classified as assets.

E. Accounts receivable are increased by billings to customers.

Answer: C

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

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

A. Sales tickets.

B. Ledgers.

C. Checks.

D. Purchase orders.

E. Bank statements.

Answer: B

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

69. A business's source documents:

A. Include the ledger.

B. Provide objective evidence that a transaction has taken place.

C. Must be in electronic form.

D. Are prepared internally to ensure accuracy.

E. Include the chart of accounts.

Answer: B

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

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

A. Journal.
B. Posting.
C. Trial balance.
D. Account.
E. Chart of accounts.

Answer: D

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

71. An account used to record stockholders' investments in a business is called a(n):

A. Dividends account.
B. Common stock account.
C. Revenue account.
D. Expense account.
E. Liability account.

Answer: B

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

72. Identify the account used by businesses to record the transfer of assets from a business to its stockholders:

A. A revenue account.
B. The dividends account.
C. The common stock account.
D. An expense account.
E. A liability account.

Answer: B

Blooms: Remember
AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

73. Identify the statement below that is correct.

A. When a future expense is paid in advance, the payment is normally recorded in a liability account called Prepaid Expense.
B. Promises of future payment by the customer are called accounts receivable.
C. Increases and decreases in cash are always recorded in the common stock account.
D. An account called Land is commonly used to record increases and decreases in both the land and buildings owned by a business.
E. Accrued liabilities include accounts receivable.

Answer: B

Blooms: Apply
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 3 Hard
Learning Objective: 02-C2
Topic: The Account and Its Analysis

74. Unearned revenues are generally:
A. Revenues that have been earned and received in cash.
B. Revenues that have been earned but not yet collected in cash.
C. Liabilities created when a customer pays in advance for products or services before the revenue is earned.
D. Recorded as an asset in the accounting records.
E. Increases to common stock.

Answer: C

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

75. Unearned revenues refer to a(n):
A. Asset that will be used over time.
B. Expense incurred because a customer has paid in advance.
C. Liability that is settled in the future when a company delivers its products or services.
D. Increase in revenues as a result of delivering products or services to a customer.
E. Decrease in an asset.

Answer: C

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

76. Prepaid accounts (also called prepaid expenses) are generally:
A. Payments made for products and services that never expire.
B. Classified as liabilities on the balance sheet.
C. Decreases in equity.
D. Assets that represent prepayments of future expenses.
E. Promises of payments by customers.

Answer: D

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

77. A company's formal promise to pay (in the form of a promissory note) a future amount is a(n):
A. Unearned revenue.
B. Prepaid expense.
C. Credit account.
D. Note payable.
E. Account receivable.

Answer: D

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

78. The record of all accounts and their balances used by a business is called a:
A. Journal.
B. Book of original entry.
C. General Journal.
D. Balance column journal.
E. Ledger (or General Ledger).

Answer: E

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C3
Topic: Ledger and Chart of Accounts

79. A company’s ledger is:

A. A record containing increases and decreases in a specific asset, liability, equity, revenue, or expense item.

B. A journal in which transactions are first recorded.

C. A collection of documents that describe transactions and events entering the accounting process.

D. A list of all accounts a company uses with an assigned identification number.

E. A record containing all accounts and their balances used by the company.

Answer: E

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C3
Topic: Ledger and Chart of Accounts

80. A company’s list of accounts and the identification numbers assigned to each account is called a:

A. Source document.

B. Journal.

C. Trial balance.

D. Chart of accounts.

E. General Journal.

Answer: D

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-C3
Topic: Ledger and Chart of Accounts

81. The numbering system used in a company's chart of accounts:
A. Is the same for all companies.
B. Is determined by generally accepted accounting principles.
C. Depends on the source documents used in the accounting process.
D. Typically begins with balance sheet accounts.
E. Typically begins with income statement accounts.

Answer: D

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-C3
Topic: Ledger and Chart of Accounts

82. A debit:
A. Always increases an account.
B. Is the right-hand side of a T-account.
C. Always decreases an account.
D. Is the left-hand side of a T-account.
E. Is not needed to record a transaction.

Answer: D

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

83. The right side of a T-account is a(n):
A. Debit.
B. Increase.
C. Credit.
D. Decrease.
E. Account balance.

Answer: C

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C4
Topic: Debits and Credits

84. Identify the statement below that is *incorrect*.
A. The normal balance of accounts receivable is a debit.
B. The normal balance of dividends is a debit.
C. The normal balance of unearned revenues is a credit.
D. The normal balance of an expense account is a credit.
E. The normal balance of the common stock account is a credit.

Answer: D

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

85. A credit is used to record an increase in all of the following accounts *except*:
A. Accounts Payable
B. Service Revenue
C. Unearned Revenue
D. Wages Expense
E. Common Stock

Answer: D

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

86. A debit is used to record an increase in all of the following accounts *except*:
A. Supplies
B. Cash
C. Accounts Payable
D. Dividends
E. Prepaid Insurance

Answer: C

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

87. Identify the account below that is classified as a liability in a company's chart of accounts:
A. Cash
B. Unearned Revenue
C. Salaries Expense
D. Accounts Receivable
E. Supplies

Answer: B

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C3
Topic: Chart of Accounts

88. Identify the account below that is classified as an asset in a company's chart of accounts:
A. Accounts Receivable
B. Accounts Payable
C. Common Stock
D. Unearned Revenue
E. Service Revenue

Answer: A

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C3
Topic: Chart of Accounts

89. Identify the account below that is classified as an *asset* account:
A. Unearned Revenue
B. Accounts Payable
C. Supplies
D. Common Stock
E. Service Revenue

Answer: C

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

90. Identify the account below that is classified as a ***liability*** account:
A. Cash
B. Accounts Payable
C. Salaries Expense
D. Common Stock
E. Equipment

Answer: B

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

91. Identify the account below that impacts the ***Equity*** of a business:
A. Utilities Expense
B. Accounts Payable
C. Accounts Receivable
D. Cash
E. Unearned Revenue

Answer: A

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

92. Which of the followingdoes not affect the equity of a business:
A. Unearned Revenue
B. Common Stock
C. Services Revenue
D. Wages Expense
E. Dividends

Answer: A

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

93. Which of the following is NOT an asset account:
A. Cash
B. Land
C. Services Revenue
D. Buildings
E. Equipment

Answer: C

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

94. A business uses a credit to record:
A. An increase in an expense account.
B. A decrease in an asset account.
C. A decrease in an unearned revenue account.
D. A decrease in a revenue account.
E. A decrease in a common stock account.

Answer: B

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

95. 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:

A. Dividends account.

B. Common Stock account.

C. Asset account.

D. T-account.

E. Balance column sheet.

Answer: D

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C4
Topic: Debits and Credits

96. Identify the statement below that is correct.

A. The left side of a T-account is the credit side.

B. Debits decrease asset and expense accounts, and increase liability, equity, and revenue accounts.

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

D. Credits increase asset and expense accounts, and decrease liability, equity, and revenue accounts.

E. In certain circumstances the total amount debited need not equal the total amount credited for a particular transaction.

Answer: C

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

97. An account balance is:
A. The total of the credit side of the account.
B. The total of the debit side of the account.
C. The difference between the total debits and total credits for an account including the beginning balance.
D. Assets = liabilities + equity.
E. Always a credit.

Answer: C

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

98. Select the account below that normally has a credit balance.
A. Cash.
B. Office Equipment.
C. Wages Payable.
D. Dividends.
E. Sales Salaries Expense.

Answer: C

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C4
Topic: Debits and Credits

99. A debit is used to record which of the following:
A. A decrease in an asset account.
B. A decrease in an expense account.
C. An increase in a revenue account.
D. An increase in the common stock account.
E. An increase in the dividends account.

