

Chapter 02 Analyzing and Recording Transactions

MULTIPLE CHOICE QUESTIONS

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

A) True
B) False

Answer: A

Explanation:

Diff: 1

Topic: Analyzing and Recording Process

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

A) True
B) False

Answer: B

Explanation:

Diff: 1

Topic: Analyzing and Recording Process

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

A) True
B) False

Answer: A

Explanation:

Diff: 1

Topic: Analyzing and Recording Process

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: A

Explanation:

Diff: 1

Topic: Analyzing and Recording Process

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: A

Explanation:

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

7) Withdrawals by the owner are a business expense.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

9) Unearned revenues are classified as liabilities.

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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.

- A) True
- B) False

Answer: A

Explanation:

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

12) Owner withdrawals always decrease equity.

- A) True
- B) False

Answer: A

Explanation:

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

13) Expenses always decrease equity.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

14) Revenues always increase equity.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

15) Owner investments always decrease equity.

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

16) "Unearned" accounts are liabilities that must be fulfilled.

- A) True
- B) False

Answer: A

Explanation:

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: A

Explanation:

Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: A

Explanation:

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

21) Increases in liability accounts are recorded as debits.

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

22) Debits increase asset and expense accounts.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

23) *Credits* always increase account balances.

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

24) *Crediting* an expense account decreases it.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

25) A revenue account normally has a debit balance.

- A) True
- B) False

Answer: B

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

26) Asset accounts are decreased by debits.

- A) True
- B) False

Answer: B

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: A

Explanation:

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: A

Explanation:

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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.

- A) True
- B) False

Answer: A

Explanation:

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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.

- A) True
- B) False

Answer: B

Explanation:

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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.

- A) True
- B) False

Answer: A

Explanation:

Diff: 2

Topic: Debt Ratio

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 2

Topic: Debt Ratio

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 1

Topic: Debt Ratio

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: A

Explanation:

Diff: 2

Topic: Debt Ratio

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: A

Explanation:

Diff: 2

Topic: Debt Ratio

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 3

Topic: Debt Ratio

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 1

Topic: Analyzing Transactions

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: A

Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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.

- A) True
- B) False

Answer: A

Explanation:

Diff: 1

Topic: Preparing a Trial Balance

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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 owner's capital and withdrawals, followed by revenues and expenses.

- A) True
- B) False

Answer: A

Explanation:

Diff: 1

Topic: Preparing a Trial Balance

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 2

Topic: Preparing a Trial Balance

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 1

Topic: Preparing a Trial Balance

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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).

- A) True
- B) False

Answer: A

Explanation:

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: A

Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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).

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Debits and Credits; Preparing a Trial Balance

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: FN Reporting; BB Global

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

- A) True
- B) False

Answer: B

Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: FN Reporting; BB Global

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

- A) True
- B) False

Answer: A

Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: FN Reporting; BB Global

66) The accounting process begins with:

- A) Analysis of business transactions and source documents.
- B) Presentation of financial information to decision-makers.
- C) Summarizing the recorded effect of business transactions.
- D) Preparing financial statements and other reports.
- E) Preparation of the trial balance.

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing and Recording Process

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

- 67) Which of the following statements is **not** true:
- A) Accounts receivable are increased by customer payments.
 - B) Accounts receivable are held by a seller.
 - C) Accounts receivable are classified as assets.
 - D) Accounts receivable are increased by billings to customers.
 - E) Accounts receivable arise from credit sales.

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

- 68) A business's source documents may include all of the following **except**:
- A) Sales tickets.
 - B) Bank statements.
 - C) Ledgers.
 - D) Purchase orders.
 - E) Checks.

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing and Recording Process

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

69) A business's source documents:

- A) Include the chart of accounts.
- B) Must be in electronic form.
- C) Include the ledger.
- D) Are prepared internally to ensure accuracy.
- E) Provide objective evidence that a transaction has taken place.

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing and Recording Process

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) Capital account.
- B) Expense account.
- C) Liability account.
- D) Withdrawals account.
- E) Revenue account.

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) The owner's withdrawals account.
- B) The owner's capital account.
- C) A revenue account.
- D) An expense account.
- E) A liability account.

