

## Chapter 2—Analyzing Transactions: The Accounting Equation

### TRUE/FALSE

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-03-Business Forms              KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-03-Business Forms              KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-5              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-09-Financial Statements              KEY: Bloom's: Evaluation  
NOT: 1 min.



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

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-3              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

17. According to the business entity concept, a proprietor may include nonbusiness assets and liabilities in the business entity's accounting records.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-6              NAT: BUSPROG: Communication              STA: AICPA FN-Measurement  
TOP: ACBSP: APC-06-Recording Transactions                      KEY: Bloom's: Comprehension  
NOT: 1 min.

19. Expenses represent a decrease in liabilities.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication              STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication              STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Comprehension  
NOT: 1 min.



2. Jason purchased office equipment for \$4,800 on account. This transaction would
- increase assets and increase owner's equity.
  - increase assets and increase liabilities.
  - increase one asset and decrease another asset.
  - decrease assets and decrease liabilities.

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-4              NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

3. Stephen purchased office supplies for \$800 in cash. This transaction would
- increase assets and increase owner's equity.
  - increase one asset and decrease another asset.
  - increase assets and increase liabilities.
  - decrease assets and decrease liabilities.

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-4              NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

4. Meghan started her business by investing \$30,000 in cash. This transaction would
- increase assets and increase owner's equity.
  - increase assets and increase liabilities.
  - increase one asset and decrease another asset.
  - decrease assets and decrease liabilities.

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-4              NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

5. Any accounting period of twelve months' duration is usually referred to as a(n)
- fiscal year.
  - calendar year.
  - physical year.
  - operational year.

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication                      STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

6. Increases to owner's equity may be from
- expenses that are incurred.
  - expenses exceeding revenue for the period.
  - withdrawals of cash from the business by the owner.
  - revenue that is derived from sales of goods or services.

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication  
STA: AICPA BB-Critical Thinking                      TOP: ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Comprehension                      NOT: 1 min.



12. Falana received \$7,000 in cash from a client for professional services rendered. This transaction would
- increase assets and increase owner's equity.
  - decrease assets and increase owner's equity.
  - increase liabilities and decrease owner's equity.
  - decrease assets and decrease owner's equity.

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-4              NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

13. 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)
- balance sheet.
  - statement of operations.
  - statement of owner's equity.
  - income statement.

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-5              NAT: BUSPROG: Communication                      STA: AICPA FN-Measurement  
TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Analysis  
NOT: 1 min.

14. Sue Lee paid \$1,200 for office rent. This transaction would
- increase assets and decrease owner's equity.
  - increase assets and increase liabilities.
  - decrease assets and decrease liabilities.
  - decrease assets and decrease owner's equity.

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-4              NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

## PROBLEM

1. Match the letter corresponding to one of the basic elements of accounting to each of the accounts below.

A = Asset  
L = Liability  
OE = Owner's Equity  
R = Revenue  
E = Expense

- |                        |       |
|------------------------|-------|
| 1. Utility Expense     | _____ |
| 2. Accounts Payable    | _____ |
| 3. Prepaid Rent        | _____ |
| 4. Supplies            | _____ |
| 5. P. Coyote, Drawing  | _____ |
| 6. Wages Expense       | _____ |
| 7. P. Coyote, Capital  | _____ |
| 8. Cash                | _____ |
| 9. Advertising Expense | _____ |
| 10. Fees Earned        | _____ |







[illegible]

ANS:

	ASSETS						=	LIAB.	+	OWNER'S EQUITY			
	Cash	+	Supp.	+	Prep. Insur.	+	Equip	=	Accts. Pay.	+	Capital	-	Drawing
a.	20,000										20,000		
b.			300						300				
c.	(1,200)				1,200								
d.	(200)		200										
e.	(1,000)						4,000		3,000				
f.	(300)								(300)				
g.	(700)												700
	<u>16,600</u>		<u>500</u>		<u>1,200</u>		<u>4,000</u>		<u>3,000</u>		<u>20,000</u>		<u>700</u>

### PROOF

Cash	16,600	Accounts Payable	3,000
Supplies	500	Capital	20,000
Prepaid Insurance	1,200	Drawing	(700)
Equipment	<u>4,000</u>		
	<u>22,300</u>		<u>22,300</u>

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-2 | LO: 2-3 | LO: 2-4  
 NAT: BUSPROG: Analytic STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-06-Recording Transactions KEY: Bloom's: Application  
 NOT: 15 min.