Answer: E

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4

Topic: Debits and Credits

100. A credit entry:

A. Increases asset and expense accounts, and decreases liability, common stock, and revenue accounts.

B. Is always a decrease in an account.

C. Decreases asset and expense accounts, and increases liability, common stock, and revenue accounts.

D. Is recorded on the left side of a T-account.

E. Is always an increase in an account.

Answer: C

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

101. A double-entry accounting system is an accounting system:

A. That records each transaction twice.

B. That records the effects of transactions and other events in at least two accounts with equal debits and credits.

C. In which each transaction affects and is recorded in two or more accounts but that could include two debits and no credits.

D. That may only be used if T-accounts are used.

E. That insures that errors never occur.

Answer: B

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits or Credits

102. 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

A. Debit to Telephone Expense for $300.
B. Credit to Accounts Payable for $300.
C. Debit to Cash for $300.
D. Credit to Telephone Expense for $300.
E. Debit to Accounts Payable for $300.

Answer: A

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

103. 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:

A. Debit to Unearned Management Fees for $60,000.
B. Credit to Management Fees Earned for $60,000.
C. Credit to Cash for $60,000.
D. Credit to Unearned Management Fees for $60,000.
E. Debit to Management Fees Earned for $60,000.

Answer: D

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

104. Willow Rentals purchased office supplies on credit. The general journal entry made by Willow Rentals will include a:
A. Debit to Accounts Payable.
B. Debit to Accounts Receivable.
C. Credit to Cash.
D. Credit to Accounts Payable.
E. Credit to Common Stock.

Answer: D

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

105. An asset created by prepayment of an insurance premium is:
A. Recorded as a debit to Unearned Revenue.
B. Recorded as a debit to Prepaid Insurance.
C. Recorded as a credit to Unearned Revenue.
D. Recorded as a credit to Prepaid Insurance.
E. Not recorded in the accounting records until the insurance period expires.

Answer: B

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

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

A. Debit Assets $200,000; credit Common Stock, $200,000.
B. Debit Cash and Land, $200,000; credit Common Stock, $200,000.
C. Debit Cash $70,000; debit Land $130,000; credit Common Stock, $200,000.
D. Debit Common Stock, $200,000; credit Cash $70,000, credit Land, $130,000.
E. Debit Common Stock, $200,000; credit Assets, $200,000.

Answer: C

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

107. 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?

A. Debit Office Supplies Expense, $500; credit Cash, $500.
B. Debit Cash, $500; credit Office Supplies, $500.
C. Debit Office Supplies, $500; credit Cash, $500.
D. Debit Office Supplies, $500; credit Accounts Payable, $500.
E. Debit Accounts Payable, $500; credit Office Supplies, $500.

Answer: D

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

108. 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?

A. Debit Office Supplies Expense, $500; credit Cash, $500.
B. Debit Cash, $500; credit Office Supplies, $500.
C. Debit Office Supplies, $500; credit Cash, $500.
D. Debit Office Supplies, $500; credit Accounts Payable, $500.
E. Debit Accounts Payable, $500; credit Cash, $500.

Answer: E

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

109. 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?

A. Debit Accounts Receivable, $1,800; credit Unearned Legal Fees Revenue, $1,800.
B. Debit Cash, $1,800; credit Unearned Legal Fees Revenue, $1,800.
C. Debit Legal Fees Revenue, $1,800; credit Accounts Receivable, $1,800.
D. Debit Accounts Receivable, $1,800; credit Legal Fees Revenue, $1,800.
E. Debit Cash, $1,800; credit Accounts Receivable, $1,800.

Answer: D

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

110. 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?

A. Debit Accounts Receivable, $1,800; credit Unearned Legal Fees Revenue, $1,800.
B. Debit Cash, $1,800; credit Unearned Legal Fees Revenue, $1,800.
C. Debit Legal Fees Revenue, $1,800; credit Accounts Receivable, $1,800.
D. Debit Accounts Receivable, $1,800; credit Legal Fees Revenue, $1,800.
E. Debit Cash, $1,800; credit Accounts Receivable, $1,800.

Answer: E

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

111. 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?

A. Debit Accounts Receivable, $1,800; credit Unearned Legal Fees Revenue, $1,800.
B. Debit Cash, $1,800; credit Unearned Legal Fees Revenue, $1,800.
C. Debit Legal Fees Revenue, $1,800; credit Accounts Receivable, $1,800.
D. Debit Accounts Receivable, $1,800; credit Legal Fees Revenue, $1,800.
E. Debit Cash, $1,800; credit Accounts Receivable, $1,800.

Answer: B

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

112. 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.

Accounts Payable	7,000	
Supplies		7,000

B

Cash	7,000	
Supplies		7,000

C.

Supplies	7,000	
Cash		7,000

D.

Supplies	7,000	
Accounts Payable		7,000

E.

Supplies Expense	7,000	
Accounts Payable		7,000

Answer: C

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective: 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

113. 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.

Utilities Expense	500	
Cash		500

B.

Cash	500	
Utilities Expense		500

C.

Cash	500	
Accounts Payable		500

D.

Utilities Expense	500	
Accounts Payable		500

E.

Prepaid Utilities	500	
Accounts Payable		500

Answer: A

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective: 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

114. 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.

Insurance Expense	2,500	
Cash		2,500

B.

Cash	2,500	
Insurance Expense		2,500

C.

Cash	2,500	
Prepaid Insurance		2,500

D.

Prepaid Insurance	2,500	
Cash		2,500

E.

Insurance Expense	2,500	
Prepaid Insurance		2,500

Answer: D

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective: 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

115. 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.

Unearned Catering Revenue	800	
Catering Revenue		800

B.

Cash	800	
Accounts Receivable		800

C.

Cash	800	
Unearned Catering Revenue		800

D.

Cash	800	
Catering Revenue		800

E.

Accounts Receivable	800	
Catering Revenue		800

Answer: C

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Learning Objective: 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

116. 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.

Unearned Catering Revenue	1,000	
Catering Revenue		1,000

B.

Catering Revenue	1,000	
Accounts Receivable		1,000

C.

Accounts Receivable	1,000	
Unearned Catering Revenue		1,000

D.

Accounts Receivable	1,000	
Catering Revenue		1,000

E.

Cash	1,000	
Catering Revenue		1,000

Answer: D

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective: 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

117. 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.

Cash	1,500	
Accounts Receivable		1,500

B.

Cash	1,500	
Unearned Design Revenue		1,500

C.

Accounts Receivable	1,500	
Unearned Design Revenue		1,500

D.

Cash	1,500	
Design Revenue		1,500

E.

Accounts Receivable	1,500	
Cash		1,500

Answer: A

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective: 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

118. J. Smith, the sole stockholder, received a $100 dividend from Jay's Limo Services. Which of the following general journal entries will Jay's Limo Services make to record this transaction?

A.

Dividends	100	
Cash		100

B.

Cash	100	
Dividends		100

C.

Common Stock	100	
Dividends		100

D.

Dividends	100	
Common Stock		100

E.

Cash	100	
Common Stock		100

Answer: A

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

119. 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.

Cash	300	
Salaries Expense		300

C.

Salaries Expense	300	
Dividends		300

D.

Salaries Payable	300	
Salaries Expense		300

E.

Salaries Expense	300	
Cash		300

Answer: E

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

120. 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.

Utilities Expense	400	
Cash		400

B.

Cash	400	
Utilities Expense		400

C.

Utilities Expense	400	
Accounts Payable		400

D.

Accounts Payable	400	
Utilities Expense		400

E. No journal entry is required.

Answer: C

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

121. 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.

