

College Accounting 23rd edition Heintz Test Bank

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TRUE/FALSE

1 : A business entity is an individual, association, or organization with control over economic resources and which engages in economic activities.

A : true

B : false

Correct Answer : A

2 : Liabilities represent an "inside" interest in a business.

A : true

B : false

Correct Answer : B

3 : The accounting equation shows the relationship among the three basic accounting elements—assets, expenses, and owner's equity.

A : true

B : false

Correct Answer : B

4 : If owner's equity and liabilities increased during the period, then assets must also have increased.

A : true

B : false

Correct Answer : A

5 : An accounts payable is an unwritten promise to pay a supplier for assets purchased or services rendered.

A : true

B : false

Correct Answer : A

6 : If the revenue of a period exceeds the expenses, the excess represents a net loss.

A : true

B : false

Correct Answer : B

7 : If the revenue of a period exceeds the expenses, the excess represents a net loss.

A : true

B : false

Correct Answer : B

8 : Revenues received during an accounting period increase owner's equity.

A : true

B : false

Correct Answer : A

9 : Revenues received during an accounting period increase owner's equity.

A : true

B : false

Correct Answer : A

10 : Revenues received during an accounting period increase owner's equity.

A : true

B : false

Correct Answer : B

11 : The income statement provides information about events over a period of a month, year, or other period of time.

A : true

B : false

Correct Answer : A

12 : The terms "profit and loss statement" or "operating statement" are sometimes used as synonyms for the balance sheet.

A : true

B : false

Correct Answer : B

13 : Other terms used for owner's equity include net worth and capital.

A : true

B : false

Correct Answer : A

14 : Any item a business owns that will provide future benefits is called owner's equity.

A : true

B : false

Correct Answer : B

15 : It is not necessary to measure a business transaction in dollars.

A : true

B : false

Correct Answer : B

16 : The accounting equation may be expressed as assets ? liabilities = owner's equity.

A : true

B : false

Correct Answer : A

17 : According to the business entity concept, a proprietor may include nonbusiness assets and

liabilities in the business entity's accounting records.

A : true

B : false

Correct Answer : B

18 : Recognizing the effects of transactions on assets, liabilities, owner's equity, revenue, and expenses of a business is the processing function.

A : true

B : false

Correct Answer : A

19 : Expenses represent a decrease in liabilities.

A : true

B : false

Correct Answer : B

20 : Expenses that are incurred in operating the enterprise increase owner's equity.

A : true

B : false

Correct Answer : B

21 : Withdrawing cash from a business entity will result in an increase in owner's equity.

A : true

B : false

Correct Answer : B

22 : An increase in a revenue account may also result in an increase in the accounts receivable account.

A : true

B : false

Correct Answer : A

23 : Financial statements commonly prepared by businesses include an income statement, a statement of owner's equity, and a balance sheet.

A : true

B : false

Correct Answer : A

24 : The statement of owner's equity shows the state of the business on a specific date.

A : true

B : false

Correct Answer : B

25 : The balance sheet reports assets, liabilities, and owner's equity on a specific date.

A : true

B : false

Correct Answer : A

26 : The income statement and statement of owner's equity provide information covering a period of time.

A : true

B : false

Correct Answer : A

SHORT RESPONSE

27 : Sue Lee paid \$1,200 for her employees' salaries. This transaction would

Correct Answer : 1.E2.L3.A4.A5.OE6.E7.OE8.A9.E10.R

28 : Sue Lee paid \$1,200 for her employees' salaries. This transaction would

Correct Answer : $ASSETS = \text{Cash} + \text{Accounts Rec.} + \text{Supplies} + \text{Prepaid Ins.} + \text{Van}$
 $16,500 + (1,500) + 1,500 + (5,000) + 35,000 + (900) + (470) + 8,750 + 14,200 + (210) + (2,200) + 3,300 = 66,140$
 $LIAB. + OWNER'S EQUITY = \text{Accounts Payable} + \text{Capital} - \text{Drawing} + \text{Revenues} - \text{Expenses}$
 $30,000 + 16,500 - 2,200 + 22,950 - 1,110 = 66,140$
PROOF Cash \$18,270
Notes Payable \$30,000 Accounts Receivable 10,900 Capital 16,500 Supplies 470
Drawing (2,200) Prepaid Insurance 1,500 Revenues 22,950 Van 35,000
Expenses (1,110) Total Assets \$66,140 Total Liabilities and Owner's Equity \$66,140