4. Madame Shira began a fortune telling business on May 1. The following transactions occurred:

- Owner Madame Shira invested \$5,000 cash in the business.
- Purchased \$2,000 of furniture with a down payment of \$500; the rest by issuing an account payable to be paid in three monthly installments.
- Paid \$700 rent.
- Purchased a crystal ball for \$300.
- Paid \$1,700 for a 12-month insurance policy.
- During the first month received \$2,500 from cash customers.
- Sent billings of \$2,000 for services rendered to credit customers.
- Paid assistant \$1,500 wages for the month.
- Received \$600 in payments from credit customers.
- Borrowed \$3,200 by signing a note.
- Made a \$500 payment on the furniture bill (from transaction 2).
- Owner withdrew \$300 cash for personal use.
- Paid bills for advertising \$60, utilities \$39, and repairs \$52.

Required:

- Enter the above transactions in an accounting equation work sheet.
- Prepare an income statement for Madame Shira for the month of May.
- Prepare a statement of owner's equity for the month of May.

1.

<	+	OWNER'S EQUITY							
<									
<	+	Shira, Capital	-	Shira, Drawing	+	Revenues	-	Expenses	Desc.
<		5,000							
<									
<								700	Rent
<									
<						2,500			
<						2,000			
<								1,500	Wages
<									
<									
<				300					
<								60	Advertising
<								39	Utilities
<								52	Repairs
<		<u>5,000</u>		<u>300</u>		<u>4,500</u>		<u>2,351</u>	

2.

**Madame Shira Fortune Telling  
Income Statement  
For Month Ended May 31, 20--**

Revenues:		
Fortune telling fees		\$4,500
Expenses:		
Rent expense	\$ 700	
Wages expense	1,500	
Advertising expense	60	
Utilities expense	39	
Repairs expense	<u>52</u>	
Total expenses		<u>2,351</u>
Net income		<u>\$2,149</u>

3.

**Madame Shira Fortune Telling  
Statement of Owner's Equity  
For Month Ended May 31, 20--**

Madame Shira, capital May 1, 20--		\$ 0
Investment by owner		5,000
Net income for May	\$2,149	
Less withdrawals for May	<u>300</u>	
Increase in capital		<u>1,849</u>
Madame Shira, capital May 31, 20--		<u>\$6,849</u>

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-3 | LO: 2-4 | LO: 2-5  
 NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-06-Recording Transactions                      KEY: Bloom's: Application  
 NOT: 15 min.

5. From the following list of accounts, prepare an income statement, statement of owner's equity, and balance sheet for the year ended or at December 31, 20--, for Milner's Star Express Cleaning Service.

Cash	\$ 2,026
Fees Earned	13,835
Accounts Payable	7,530
D. Milner, Capital January 1, 20--	6,000
D. Milner, Drawing	1,750
Utilities Expense	153
Prepaid Insurance	1,216
Rent Expense	1,200
Accounts Receivable	4,080
Equipment	15,290
Wages Expense	1,650

ANS:

**Milner's Star Express Cleaning Service  
Income Statement  
For the Year Ended December 31, 20--**

Revenues:		
Fees earned		\$13,835
Expenses:		
Utilities expense	\$ 153	
Rent expense	1,200	
Wages expense	<u>1,650</u>	
Total expenses		<u>3,003</u>
Net income		<u><u>\$10,832</u></u>

**Milner's Star Express Cleaning Service  
Statement of Owner's Equity  
For the Year Ended December 31, 20--**

D. Milner, capital January 1, 20--		\$ 6,000
Net income for the year	\$10,832	
Less withdrawals for the year	<u>1,750</u>	
Increase in capital		<u>9,082</u>
D. Milner, capital December 31, 20--		<u><u>\$15,082</u></u>

**Milner's Star Express Cleaning Service  
Balance Sheet  
December 31, 20--**

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ 2,026	Accounts payable	\$ 7,530
Prepaid insurance	1,216		
Accounts receivable	4,080		
Equipment	<u>15,290</u>	<b>Owner's Equity</b>	
Total assets	<u><u>\$22,612</u></u>	D. Milner, capital	<u>15,082</u>
		Total liab. & owner's equity	<u><u>\$22,612</u></u>

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-5  
NAT: BUSPROG: Analytic                      STA: AICPA FN-Reporting  
TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Application  
NOT: 15 min.

6. From the following list of accounts, prepare an income statement, statement of owner's equity, and balance sheet for the year ended or at December 31, 20--, for J. Carr's Delivery Service.