Design Revenue	100	
Consulting Revenue	800	
Accounts Receivable		900

B.

Accounts Payable	800	
Design Revenue		100
Consulting Revenue		800

C.

Consulting Revenue	800	
Design Revenue	100	
Cash		900

D.

Cash	900	
Consulting Revenue		800
Design Revenue		100

E.

Accounts Receivable	900	
Consulting Revenue		800
Design Revenue		100

Answer: E

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Learning Objective 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

122. 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.

Rental Revenue	100	
Instruction Revenue	150	
Cash		250

B.

Accounts Payable	250	
Rental Revenue		100
Instruction Revenue		150

C.

Cash	250	
Rental Revenue		100
Instruction Revenue		150

D.

Accounts Receivable	250	
Rental Revenue		100
Instruction Revenue		150

E.

Unearned Revenue	250	
Rental Revenue		100
Instruction Revenue		150

Answer: C

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Learning Objective 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

123. Geraldine Parker, the sole stockholder of Gi Gi's Dance Studio, started the business by investing $10,000 cash and donating a building worth $20,000 in exchange for common stock. Identify the general journal entry below that Gi Gi's will make to record the transaction.

A.

Cash	10,000	
Common Stock		30,000

B.

Common Stock	30,000	
Cash		10,000
Building		20,000

C.

Cash	10,000	
Building	20,000	
Common Stock		30,000

D.

Owner's Investments	30,000	
Common Stock		30,000

E.

Cash & Building	30,000	
Common Stock		30,000

Answer: C

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Learning Objective 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

124. 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 Receivable	12,000	
Cash		12,000

B.

Cash	12,000	
Consulting Services Revenue		12,000

C.

Consulting Services Revenue	12,000	
Cash		12,000

D.

Accounts Payable	12,000	
Consulting Services Revenue		12,000

E.

Accounts Receivable	12,000	
Consulting Services Revenue		12,000

Answer: E

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

125. 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	
Cash		12,000

B.

Cash	12,000	
Consulting Services Revenue		12,000

C.

Consulting Services Revenue	12,000	
Cash		12,000

D.

Accounts Payable	12,000	
Consulting Services Revenue		12,000

E.

Accounts Receivable	12,000	
Consulting Services Revenue		12,000

Answer: B

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective 02-P1
Topic: Analyzing Transactions

Topic: Journal Entries

126. Mary Martin, the sole stockholder of Martin Consulting, received a $2,000 dividend from the company. Identify the general journal entry below that Martin Consulting will make to record the transaction.

A.

Dividends	2,000	
Cash		2,000

B.

Common Stock	2,000	
Cash		2,000

C.

Dividends	2,000	
Common Stock		2,000

D.

Cash	2,000	
Common Stock		2,000

E.

Cash	2,000	
Dividends		2,000

Answer: A

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

127. Mary Martin, the sole stockholder 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.

Cash	40,000	
Common Stock		40,000

B.

Common Stock	40,000	
Cash		40,000

C.

Investments	40,000	
Cash		40,000

D.

Investments	40,000	
Common Stock		40,000

E.

Cash	40,000	
Increased Equity		40,000

Answer: A

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Learning Objective 02-P1
Topic: Analyzing Transactions
Topic: Journal Entries

128. 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. A debit to an unearned revenue account.
B. A debit to a prepaid expense account.
C. A credit to an unearned revenue account.
D. A credit to a prepaid expense account.
E. No entry is required at the time of collection.

Answer: C

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

129. 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. A $0 balance.
B. A $4,300 debit balance.
C. A $4,300 credit balance.
D. A $5,700 debit balance.
E. A $5,700 credit balance.

Answer: B

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Feedback: 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	

130. 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. $ 5,000.
B. $47,000.
C. $52,000.
D. $57,000.
E. $32,000.

Answer: B

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Feedback: 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	

131. 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. $700.
B. $1,100.
C. $2,900.
D. $0.
E. $4,300.

Answer: C

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Feedback: 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	

132. The following transactions occurred during July:
1. Received $900 cash for services provided to a customer during July.
2. Received $2,200 cash investment from Bob Johnson, the owner of the business.
3. Received $750 from a customer in partial payment of his account receivable which arose from sales in June.
4. Provided services to a customer on credit, $375.
5. Borrowed $6,000 from the bank by signing a promissory note.
6. 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. $ 1,275.
C. $ 2,525.
D. $ 3,275.
E. $11,100.

Answer: B

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Feedback: Revenues = $900 (from #1) + $375 (from #4) = $1,275

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

A. Debit Salary Expense and credit Cash.
B. Debit Cash and credit Salary Expense.
C. Debit Cash and credit Dividends.
D. Debit Dividends and credit Cash.
E. Debit Automobiles and credit Cash.

Answer: D

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty:3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

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

What was the balance of the cash account after these transactions were posted?
A. $300.
B. $41,500.
C. $40,300.
D. $38,500.
E. $38,700.

Answer: C

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Feedback: Ending Cash Balance = $40,000 (#1) – $1,200 (#3) + $1,500 (#4) = $40,300

135. 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. $54,700.
B. $49,700.
C. $2,300.
D. $54,300.
E. $49,300.

Answer: B

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Feedback: 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	

136. 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. $6,600.
D. $75,900.
E. $4,900.

Answer: A

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Feedback: 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

137. On January 1 of the current year, Jimmy's Sandwich Company reported stockholders' equity totaling $122,500. During the current year, total revenues were $96,000 while total expenses were $85,500. Also, during the current year paid $20,000 in cash dividends. 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 total stockholders' equity during the year was:

A. A decrease of $9,500.
B. An increase of $9,500.
C. An increase of $30,500.
D. A decrease of $30,500.
E. An increase of 73,500.

Answer: A

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Feedback: Beg. Equity + Revenues – Expenses – Dividends = End. Equity
$122,500 + $96,000 – $85,500 – $20,000 = Ending Equity
Ending Equity = $113,000

Change in Equity = Beginning Equity – Ending Equity
Change in Equity = $122,500 – $113,000 = $9,500 Decrease

138. 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:

1. Andrea invested $13,500 cash in the business in exchange for common stock.
2. Andrea contributed $20,000 of photography equipment to the business.
3. The company paid $2,100 cash for an insurance policy covering the next 24 months.
4. The company received $5,700 cash for services provided during January.
5. The company purchased $6,200 of office equipment on credit.
6. The company provided $2,750 of services to customers on account.
7. The company paid cash of $1,500 for monthly rent.
8. The company paid $3,100 on the office equipment purchased in transaction #5 above.
9. Paid $275 cash for January utilities.

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

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

Answer: B

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Feedback: Ending Cash Balance = $13,500 (#1) – $2,100 (#3) + $5,700 (#4) – $1,500 (#7) – $3,100 (#8) – $275 (#9) = $12,225

139. 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:

1. Andrea invested $13,500 cash in the business in exchange for common stock.
2. Andrea contributed $20,000 of photography equipment to the business in exchange for common stock.
3. The company paid $2,100 cash for an insurance policy covering the next 24 months.
4. The company received $5,700 cash for services provided during January.
5. The company purchased $6,200 of office equipment on credit.
6. The company provided $2,750 of services to customers on account.
7. The company paid cash of $1,500 for monthly rent.
8. The company paid $3,100 on the office equipment purchased in transaction #5 above.
9. Paid $275 cash for January utilities.

Based on this information, the amount of total stockholders' equity reported on the Balance Sheet at the end of the month would be:

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

Answer: D

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Feedback: Ending Equity = $13,500 (#1) + $20,000 (#2) + $5,700 (#4) + $2,750 (#6) – $1,500 (#7) – $275 (#9) = $40,175

140. The debt ratio is used:
A. To measure the ratio of equity to expenses.
B. To assess the risk associated with a company's use of liabilities.
C. Only by banks when a business applies for a loan.
D. To determine how much debt a firm should pay off.
E. To determine how much debt a company should borrow.