29 : Sue Lee paid \$1,200 for her employees' salaries. This transaction would

Correct Answer : $ASSETS = LIAB. + OWNER'S EQUITY$
 $\text{Cash} + \text{Supp.} + \text{Prep. Insur.} + \text{Equip.} = \text{Accts. Pay.} + \text{Capital} - \text{Drawing}$
 $20,000 + 300 + 1,200 + 4,000 = (1,200) + 20,000 - 700$
 $25,000 = 20,000 + 5,000$
PROOF Cash 16,600 Accounts Payable 3,000 Supplies 500
Capital 20,000 Prepaid Insurance 1,200 Drawing (700)
Equipment 4,000 22,300 22,300

30 : Sue Lee paid \$1,200 for her employees' salaries. This transaction would

Correct Answer : 1. $ASSETS = LIABILITIES + \text{Furniture} + \text{Crystal Ball} + \text{Accounts Rec.} + \text{Prepaid Ins.} = \text{Accounts Payable} + \text{Notes Payable}$
 $1,500 + (500) + 2,000 + 1,500 + (700) + (300) + 300 + (1,700) + 1,700 + 6,250 + 2,000 + (1,500) + 600 + 3,200 + (500) + (500) + (300) + (60) + (39) + (52) = 25,649$
 $LIABILITIES + OWNER'S EQUITY = \text{Shira, Capital} - \text{Shira, Drawing} + \text{Revenues} - \text{Expenses}$
 $5,000 + (500) + 20,000 - 700 = 25,649$

Rent<????????<????????<????2,500??<????2,000??<????1,500Wages<????????<????????<????300??<????60Advertising<????39Utilities<?____?____?____?52Repairs<?5,000?300?4,500?2,351?2.Madame Shira Fortune TellingIncome StatementFor Month Ended May 31, 20--Revenues: Fortune telling fees \$4,500Expenses: Rent expense \$ 700 Wages expense 1,500 Advertising expense 60 Utilities expense 39 Repairs expense 52 Total expenses 2,351Net income \$2,149?3.Madame Shira Fortune TellingStatement of Owner's EquityFor Month Ended May 31, 20--Madame Shira, capital May 1, 20-- \$ 0Investment by owner 5,000Net income for May\$2,149 Less withdrawals for May 300 Increase in capital 1,849Madame Shira, capital May 31, 20-- \$6,849

31 : Sue Lee paid \$1,200 for her employees' salaries. This transaction would

Correct Answer : ?Milner's Star Express Cleaning ServiceIncome StatementFor the Year Ended December 31, 20--Revenues: Fees earned \$13,835Expenses: Utilities expense\$ 153 Rent expense1,200 Wages expense1,650 Total expenses 3,003Net income \$10,832?Milner's Star Express Cleaning ServiceStatement of Owner's EquityFor the Year Ended December 31, 20--D. Milner, capital January 1, 20-- \$ 6,000Net income for the year\$10,832 Less withdrawals for the year 1,750 Increase in capital 9,082D. Milner, capital December 31, 20-- \$15,082?Milner's Star Express Cleaning ServiceBalance SheetDecember 31, 20--Assets LiabilitiesCash\$ 2,026 Accounts payable\$ 7,530Accounts receivable4,080 Prepaid insurance1,216 Owner's EquityEquipment15,290 D. Milner, capital15,082Total assets\$22,612 Total liab. & owner's equity\$22,612

32 : Sue Lee paid \$1,200 for her employees' salaries. This transaction would

Correct Answer : ?J. Carr's Delivery ServiceIncome StatementFor the Year Ended December 31, 20--Revenues: Fees earned \$41,500Expenses: Rent expense\$10,000 Wages expense14,000 Repairs expense 250 Total expenses 24,250Net income \$17,250?J. Carr's Delivery ServiceStatement of Owner's EquityFor the Year Ended December 31, 20--J. Carr, capital January 1, 20-- \$14,500Net income for the year\$17,250 Less withdrawals for the year 7,000 Increase in capital 10,250J. Carr, capital December 31, 20-- \$24,750J. Carr's Delivery ServiceBalance SheetDecember 31, 20--Assets LiabilitiesCash\$11,450 Accounts Payable\$ 4,450Accounts receivable7,000 Office supplies250 Equipment6,000 Owner's EquityFurniture 4,500 J. Carr, capital24,750Total assets\$29,200 Total liab. & owner's equity\$29,200