Cash	\$11,450
Accounts Payable	4,450
Fees Earned	41,500
J. Carr, Capital January 1, 20--	14,500
J. Carr, Drawing	7,000
Office Supplies	250
Rent Expense	10,000
Accounts Receivable	7,000
Equipment	6,000
Wages Expense	14,000
Repairs Expense	250
Furniture	4,500

ANS:

**J. Carr's Delivery Service  
Income Statement  
For the Year Ended December 31, 20--**

Revenues:		
Fees earned		\$41,500
Expenses:		
Rent expense	\$10,000	
Wages expense	14,000	
Repairs expense	250	
Total expenses		<u>24,250</u>
Net income		<u>\$17,250</u>

**J. Carr's Delivery Service  
Statement of Owner's Equity  
For the Year Ended December 31, 20--**

J. Carr, capital January 1, 20--		\$14,500
Net income for the year	\$17,250	
Less withdrawals for the year	<u>7,000</u>	
Increase in capital		<u>10,250</u>
J. Carr, capital December 31, 20--		<u>\$24,750</u>

**J. Carr's Delivery Service  
Balance Sheet  
December 31, 20--**

Assets		Liabilities	
Cash	\$11,450	Accounts Payable	\$ 4,450
Accounts receivable	7,000		
Office supplies	250		
Equipment	6,000		
Furniture	<u>4,500</u>		
Total assets	<u>\$29,200</u>		
		Owner's Equity	
		J. Carr, capital	<u>24,750</u>
		Total liab. & owner's equity	<u>\$29,200</u>

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-5  
NAT: BUSPROG: Analytic                      STA: AICPA FN-Reporting  
TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Application  
NOT: 15 min.

7. Dr. Etana Jenson is a podiatrist. As of December 31, Jenson owned the following assets related to the professional practice:

Cash	\$6,600	X-ray Equipment	\$9,000
Office Equipment	3,500	Laboratory Equipment	3,000

As of that date, Jenson owed business suppliers as follows:

Top Flight Office Equipment Co.	\$3,000
Dunhill Medical Supplies Company	1,000
Island Gas Company	2,200

Required:

- a. Compute the amount of assets, liabilities, and owners' equity as of December 31.

Assets                      =                      Liabilities                      +                      Owner's Equity

- b. Assuming that during January there is an increase of \$4,600 in Dr. Jenson's business assets and an increase of \$2,500 in the business liabilities, compute the resulting equation as of January 31.

- c. Assuming that during February there is a decrease of \$1,500 in assets and a decrease of \$1,200 in liabilities, compute the resulting accounting equation as of February 28.

ANS:

	<b>Assets</b>	<b>=</b>	<b>Liabilities</b>	<b>+</b>	<b>Owner's Equity</b>
a.	\$22,100	=	\$6,200	+	\$15,900
b.	26,700	=	8,700	+	18,000
c.	25,200	=	7,500	+	17,700

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-3 | LO: 2-4  
 NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Comprehension  
 NOT: 3 min.

8. Kristin Holden started her own consulting business in July, 20--. During the first month, the following transactions occurred:
- Owner invested \$12,000 cash in the business.
  - Purchased office equipment for \$7,500 cash.
  - Purchased computer equipment costing \$11,500 on account.
  - Paid \$1,100 office rent for the month.
  - Received \$1,700 cash from a client for services rendered.
  - Paid water bill for the month, \$170.
  - Paid \$2,400 on account for computer equipment purchased in transaction (c).
  - Paid the electric bill for the month, \$200.

Required:

Record the effects of these transactions in an accounting equation worksheet.

	ASSETS					=	LIABILITIES			>
	Cash	+	Office Equip.	+	Computer Equip.	=	Accounts Payable	+	K. Holden, Capital	>
a.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
b.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
c.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
d.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
e.	_____		_____		_____		_____		_____	>



Bal.	_____	_____	_____	_____	_____	_____	>
f.	_____	_____	_____	_____	_____	_____	>
Bal.	_____	_____	_____	_____	_____	_____	>
g.	_____	_____	_____	_____	_____	_____	>
Bal.	_____	_____	_____	_____	_____	_____	>
h.	_____	_____	_____	_____	_____	_____	>
Bal.	_____	_____	_____	_____	_____	_____	>