Answer: B

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 2 Medium
Learning Objective: 02-A2
Topic: Debt Ratio

141. Identify the correct formula below used to calculate the debt ratio.
A. Total Equity/Total Liabilities.
B. Total Liabilities/Total Equity.
C. Total Liabilities/Total Assets.
D. Total Assets/Total Liabilities.
E. Total Equity/Total Assets.

Answer: C

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 2 Medium
Learning Objective: 02-A2
Topic: Debt Ratio

142. 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*.
A. Able's Bakery has a smaller percentage of its assets financed with liabilities as compared to Lu Lu's.
B. Able's Bakery's financial leverage is *less* than Lu Lu's
C. Able's Bakery's financial leverage is *greater* than Lu Lu's.
D. Lu Lu's has a higher risk from its financial leverage
E. Higher financial leverage involves lower risk.

Answer: C

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 2 Medium
Learning Objective: 02-A2
Topic: Debt Ratio

143. Identify the statement that is *incorrect*.
A. Higher financial leverage involves higher risk.
B. Risk is higher if a company has more liabilities.
C. Risk is higher if a company has higher assets.
D. The debt ratio is one measure of financial risk.
E. Lower financial leverage involves lower risk.

Answer: C

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 2 Medium
Learning Objective: 02-A2
Topic: Debt Ratio

144. 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:
A. Company B has more debt than Company A.
B. Company B has a lower risk from its financial leverage.
C. Company A has a lower risk from its financial leverage.
D. Company A has 10% more assets than Company B.
E. Both companies have too much debt.

Answer: B

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 2 Medium
Learning Objective: 02-A2
Topic: Debt Ratio

145. 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:

A. Billy's Catering finances a relatively lower portion of its assets with liabilities than Jackson's Shoes.

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

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

D. Billy's Catering has the exact same dollar amount of total liabilities and total assets.

E. Jackson's Shoes has less equity per dollar of assets than Billy's Catering.

Answer: D

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 2 Medium
Learning Objective: 02-A2
Topic: Debt Ratio

146. 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. 38.6%.
B. 13.4%.
C. 34.9%.
D. 25.9%.
E. 14.9%.

Answer: D

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 3 Hard
Learning Objective: 02-A2
Topic: Debt Ratio

Feedback: Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $110 million/$425 million; Debt Ratio = 0.2588 = 25.9%

147. 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. 35.1%.
B. 26.0%.
C. 38.5%.
D. 28.5%.
E. 58.8%.

Answer: B

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 3 Hard
Learning Objective: 02-A2
Topic: Debt Ratio

Feedback: Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $100 million/$385 million; Debt Ratio = 0.2597 = 26.0%

148. All of the following statements accurately describe the debt ratio *except*.
A. It is of use to both internal and external users of accounting information.
B. A relatively high ratio is always desirable.
C. The dividing line for a high and low ratio varies from industry to industry.
D. 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.
E. The ratio might be used to help determine if a company is capable of increasing its income by obtaining further debt.

Answer: B

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 3 Hard
Learning Objective: 02-A2
Topic: Debt Ratio

149. 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. 300%.
B. 33.3%
C. 75.0%.
D. 66.67%.
E. $400,000.

Answer: C

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 3 Hard
Learning Objective: 02-A2
Topic: Debt Ratio

Feedback: 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

150. 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 dividends of $5,000. There were no other changes in equity 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. 70.6%.
B. 67.3%.
C. 32.7%.
D. 48.6%.
E. 1.42%.

Answer: B

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 3 Hard
Learning Objective: 02-A2
Topic: Debt Ratio

Feedback: 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 – Dividends)
$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

151. The process of transferring general journal entry information to the ledger is called:
A. Double-entry accounting.
B. Posting.
C. Balancing an account.
D. Journalizing.
E. Not required unless debits do not equal credits.

Answer: B

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

152. A column in journals and ledger accounts that is used to cross reference journal and ledger entries is the:
A. Account balance column.
B. Debit column.
C. Posting reference column.
D. Credit column.
E. Description column.

Answer: C

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

153. The chronological record of each complete transaction that has occurred in a business is called the:
A. Account balance.
B. Ledger.
C. Journal.
D. Trial balance.
E. Cash account.

Answer: C

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

154. A business's general journal provides a place for recording all of the following ***except***:
A. The transaction date.
B. The names of the accounts involved.
C. The amount of each debit and credit.
D. An explanation of the transaction.
E. The balance in each account.

Answer: E

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

155. The balance column in a ledger account is:
A. An account entered on the balance sheet.
B. A column for showing the balance of the account after each entry is posted.
C. Another name for the dividends account.
D. An account used to record the transfers of assets from a business to its owner(s).
E. A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction.

Answer: B

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

156. A general journal is:
A. A ledger in which amounts are posted from a balance column account.
B. Not required if T-accounts are used.
C. A complete record of all transactions in chronological order from which transaction amounts are posted to the ledger accounts.
D. Not necessary in electronic accounting systems.
E. A book of final entry because financial statements are prepared from it.

Answer: C

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

157. A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):
A. Account.
B. Trial balance.
C. Journal.
D. T-account.
E. Balance column account.

Answer: C

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

158. 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
Common Stock.......................		4,000
Retained Earnings..................		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. $ 1,100
B. $ 4,000.
C. $8,500.
D. $10,400.
E. $ 5,500

Answer: E

Feedback: Net Income = Total Revenues – Total Expenses.
(Service Revenue $7,000 – Salaries Expense $500 – Utilities Expense $1,000 = $5,500)

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2Medium
Learning Objective: 02-P3
Topic: Financial Statements

159. 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
Common Stock		9,000
Retained Earnings.................		7,200
Dividends	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. $15,300

D. $10,300.

E. $23,200

Answer: A

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

Feedback: Net Income = Total Revenues – Total Expenses.
Service Revenue $20,000 – Utilities Expense $2,000 – Salaries Expense $1,200 = $16,800

160. 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	
Common Stock		10,000
Retained Earnings..................		4,900
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. $ 24,900

B. $ 25,400.

C. $ 22,500.

D. $ 25,900.

E. $ 23,400

Answer: A

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

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P3
Learning Objective: 02-C2
Topic: Financial Statements
Topic: The Account and Its Analysis

161. 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 sole stockholder's total investment in exchange for common stock for this first month was $5,000. There were no dividends in the first month.

Calculate the **amount of total equity** to be reported on the balance sheet at the end of the month.

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

Answer: A

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P3
Topic: Financial Statements
Feedback: Stockholder Investments $5,000 + Net Income $25,000 = $30,000

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

A. Assets and expenses.
B. Assets and revenues.
C. Revenues and expenses.
D. Liabilities and expenses.
E. Liabilities and dividends.

Answer: A

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

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

A. Liabilities and expenses.
B. Assets and revenues.
C. Revenues and expenses.
D. Revenues and liabilities.
E. Dividends and liabilities

Answer: D

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

164. Which of the following is *not* a step in the accounting process?

A. Record relevant transactions and events in a journal
B. Post journal information to the ledger accounts
C. Prepare and analyze the trial balance.
D. Analyze each transaction
E. Verify that revenues and expenses are equal.

Answer: E

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

165. 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:

A. Credit another asset account for $1,500.
B. Credit another liability account for $1,500.
C. Credit a revenue account for $1,500.
D. Credit the common stock account for $1,500.
E. Debit another asset account for $1,500.