33 : Sue Lee paid \$1,200 for her employees' salaries. This transaction would

Correct Answer : Assets=Liabilities+Owner's Equitya.\$22,100=\$6,200+\$15,900b.\$26,700=\$8,700+\$18,000c.\$25,200=\$7,500+\$17,700

34 : Sue Lee paid \$1,200 for her employees' salaries. This transaction would

Correct Answer : ASSETS= LIABILITIES>??Cash?+OfficeEquip.?+ComputerEquip.?=AccountsPayable?+K. Holden,Capital >a.12,000????12,000>Bal.12,000????12,000>b.(7,500)?7,500????>Bal.4,500?7,500????12,000>c.____?____?11,500?11,500?____>Bal.4,500?7,500?11,500?11,500?12,000>d.(1,100)?____?____?____?____>Bal.3,400?7,500?11,500?11,500?12,000>e. 1,700?____?____?____?____>Bal.5,100?7,500?11,500?11,500?12,000>f. (170)?____?____?____?____>Bal.4,930?7,500?11,500?11,500?12,000>g.(2,400)?____?____?____?____>Bal.2,530?7,500?11,500?9,100?12,000>h. (200)?____?____?____?____>Bal. 2,330? 7,500?11,500?9,100?12,000>?<? +

OWNER'S EQUITY?<??+ClientFees???Rent Expense??UtilitiesExpense<a.??????<Bal.??????
 <b.??????<Bal.??????<c.??????<Bal.??????<d.???1,100??<Bal.???1,100??<e.?1,700? ??<Bal.
 ?1,700?1,100??<f.?_____?_____?170<Bal.?1,700?1,100?170<g.?_____?_____?____<Bal.?1,70
 0?1,100?170<h.?_____?_____?200<Bal.?1,700?1,100?370?

MULTIPLE CHOICE

35 : The accounting equation may be expressed as

- A : owners equity = assets ? liabilities.
- B : revenue ? expenses = net income.
- C : revenue = net income ? expenses.
- D : liabilities ? owners equity = assets.

Correct Answer : A

36 : Jason purchased office equipment for \$4,800 in cash. This transaction would

- A : increase assets and increase owners equity.
- B : increase assets and increase liabilities.
- C : increase one asset and decrease another asset.
- D : decrease assets and decrease liabilities.

Correct Answer : C

37 : Stephen purchased office supplies for \$800 on account. This transaction would

- A : increase assets and increase owners equity.
- B : increase one asset and decrease another asset.
- C : increase assets and increase liabilities.
- D : decrease assets and decrease liabilities.

Correct Answer : C

38 : Meghan started her business by investing \$30,000 in cash. This transaction would

- A : increase assets and increase owners equity.
- B : increase assets and increase liabilities.
- C : increase one asset and decrease another asset.
- D : decrease assets and decrease liabilities.

Correct Answer : A

39 : Any accounting period of twelve months' duration is usually referred to as a(n)

- A : fiscal year.
- B : calendar year.
- C : physical year.
- D : operational year.

Correct Answer : A

40 : Increases to owner's equity may be from

- A : expenses that are incurred.
- B : expenses exceeding revenue for the period.
- C : withdrawals of cash from the business by the owner.

D : revenue that is derived from sales of goods or services.

Correct Answer : D

41 : Tyler paid \$3,700 on account to the company from which equipment was purchased on credit. This transaction would

- A : decrease assets and decrease liabilities.
- B : increase assets and increase owners equity.
- C : increase assets and increase liabilities.
- D : increase one asset and decrease another asset.

Correct Answer : A

42 : An example of an expense is

- A : investments.
- B : supplies consumed.
- C : prepaid insurance.
- D : withdrawals by the owner.

Correct Answer : B

43 : A decrease in owner's equity may result from a(n)

- A : purchase of office supplies for cash.
- B : withdrawal of cash from the business by the owner.
- C : revenue that is derived from sales of goods or services.
- D : investment of cash in the business by the owner.

Correct Answer : B

44 : Identifying accounts and classifying accounts is part of which phase in the accounting process?