<	+	<b>OWNER'S EQUITY</b>					
<		<b>Client</b>				<b>Utilities</b>	
	+	<b>Fees</b>	-	<b>Rent Expense</b>	-	<b>Expense</b>	
<	a.	_____		_____		_____	
<	Bal.	_____		_____		_____	
<	b.	_____		_____		_____	
<	Bal.	_____		_____		_____	
<	c.	_____		_____		_____	
<	Bal.	_____		_____		_____	
<	d.	_____		_____		_____	
<	Bal.	_____		_____		_____	
<	e.	_____		_____		_____	
<	Bal.	_____		_____		_____	
<	f.	_____		_____		_____	
<	Bal.	_____		_____		_____	
<	g.	_____		_____		_____	
<	Bal.	_____		_____		_____	
<	h.	_____		_____		_____	
<	Bal.	_____		_____		_____	

ANS:

		<b>ASSETS</b>			=	<b>LIABILITIES</b>		>
			<b>Office</b>			<b>Accounts</b>	<b>K. Holden,</b>	>
	<b>Cash</b>	+	<b>Equip.</b>	+	<b>Computer</b>	<b>Payable</b>	<b>Capital</b>	
					<b>Equip.</b>			
a.	<u>12,000</u>						<u>12,000</u>	>
Bal.	12,000						12,000	>
b.	<u>(7,500)</u>		<u>7,500</u>					>
Bal.	4,500		7,500				12,000	>
c.					<u>11,500</u>	<u>11,500</u>		>
Bal.	4,500		7,500		11,500	11,500	12,000	>
d.	<u>(1,100)</u>							>
Bal.	3,400		7,500		11,500	11,500	12,000	>
e.	<u>1,700</u>							>
Bal.	5,100		7,500		11,500	11,500	12,000	>
f.	<u>(170)</u>							>
Bal.	4,930		7,500		11,500	11,500	12,000	>
g.	<u>(2,400)</u>					<u>(2,400)</u>		>
Bal.	2,530		7,500		11,500	9,100	12,000	>
h.	<u>(200)</u>							>
Bal.	<u><u>2,330</u></u>		<u><u>7,500</u></u>		<u><u>11,500</u></u>	<u><u>9,100</u></u>	<u><u>12,000</u></u>	>

<	+	<b>OWNER'S EQUITY</b>		
<		<b>Client</b>		<b>Utilities</b>
<	+	<b>Fees</b>	–	<b>Expense</b>
<	a.			
<	Bal.			
<	b.			
<	Bal.			
<	c.			
<	Bal.			
<	d.		<u>1,100</u>	
<	Bal.			
<	e.	<u>1,700</u>	<u>1,100</u>	
<	Bal.	<u>1,700</u>	<u>1,100</u>	
<	f.			<u>170</u>
<	Bal.	<u>1,700</u>	<u>1,100</u>	<u>170</u>
<	g.			
<	Bal.	<u>1,700</u>	<u>1,100</u>	<u>170</u>
<	h.			<u>200</u>
<	Bal.	<u><u>1,700</u></u>	<u><u>1,100</u></u>	<u><u>370</u></u>

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4  
 NAT: BUSPROG: Analytic STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-06-Recording Transactions KEY: Bloom's: Knowledge  
 NOT: 10 min.

## COMPLETION

- Most businesses recognize \_\_\_\_\_ when earned, even if cash has not yet been received.

ANS: revenue

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4  
 NAT: BUSPROG: Communication STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-04-Cash vs. Accrual KEY: Bloom's: Knowledge  
 NOT: 1 min.

- \_\_\_\_\_ represent the decrease in assets (or increase in liabilities) as a result of efforts made to produce revenues.

ANS: Expenses

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4  
 NAT: BUSPROG: Communication STA: AICPA FN-Reporting  
 TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge  
 NOT: 1 min.

- The \_\_\_\_\_, sometimes called the profit and loss statement, reports the profitability of business operations for a specific period of time.

ANS: income statement

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-5  
NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.

4. \_\_\_\_\_ represent the amount a business charges customers for products sold or services performed.

ANS: Revenues

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4  
NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.

5. The relationship between the three basic accounting elements: \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, can be expressed in the form of a simple equation known as the accounting equation.

ANS:

assets, liabilities, owner's equity  
assets, owner's equity, liabilities  
liabilities, assets, owner's equity  
liabilities, owner's equity, assets  
owner's equity, assets, liabilities  
owner's equity, liabilities, assets

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-2  
NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.

6. \_\_\_\_\_ represent something owed to another business entity.

ANS: Liabilities

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1  
NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.