Answer: E

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

166. 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):

A. Account balance.
B. Trial balance.
C. Ledger.
D. Chart of accounts.
E. General Journal.

Answer: B

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

167. Identify the statement below that is *true*.
A. If the trial balance is in balance, it proves that no errors have been made in recording and posting transactions.
B. The trial balance is a book of original entry.
C. Another name for the trial balance is the chart of accounts.
D. The trial balance is a list of all accounts from the ledger with their balances at a point in time.
E. The trial balance is another name for the balance sheet as long as debits balance with credits.

Answer: D

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

168. 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:
A. The Equipment account balance will be overstated.
B. The trial balance will not balance.
C. The error will overstate the debits listed in the journal.
D. The total debits in the trial balance will be larger than the total credits.
E. The error will overstate the credits listed in the journal.

Answer: B

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

169. A $15 credit to Sales was posted as a $150 credit. By what amount is the Sales account in error?
A. $150 understated.
B. $135 overstated.
C. $150 overstated.
D. $15 understated.
E. $135 understated.

Answer: B

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions
Feedback: $150-15 = $135

170. At year-end, a trial balance showed total credits exceeding total debits by $4,950. This difference could have been caused by:
A. An error in the general journal where a $4,950 increase in Accounts Receivable was recorded as an increase in Cash.
B. A net income of $4,950.
C. The balance of $49,500 in Accounts Payable being entered in the trial balance as $4,950.
D. The balance of $5,500 in the Office Equipment account being entered on the trial balance as a debit of $550.
E. An error in the general journal where a $4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable.

Answer: D

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

171. Identify the item below that would cause the trial balance to *not* balance.
A. A $1,000 collection of an account receivable was erroneously posted as a debit to Accounts Receivable and a credit to Cash.
B. The purchase of office supplies on account for $3,250 was erroneously recorded in the journal as $2,350 debit to Office Supplies and $2,350 credit to Accounts Payable.
C. A $50 cash receipt for the performance of a service was not recorded at all.
D. The purchase of office equipment for $1,200 was posted as a debit to Office Supplies and a credit to Cash for $1,200.
E. The cash payment of a $750 account payable was posted as a debit to Accounts Payable and a debit to Cash for $750.

Answer: E

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

172. 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?
A. The total of the Debit column of the trial balance will exceed the total of the Credit column by $4,700.
B. The total of the Credit column of the trial balance will exceed the total of the Debit column by $4,700.
C. The total of the Debit column of the trial balance will exceed the total of the Credit column by $9,400.
D. The total of the Credit column of the trial balance will exceed the total of the Debit column by $9,400.
E. The total of the Debit column of the trial balance will equal the total of the Credit column.

Answer: C

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

173. On a trial balance, if the Debit and Credit column totals are equal, then:
A. All transactions have been recorded correctly.
B. All entries from the journal have been posted to the ledger correctly.
C. All ledger account balances are correct.
D. Equal debits and credits have been recorded for transactions.
E. The balance sheet would be correct.

Answer: D

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

174. Given the following errors, identify the one by itself that will cause the trial balance to be out of balance.
A. A $200 cash salary payment posted as a $200 debit to Cash and a $200 credit to Salaries Expense.
B. 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.
C. 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.
D. A $50 cash purchase of office supplies posted as a $50 debit to Office Equipment and a $50 credit to Cash.
E. 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.

Answer: B

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

175. 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?
A. Supplies, understated $130; Fees Earned, overstated $130.
B. Supplies, understated $260; Fees Earned, overstated $130.
C. Supplies, overstated $130; Fees Earned, overstated $130.
D. Supplies, overstated $130; Fees Earned, understated $130.
E. Supplies, overstated $260; Fees Earned, understated $130.

Answer: C

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

176. All of the following are asset accounts ***except***:
A. Accounts Receivable.
B. Buildings.
C. Supplies expense.
D. Equipment.
E. Prepaid insurance.

Answer: C

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C3
Topic: Ledger and Chart of Accounts

177. 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.
A. Accounts Payable; Cash; Supplies.
B. Unearned Revenue; Accounts Payable; Dividends.
C. Building; Prepaid Insurance; Supplies Expense.
D. Cash; Prepaid Insurance; Equipment. Notes Payable; Cash; Dividends.

Answer: D

Blooms: Understand
AACSB: Communication

AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C3

Topic: Ledger and Chart of Accounts

178. Which financial statement reports an organization's financial position at a single point in time?
A. Income statement.
B. Balance sheet.
C. Statement of retained earnings.
D. Cash flow statement.
E. Trial balance.

Answer: B

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Using a Trial Balance to Prepare Financial Statements

179. 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:
1. Jackson invested $25,000 cash in the business in exchange for common stock.
2. Jackson contributed $100,000 of equipment to the business.
3. The company paid $2,000 cash to rent office space for the month of March.
4. The company received $16,000 cash for repair services provided during March.
5. The company paid $6,200 for salaries for the month of March.
6. The company provided $3,000 of services to customers on account.
7. 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.
9. The company paid Jackson $5,000 cash as a dividend.

Based on this information, net income for March would be:
A. $10,300.
B. $13,400
C. $5,300
D. $8,400
E. $13,500.

Answer: A

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1

Topic: Analyzing Transactions

Feedback: Net Income = Revenues – Expenses
Net Income = $16,000 (#4) – $2,000 (#3) – $6,200 (#5) + $3,000 (#6) – $500 (#7) = $10,300

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

A. Debit Services Revenue, credit Accounts Receivable.
B. Debit Cash, credit Accounts Payable.
C. Debit Cash, credit Accounts Receivable.
D. Debit Cash, credit Services Revenue.
E. Debit Accounts Payable, credit Services Revenue.

Answer: D

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

181. 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:

1. Wiley, the sole stockholder, invested $25,000 cash in the business in exchange for common stock.
2. Wiley contributed $100,000 of equipment to the business in exchange for common stock.
3. The company paid $2,000 cash to rent office space for the month of March.
4. The company received $16,000 cash for repair services provided during March.
5. The company paid $6,200 for salaries for the month of March.
6. The company provided $3,000 of services to customers on account.
7. 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.
9. The company paid Wiley $5,000 cash as a dividend.

Based on this information, total stockholder's equity reported on the balance sheet at the end of March would be:

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

Answer: B

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Feedback: Ending Equity = $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

Matching Questions

182. 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

A. Decrease in an asset, dividend and expense account, and increase in a liability, common stock and revenue account; recorded on the right side of a T-account.
B. A record containing all the accounts of a company and their balances.
C. 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.
D. A company's chronological record of each transaction in one place that shows debits and credits for each transaction.
E. An increase in an asset and expense account, and decrease in a liability, common stock, and revenue account; recorded on the left side of a T-account.
F. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.
G. A representation of a ledger account used to understand the effects of transactions.
H.A list of accounts and their balances at a point in time.
I. The process of transferring journal entry information to the ledger accounts.
J. 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

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C1
Learning Objective: 02-C2
Learning Objective: 02-C3
Learning Objective: 02-C4
Learning Objective: 02-P2
Topic: Analyzing and Recording Process

Topic: The Account and Its Analysis
Topic: Ledger and Chart of Accounts
Topic: Debits and Credits
Topic: Trial Balance

183. 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	____ 7. Trial balance
____ 3. Ledger	____ 8. Credit
____ 4. Journal	____ 9. Account balance
____ 5. Debt ratio	____ 10. Balance column account

A.	An increase in an asset, dividend, and expense account, and a decrease in a liability, common stock, and revenue account; recorded on the left side of a T-account.
B.	A decrease in an asset, dividend, and expense account, and an increase in a liability, common stock, 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 should equal the total credit balances.
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