- A : input
- B : processing
- C : output
- D : summarizing

Correct Answer : B

45 : Business transactions are part of which phase in the accounting process?

- A : processing
- B : output
- C : summarizing
- D : input

Correct Answer : D

46 : Falana received \$7,000 in cash from a client for professional services rendered. This transaction would

- A : increase assets and increase owners equity.
- B : decrease assets and increase owners equity.
- C : increase liabilities and decrease owners equity.
- D : decrease assets and decrease owners equity.

Correct Answer : A

47 : The financial statement that shows the state of the firm's assets, liabilities, and owner's equity on a specific date is called a(n)

- A : balance sheet.
- B : statement of operations.
- C : statement of owners equity.
- D : income statement.

Correct Answer : A

48 : Sue Lee paid \$1,200 for her employees' salaries. This transaction would

- A : increase assets and decrease owners equity.
- B : increase assets and increase liabilities.
- C : decrease assets and decrease liabilities.
- D : decrease assets and decrease owners equity.

Correct Answer : D

MATCHING

49 : Match the terms with the definitions.

- | | |
|---|-----------------------------|
| A : The amount by which the business assets exceed the business liabilities. | A : account |
| B : Reports assets, liabilities, and owner's equity on a specific date. | B : accounts payable |
| C : Withdrawals that reduce owner's equity as a result of the owner taking cash or other assets out of the business for personal use. | C : accounts receivable |
| D : The decrease in assets (or increase in liabilities) as a result of efforts to produce revenues. | D : accounting equation |
| E : A formal written promise to pay a supplier or lender a specified sum of money at a definite future time. | E : assets |
| F : The excess of total revenues over total expenses for the period. | F : balance sheet |
| G : Reports the profitability of business operations for a specific period of time. | G : business entity |
| H : Reports beginning capital, plus net income, less withdrawals to compute ending capital. | H : business entity concept |
| I : An economic event that has a direct impact on the business. | I : business transaction |
| J : The concept that nonbusiness assets and liabilities are not included in the business' accounting records. | J : drawing |
| K : Consists of the three basic accounting elements: assets = liabilities + owner's equity. | K : expenses |
| L : Items a business owns that will provide future benefits. | L : income statement |
| M : An unwritten promise to pay a supplier for assets purchased or services rendered. | M : liability |

N : A separate record used to summarize changes in each asset, liability, and owner's equity of a business.

O : An amount owed to a business by its customers as a result of the sale of goods or services.

P : An individual, association, or organization that engages in economic activities and controls specific economic resources.

N : net income

O : net loss

P : notes payable

Q : owner's equity

R : revenues

S : statement of owner's equity

Correct Answer :

A : A16

B : F

C : J

D : K

E : A15

F : A13

G : A11

H : A18

I : I

J : H

K : D

L : E

M : B

N : A

O : C

P : G

FILL IN THE BLANK

50 : Most businesses recognize _____ when earned, even if cash has not yet been received.

Correct Answer : revenue

51 : _____ represent the decrease in assets (or increase in liabilities) as a result of efforts made to produce revenues.

Correct Answer : Expenses

52 : The _____, sometimes called the profit and loss statement, reports the profitability of business operations for a specific period of time.

Correct Answer : income statement

53 : _____ represent the amount a business charges customers for products sold or services performed.

Correct Answer : Revenues

54 : _____ represent probable future benefits.

Correct Answer : Assets

55 : A(n) _____ is an unwritten promise to pay a supplier for assets purchased or services received.

Correct Answer : accounts payable

56 : The report which shows a firm's assets, liabilities, and owner's equity as of a specific date is called the _____.

Correct Answer : balance sheet

57 : A(n) _____ is a reduction in owner's equity as a result of the owner taking cash or other assets out of the business for personal use.

Correct Answer : withdrawal

58 : Amounts owed to the business by its customers are called _____.

Correct Answer : accounts receivable

59 : A(n) _____ is an economic event that has a direct impact on the business.

Correct Answer : business transaction

60 : A(n) _____ is a separate record used to summarize changes in assets, liabilities, and owner's equity of a business.

Correct Answer : account

61 : According to the _____, nonbusiness assets and liabilities are not included in the business entity's accounting records.

Correct Answer : business entity concept

62 : In the accounting process, the financial statements are the

Correct Answer : output