7. A(n) \_\_\_\_\_ is a written promise to pay a supplier for assets purchased or services received.

ANS: notes payable

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1  
NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.

8. The report which shows a firm's assets, liabilities, and owner's equity as of a specific date is called the \_\_\_\_\_.

ANS: balance sheet

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-5  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting  
TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Comprehension  
NOT: 1 min.

9. The \_\_\_\_\_ reports the investments and withdrawals by the owner, the profits and losses generated through operations, and how they have affected the capital account.

ANS: statement of owner's equity

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-5  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting  
TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Comprehension  
NOT: 1 min.

10. 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.

ANS: withdrawal

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-4  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

11. \_\_\_\_\_ is the amount by which business assets exceed the business liabilities.

ANS: Owner's equity

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

12. Amounts owed to the business by its customers are called \_\_\_\_\_.

ANS: accounts receivable

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

13. A(n) \_\_\_\_\_ is an economic event that has a direct impact on the business.

ANS: business transaction

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-3  
NAT: BUSPROG: Communication                      STA: AICPA BB-Industry

TOP: ACBSP: APC-02-GAAP  
NOT: 1 min.

KEY: Bloom's: Knowledge

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

ANS: account

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-3  
NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.

15. According to the \_\_\_\_\_, nonbusiness assets and liabilities are not included in the business entity's accounting records.

ANS: business entity concept

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1  
NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.

16. Items that are owned by a business and will provide future benefits are called \_\_\_\_\_.

ANS: assets

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1  
NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.

## MATCHING

*Match the terms with the definitions.*

- a. account
- b. accounts payable
- c. accounts receivable
- d. accounting equation
- e. assets
- f. balance sheet
- g. business entity
- h. business entity concept
- i. business transaction
- j. drawing
- k. expenses
- l. income statement
- m. liability
- n. net income
- o. net loss
- p. notes payable
- q. owner's equity
- r. revenues
- s. statement of owner's equity

1. The amount by which the business assets exceed the business liabilities.
2. Reports assets, liabilities, and owner's equity on a specific date.
3. Withdrawals that reduce owner's equity as a result of the owner taking cash or other assets out of the business for personal use.
4. The decrease in assets (or increase in liabilities) as a result of efforts to produce revenues.
5. A formal written promise to pay a supplier or lender a specified sum of money at a definite future time.
6. The excess of total revenues over total expenses for the period.
7. Reports the profitability of business operations for a specific period of time.
8. Reports beginning capital, plus net income, less withdrawals to compute ending capital.
9. An economic event that has a direct impact on the business.
10. The concept that nonbusiness assets and liabilities are not included in the business' accounting records.
11. Consists of the three basic accounting elements: assets = liabilities + owner's equity.
12. Items a business owns that will provide future benefits.
13. An unwritten promise to pay a supplier for assets purchased or services rendered.
14. A separate record used to summarize changes in each asset, liability, and owner's equity of a business.
15. An amount owed to a business by its customers as a result of the sale of goods or services.
16. An individual, association, or organization that engages in economic activities and controls specific economic resources.

1. ANS: Q                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-1              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
 TOP: ACBSP: APC-02-GAAP              KEY: Bloom's: Knowledge  
 NOT: 1 min.
2. ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-5              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
 TOP: ACBSP: APC-09-Financial Statements              KEY: Bloom's: Knowledge  
 NOT: 1 min.
3. ANS: J                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-4              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
 TOP: ACBSP: APC-02-GAAP              KEY: Bloom's: Knowledge  
 NOT: 1 min.
4. ANS: K                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-4              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
 TOP: ACBSP: APC-02-GAAP              KEY: Bloom's: Knowledge  
 NOT: 1 min.
5. ANS: P                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-1              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
 TOP: ACBSP: APC-02-GAAP              KEY: Bloom's: Knowledge  
 NOT: 1 min.
6. ANS: N                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-4              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
 TOP: ACBSP: APC-09-Financial Statements              KEY: Bloom's: Knowledge  
 NOT: 1 min.
7. ANS: L                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-5              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
 TOP: ACBSP: APC-09-Financial Statements              KEY: Bloom's: Knowledge  
 NOT: 1 min.

8. ANS: S PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-5 NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge  
NOT: 1 min.
9. ANS: I PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.
10. ANS: H PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.
11. ANS: D PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.
12. ANS: E PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.
13. ANS: B PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.
14. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.
15. ANS: C PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.
16. ANS: G PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.