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-A2
Learning Objective: 02-C1
Learning Objective: 02-C2
Learning Objective: 02-C3
Learning Objective: 02-C4
Topic: Debt Ratio
Topic: Analyzing and Recording Process
Topic: The Account and Its Analysis
Topic: Ledger and Chart of Accounts
Topic: Debits and Credits

184. . 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

A. A simple form used as a helpful tool in understanding the effect of transactions and events on specific accounts.
B. The most flexible type of journal, it can be used to record any kind of transaction.
C. A journal entry that affects at least three accounts.
D. A written promise from a customer to pay a definite sum of money on a specified future date.
E. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.
F. A list of all accounts used by a company and the identification number assigned to each account.
G. The process of transferring journal entry information to the ledger.
H. A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.
I. A column in journals where individual account numbers are entered when entries are posted to ledger accounts.
J. 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

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C1
Learning Objective: 02-C2
Learning Objective: 02-C3
Learning Objective: 02-C4
Topic: Analyzing and Recording Process
Topic: The Account and Its Analysis
Topic: Ledger and Chart of Accounts
Topic: Debits and Credits

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

____ 1. Salary Expense
____ 2. Cash
____ 3. Equipment
____ 4. Common Stock
____ 5. Fees Revenue
____ 6. Accounts Receivable
____ 7. Accounts Payable
____ 8. Dividends
____ 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

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C3
Topic: Ledger and Chart of Accounts

186. 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. Common Stock was increased
____ 5. Salaries Expense was increased
____ 6. Accounts Receivable was decreased
____ 7. Unearned Revenue was increased
____ 8. Dividends 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. Common Stock was increased
____ 5. Salaries Expense was increased
__X 6. Accounts Receivable was decreased
__X_7. Unearned Revenue was increased
____ 8. Dividends was increased
____ 9. Supplies was increased
____ 10. Building was increased
____ 11. Utilities Expense was increased
__X 12. Service Revenue was increased

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

187. 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. Common Stock
____ 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

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Using a Trial Balance to Prepare Financial Statements

Essay Questions

188. 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
2. Accounts Receivable
3. Cash
4. Consulting Fees Earned
5. Office Supplies
6. Office Supplies Expense
7. Telephone Expense
8. Unearned Revenue
9. Common Stock
10. Dividends
11. Insurance Expense
12. Prepaid Insurance

		Debit	Credit
	Example: Completed consulting work for a client who will pay at a later date.	2	4
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 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

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

189. 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.

1. Accounts Payable
2. Accounts Receivable
3. Appraisal Fees Earned
4. Cash
5. Insurance Expense
6. Office Equipment
7. Office Supplies
8. Office Supplies Expense
9. Prepaid Insurance
10. Salaries Expense
11. Telephone Expense
12. Unearned Appraisal Fees
13. Common Stock
14. Dividends

	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….		

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

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Topic: Analyzing Transactions

Short Answer Questions

190. 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.

Blooms: Understand
AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

191. 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.

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

192. 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.

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

193. 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.

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C3
Topic: Ledger and Chart of Accounts

194. 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 dividends account, all have normal debit balances, and liabilities, revenues and the common stock account, all have normal credit balances.

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

195. 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.

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: 2 Medium
Learning Objective: 02-A2
Topic: Debt Ratio

196. 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.

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

197. 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.

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

198. Describe the link between a business's income statement, the statement of retained earnings, 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 retained earnings. The net income is added to the beginning retained earnings balance, and dividends are subtracted to determine the ending retained earnings. The ending retained earnings is then carried to the balance sheet.

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Financial Statements

Problems

199. 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	

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

200. Indicate whether a debit or credit entry would be required to record the following changes in each account.
a. To decrease Cash
b. To increase Common Stock
c. To decrease Accounts Payable.
d. To increase Salaries Expense.
e. To decrease Supplies.
f. To increase Revenue.
g. To decrease Accounts Receivable.
h. To increase Dividends.

Answer:
a. Credit, b. Credit, c. Debit, d. Debit, e. Credit, f. Credit, g. Credit, h. Debit

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

201. 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:

A. Common Stock
B. Interest Payable
C. Land
D. Dividends
E. Fees Earned
F. Prepaid Rent
G. Advertising Expense
H. Unearned Rent Revenue
I. Commissions 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	

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C2
Learning Objective: 02-C3
Learning Objective: 02-C4
Topic: Accounts
Topic: Ledger and Chart of Accounts
Topic: Debits and Credits

202. Rowdy Bolton began Bolton Office Services in October and during that month completed these transactions:
a. Invested $10,000 cash, and $15,000 of computer equipment in exchange for common stock.
b. Paid $500 cash for an insurance premium covering the next 12 months.
c. Completed a word processing assignment for a customer and collected $1,000 cash.
d. Paid $200 cash for office supplies.
e. 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	
	Common Stock		25,000
b.	Prepaid Insurance	500	
	Cash		500
c.	Cash	1,000	

	Office Services Revenue		1,000
d.	Office Supplies	200	
	Cash		200
e.	Rent Expense	2,000	
	Cash		2,000

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

203. 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	
2,500	

Catering Fees Earned	
	2,500

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

204. 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	
2,500	

Cash	
	2,500

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

205. A business paid $100 cash to Charles Nice (the sole stockholder) for his personal use. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

Answer:

Dividends	
100	

Cash	
	100

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-A1
Topic: Analyzing Transactions

206. 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

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

207. 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

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

208. 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:

Cash

9/01	(a) 4,200	9/4 (b)	550
9/11	(d) 150		
9/15	(e) 190		

Equipment

9/1	(a) 800	
9/4	(b) 2,550	

Common Stock

	9/1 (a) 5,000

Notes Payable

	9/4	(b) 2,000

Accounts Receivable

9/9	(c) 275	9/15	(e) 190

Revenue

	9/9	(c) 275
	9/11	(d) 150

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:

..	Sept. 1	Cash	4,200	
		Equipment	800	
		Common Stock		5,000
		To record initial investment by sole stockholder.		
).	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.		
:.	9	Accounts Receivable	275	
		Revenue		275

		To record credit sale of services.		
l.	11	Cash	150	
		Revenue		150
		To record cash sale of services.		
:.	15	Cash	190	
		Accounts Receivable		190
		To record collection from customer.		

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

209. Pippa's Paralegal Services completed these transactions in February:
a. Purchased office supplies on account, $300.
b. Completed work for a client on credit, $500.
c. Paid cash for the office supplies purchased in (*a*).
d. Completed work for a client and received $800 cash.
e. Received $500 cash for the work described in (*b*).
f. 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.

Answer:

a.	Office Supplies	300	
	Accounts Payable		300
b.	Accounts Receivable	500	
	Services Revenue		500
c.	Accounts Payable	300	
	Cash		300
d.	Cash	800	
	Services Revenue		800
e.	Cash	500	
	Accounts Receivable		500
f.	Cash	1,000	
	Unearned Revenue		1,000

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

210. 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 in exchange for common stock.
2	Purchased $1,200 of office equipment on credit.
3	Purchased $300 of office supplies on credit.
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	The practice paid Larry $650 cash 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	
	Common stock		20,000
	Stockholder invested in business.		
2	Office Equipment	1,200	
	Accounts Payable		1,200
	Purchased office equipment and supplies on credit.		
3	Office Supplies	300	
	Accounts Payable		300
4	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
	Received payment on account.		
27	Dividends	650	
	Cash		650
	Paid cash dividends.		
30	Utility Expense	175	
	Cash		175
	Paid utility bills.		
30	Cash	2,000	
	Unearned Fees		2,000
	Received cash for services to be provided next year		

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

211. 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.

a) Mary invested $15,000 cash and a law library valued at $6,000 in exchange for common stock.

b) Purchased $7,500 of office equipment from John Bronx on credit.

c) Completed legal work for a client and received $1,500 cash in full payment.

d) Paid John Bronx. $3,500 cash in partial settlement of the amount owed.

e) Completed $4,000 of legal work for a client on credit.

f) The firm paid $2,000 cash in dividends.

g) Received $2,500 cash as partial payment for the legal work completed for the client in (*e*).

h) Paid $2,500 cash for the legal secretary's salary.

Cash

Office Equipment

Dividends

Accounts Receivable

Accounts Payable

Legal Fees Earned

Law Library

Common Stock

Salaries Expense

Answer:

Cash	
(a) 15,000	(d) 3,500
	(f)
(c) 1,500	,000
(g) 2,500	(h) 2,500

Office Equipment	
(b) 7,500	

Dividends	
(f)	
2,000	

Accounts Receivable	
e) 4,000	g) 2,500

Accounts Payable	
((d) 3,500	(b) ,500

Legal Fees Earned	
	(c) 1,500
	(e) ,000

Law Library	
(a) 6,000	

Common Stock	
	(a) 21,000

Salary Expense	
(h) 2,500	

Sunny Law Firm
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
Common Stock		21,000
Dividends	2,000	
Legal Fees Earned		5,500
Salaries Expense	2,500	
Totals	$30,500	$30,500

Bloom's: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Learning Objective: 02-P1
Learning Objective: 02-P2

Topic: Analyzing Transactions
Topic: Journalizing and Posting Transactions
Topic: Preparing a Trial Balance

212. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If there were no stockholder investments in the business and no dividends paid during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer:

Beginning equity = $114,000 – $68,000 = $46,000
Ending equity = $135,000 – $73,000 = $62,000
Increase in equity = $62,000 – $46,000 = $16,000
Since there were no stock issuances or dividends during the year, the net income is $16,000.

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Learning Objective: 02-P3
Topic: Analyzing Transactions
Topic: Using a Trial Balance to Prepare Financial Statements

213. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If stockholders invested an additional $12,000 in the business during the year in exchange for common stock, but no dividends were paid during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer:

Beginning equity = $114,000 – $68,000 = $46,000
Ending equity = $135,000 – $73,000 = $62,000
Increase in equity = $62,000 – $46,000 = $16,000
Net income = $16,000 – $12,000 = $4,000

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Learning Objective: 02-P3
Topic: Analyzing Transactions
Topic: Financial Statements

214. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If there were no stockholder investments in the business but the company paid $5,000 in dividends during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer:

Beginning equity = $114,000 – $68,000 = $46,000
Ending equity = $135,000 – $73,000 = $62,000
Increase in equity = $62,000 – $46,000 = $16,000
Net income = $16,000 + $5,000 = $21,000

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Learning Objective: 02-P3
Topic: Analyzing Transactions
Topic: Financial Statements

215. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If stockholders invested an additional $12,000 in the business in exchange for common stock and $5,000 of dividends were paid during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer:

Beginning equity = $114,000 – $68,000 = $46,000
Ending equity = $135,000 – $73,000 = $62,000
Increase in equity = $62,000 – $46,000 = $16,000
Net income = $16,000 – $12,000 + $5,000 = $9,000

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Learning Objective: 02-P3
Topic: Analyzing Transactions
Topic: Financial Statements

216. 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%

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
AICPA FN: Risk Analysis
Difficulty: 3 Hard
Learning Objective: 02-A2
Topic: Debt Ratio

217. 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%

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
AICPA FN: Risk Analysis
Difficulty: 3 Hard
Learning Objective: 02-A2
Topic: Debt Ratio

218. List the four steps in recording transactions.

Answer:

1. Analyze each transaction and event from source documents.
2. Record relevant transactions and events in a journal.
3. Post journal entry information to ledger accounts.
4. Prepare and analyze the trial balance.

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

219. 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.

a. $100 debit to Cash was debited to the Cash account twice.
b. $1,900 credit to Sales was posted as a $190 credit.
c. $5,000 debit to Office Equipment was debited to Office Supplies.
d. $625 debit to Prepaid Insurance was posted as a $62.50 debit.
e. $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 With Larger Total
a.	$100	Debit
b.	$1,710	Debit
c.	—	—
d.	$562.50	Credit
e.	$520	Debit

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 3 Hard
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

220. After preparing an (unadjusted) trial balance at year-end, R. Chang of Chang Window Company discovered the following errors:
1. Cash payment of the $225 telephone bill for December was recorded twice.
2. Cash payment of a note payable was recorded as a debit to Cash and a debit to Notes Payable for $1,000.
3. A $900 cash withdrawal by the owner was recorded to the correct accounts as $90.
4. An additional investment of $5,000 cash by the stockholder was recorded as a debit to Common Stock and a credit to Cash.
5. 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	Yes	No
1		X
2	X	
3		X
4		X
5	X	

Yes, the trial balance will be out of balance.

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 3 Hard
Learning Objective: 02-P2
Topic: Preparing a Trial Balance

221. 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		
Building…………….	125,000		
Supplies Expense……	21,500	Land…………………	50,000
Common Stock………..	118,700	Unearned Management Fees	4,000
Management Revenue.	175,000	Dividends	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
Common Stock		118,700
Dividends	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

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P2

Topic: Preparing a Trial Balance

222. At year-end, Henry Laundry Service noted the following errors in its trial balance:

1. It understated the total debits to the Cash account by $500 when computing the account balance.
2. A credit sale for $311 was recorded as a credit to the revenue account, but the offsetting debit was not posted.
3. A cash payment to a creditor for $2,600 was never recorded.
4. The $680 balance of the Prepaid Insurance account was listed in the credit column of the trial balance.
5. A $24,900 van purchase was recorded as a $24,090 debit to Equipment and a $24,090 credit to Notes Payable.
6. A purchase of office supplies for $150 was recorded as a debit to Office Equipment. The offsetting credit entry was correct.
7. An additional investment of $4,000 by the stockholder was recorded as a debit to Common Stock and as a credit to Cash.
8. The cash payment of the $510 utility bill for December was recorded (but not paid) twice.
9. The revenue account balance of $79,817 was listed on the trial balance as $97,817.
10. A $1,000 cash dividend was recorded as a $100 debit to Dividends 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:

Error	Would the error cause the trial balance to be out of balance? Yes	No	Amount of Imbalance	Correcting Journal Entry Required Yes	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	X	
8.		X	0	X	
9.	X		18,000		X
10.		X	0	X	

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P1
Learning Objective: 02-P2
Topic: Journalizing and Posting Transactions
Topic: Preparing a Trial Balance

223. 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
Common Stock		22,000
Dividends	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 sole stockholder was debited to Common Stock 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 Dividends 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
Cash[a]	$3,100	
Accounts receivable[b]	3,400	

Supplies	500	
Shop equipment[c]……………………………………	12,200	
Office equipment[d]…………………………………………	7,400	
Accounts payable[e]…………………………………………		$5,000
Common Stock……………………………………		23,000
Dividends. ……………………………	4,800	
Repair fees earned[h]………………………………………		12,000
Supplies expense………………………………………..…	8,600	
Totals………………………………………………	$40,000	$40,000

[a]Cash: Balance $1,975 + $1,000 (2) + 125 (#6) = $3,100
[b]Accounts Receivable: Bal. $2,800 + 600 (#3) = $3,400
[c]Shop Equipment: Bal. $13,000 – 800 (#5) = $12,200
[d]Office Equipment: Bal. $6,600 + 800 (#5) = $7,400
[e]Accounts Payable: Bal $4,510 + 490 (#1) = $5,000
[f]Common Stock: Bal. $22,000 + 1,000 (#2) = $23,000
[g]Dividends: Bal. $4,200 + 600 (#4) = $4,800
[h]Repair fees earned: Bal $11,875 + 125 (#6) = $12,000

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-A1
Learning Objective: 02-P2
Topic: Analyzing Transactions
Topic: Preparing a Trial Balance

224. 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	Dividends..	24,000
Office supplies………	1,500	Salaries expense………..	30,000
Notes payable…………	22,000	Common Stock……..	58,100

a. Calculate net income.

b. Determine the amount of total 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	Total equity (beginning)
	36,400	Net income
	(24,000)	Dividends
	$70,500	Total equity (ending)

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty:3 Hard
Learning Objective: 02-P3
Topic: Using a Trial Balance to Prepare Financial Statements

225. Based on the following trial balance for Sally's Salon, prepare an income statement, statement of retained earnings, and a balance sheet. Sally Crawford, the sole stockholder, 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
Common Stock		21,155
Dividends	36,000	
Revenue earned		72,000
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 Retained Earnings For Year Ended December 31	
Retained earnings, January 1……………………	$0
Plus: Net income…………………………………………..	40,575
	$40,575
Less: Withdrawals by owner……………………………..	(36,000)
Retained earnings, December 31……………….	$4,575

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	Common Stock……	21,155
		Retained Earnings	4,575
Total assets………………	$26,475	Total liabilities and equity.	$26,475

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 02-P3
Topic: Using a Trial Balance to Prepare Financial Statements

226. 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 in exchange for common stock.
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 The company paid Butler, its sole stockholder, $2,000 for personal use.

Answer:

May 1			
	Cash……………………………………….	20,000	
	Tugboat…………………………………….	90,000	
	G. Butler, Capital…………………		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.		
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	Dividends ………………..	2,000	
	Cash…………………………….		2,000
	Record dividends paid.		

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

227. Based on the following trial balance for Barry's Automotive Shop, prepare an income statement, statement of retained earnings, and a balance sheet. Barry, the company's sole stockholder, 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
Common stock		30,000
Retained earnings		8,525
Dividends	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 Retained Earnings	
For Year Ended December 31	
Retained Earnings, January 1	$8,525
Plus: Net income	69,375
	$77,900
Less: Dividends	(36,000)
Retained Earnings, December 31	$41,900

Barry's Automotive Shop
Balance Sheet
December 31

Assets		Liabilities	
Cash	$ 12,500	Accounts payable	$ 2,600
Accounts receivable	1,500		
Supplies	500	Equity	
Repair shop equipment	27,000	Common Stock	$30,000
Service truck	33,000	Retained earnings	41,900
Total assets	$74,500	Total liabilities and equity	$74,500

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P3
Topic: Financial Statements

228. 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. Common Stock		
f. Unearned Advertising Revenue		
g. Salaries Expense		
h. Magazine Subscription Revenue		
i. Dividends		
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. Common Stock	equity	credit
f. Unearned Advertising Revenue	liability	credit
g. Salaries Expense	expense	debit
h. Magazine Subscription Revenue	revenue	credit
i. Dividends	equity	debit
j. Prepaid Insurance	asset	debit

Bloom's: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C3
Learning Objective: 02-C4
Topic: Ledger and Chart of Accounts
Topic: Debits and Credits

229. 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 Common Stock	
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 Common Stock	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

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

230. Indicate on which of the financial statements the following items appears. Use I for income statement, RE for statement of retained earnings, and B for balance sheet. More than one statement may be appropriate for some items.

a. Fees Earned	
b. Cash	
c. Unearned Revenue	
d. Rent expense	
e. Common Stock	
f. Notes Payable	
g. Prepaid Rent	
h. Salaries Expense	
i. Notes Payable	
j. Dividends	

Answer:

a. Fees Earned	I
b. Cash	B
c. Unearned Revenue	B
d. Rent expense	I
e. Common Stock	B
f. Notes Payable	B
g. Prepaid Rent	B
h. Salaries Expense	I
i. Notes Payable	B
j. Dividends	RE

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-P3
Topic: Using a Trial Balance to Prepare Financial Statements

231. 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.)

June 1	Hope invested $400,000 into the business in exchange for common stock.
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 at 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 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	Paid $4,000 in dividends to sole stockholder.

Answer:

June 1	Cash	400,000	
	Common Stock		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		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	Dividends	4,000	
	Cash		4,000

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

232. 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. Common Stock		
d. Utilities Expense		
e. Land		
f. Services Revenue		
g. Notes Receivable		
h. Advertising Expense		
i. Unearned Revenue		
j. Service Revenue		

Answer:

Account Title	Account Type	Normal Balance
a. Prepaid Insurance	asset	debit
b. Accounts Payable	liability	credit
c. Common Stock	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

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C3
Learning Objective: 02-C4
Topic: Ledger and Chart of Accounts
Topic: Debits and Credits

233. 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*

Blooms: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

Fill in the Blank Questions

234. ____________ and _____________ are the starting points for the *analyzing and recording* process.

Answer: Business transactions; Events

Feedback: answers can appear in either order

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

235. 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

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

236. The third step in the analyzing and recording process is to post the information to the ___________________.

Answer: ledger accounts

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

237. _________________ documents identify and describe transactions and events and provide objective evidence and amounts for recording.

Answer: Source

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C1
Topic: Analyzing and Recording Process

238. Revenues and expenses are two categories of ____________________ accounts.

Answer: equity

Blooms: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C2
Topic: The Account and Its Analysis

239. 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)

Feedback: either answer is acceptable

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C3
Topic: Ledger and Chart of Accounts

240. In a seller's accounting records,__________________ are promises of payment waiting to be received from customers.

Answer: Accounts receivable

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

241. Unearned revenue is classified as a(an) ______________ on a business's balance sheet.

Answer: liability

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

242. The four categories of equity accounts are _______________, ________________, _____________________, and _____________________. Answer: Common Stock; Dividends; revenues; expenses

Feedback: answers can appear in any order

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

243. 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

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C3
Topic: Ledger and Chart of Accounts

244. A record containing all the separate accounts for a company as well as all of their balances is called the___________________

Answer: ledger

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C3
Topic: Ledger and Chart of Accounts

245. _____________________________ 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

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C4
Topic: Debits and Credits

246. The _____________________ is found by determining the difference between total debits and total credits for an account, including any beginning balance.

Answer: account balance

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2

Topic: The Account and Its Analysis

247. To increase an asset account, we would _______________ it and to increase a liability account, we would_______________ it.

Answer: debit; credit

Feedback: answers need to appear in the order shown above

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C4
Topic: Debits and Credits

248. 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

Feedback: answers need to appear in the order as shown above

Blooms: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits

249. 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%

Blooms: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 3 Hard
Learning Objective: 02-A2
Topic: Debt Ratio

Feedback: Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $130 million/$375 million = 34.7%

250. _______________ is the process of transferring journal entry information from the journal to the ledger.

Answer: Posting

Blooms: Remember
AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

251. A ____________ gives a complete record of each transaction in one place, and shows debits and credits for each transaction.

Answer: journal

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

252. 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

Blooms: Remember
AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C2
Topic: The Account and Its Analysis

253. The posting process is the link between the _______________ and the _____________.

Answer: journal; ledger

Feedback: answers can be recorded in either order

Blooms: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-P1
Topic: Journalizing and Posting Transactions

254. You increase the *Service Revenue* account on the ___________side of its account.

Answer: right or credit

Blooms: Remember
AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 02-C4
Topic: Debits and Credits

255. You decrease the *Accounts Payable* account on the ___________side of its account.

Answer: left or debit

Blooms: Remember
AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 02-C4
Topic: Debits and Credits