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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) An account called Land is commonly used to record increases and decreases in both the land and buildings owned by a business.
- C) Promises of future payment by the customer are called accounts receivable.
- D) Accrued liabilities include accounts receivable.
- E) Increases and decreases in cash are always recorded in the owner's capital account.

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 3

Topic: The Account and Its Analysis

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Decision Making

74) Unearned revenues are generally:

- A) Increases to owners' capital.
- B) Recorded as an asset in the accounting records.
- C) Liabilities created when a customer pays in advance for products or services before the revenue is earned.
- D) Revenues that have been earned but not yet collected in cash.
- E) Revenues that have been earned and received in cash.

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

75) Unearned revenues refer to a(n):

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

Answer: C

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

- A) Decreases in equity.
- B) Payments made for products and services that never expire.
- C) Promises of payments by customers.
- D) Classified as liabilities on the balance sheet.
- E) Assets that represent prepayments of future expenses.

Answer: E

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: B

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

79) A company's ledger is:

- A) A list of all accounts a company uses with an assigned identification number.
- B) A collection of documents that describe transactions and events entering the accounting process.
- C) A record containing increases and decreases in a specific asset, liability, equity, revenue, or expense item.
- D) A journal in which transactions are first recorded.
- E) A record containing all accounts and their balances used by the company.

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) General Journal.
- B) Source document.
- C) Trial balance.
- D) Chart of accounts.
- E) Journal.

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: B

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) Increase.
- B) Account balance.
- C) Decrease.
- D) Debit.
- E) Credit.

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

84) Identify the statement below that is *incorrect*.

- A) The normal balance of owner's withdrawals is a debit.
- B) The normal balance of the owner's capital account is a credit.
- C) The normal balance of an expense account is a credit.
- D) The normal balance of accounts receivable is a debit.
- E) The normal balance of unearned revenues is a credit.

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) Service Revenue
- B) Owner's Capital
- C) Unearned Revenue
- D) Accounts Payable
- E) Wages Expense

Answer: E

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) Accounts Payable
- B) Cash
- C) Supplies
- D) Prepaid Insurance
- E) Owner's Withdrawals

Answer: A

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) Cash
- B) Accounts Receivable
- C) Supplies
- D) Salaries Expense
- E) Unearned Revenue

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

- A) Accounts Payable
- B) Accounts Receivable
- C) Owner's Capital
- D) Unearned Revenue
- E) Service Revenue

Answer: B

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

89) Identify the account below that is classified as an asset account:

- A) Accounts Payable
- B) Unearned Revenue
- C) J. Jackson, Capital
- D) Service Revenue
- E) Supplies

Answer: E

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

90) Identify the account below that is classified as a liability account:

- A) J. Jackson, Capital
- B) Equipment
- C) Accounts Payable
- D) Salaries Expense
- E) Cash

Answer: C

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

91) Identify the account below that impacts the Equity of a business:

- A) Accounts Payable
- B) Utilities Expense
- C) Cash
- D) Accounts Receivable
- E) Unearned Revenue

Answer: B

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

92) Which of the following is NOT an equity account:

- A) Owner, Capital
- B) Wages Expense
- C) Services Revenue
- D) Owner, Withdrawals
- E) Unearned Revenue

Answer: E

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

93) Which of the following is NOT an asset account:

- A) Cash
- B) Land
- C) Services Revenue
- D) Equipment
- E) Buildings

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

94) A business uses a credit to record:

- A) A decrease in an asset account.
- B) A decrease in a capital account.
- C) A decrease in a revenue account.
- D) A decrease in an unearned revenue account.
- E) An increase in an expense account.

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

- 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) Drawing account.
 - B) Balance column sheet.
 - C) Withdrawals account.
 - D) Capital account.
 - E) T-account.

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

- 96) Identify the statement below that is correct.
- A) The left side of a T-account is the credit side.
 - B) In certain circumstances the total amount debited need not equal the total amount credited for a particular transaction.
 - C) The left side of a T-account is the debit side.
 - D) Debits decrease asset and expense accounts, and increase liability, equity, and revenue accounts.
 - E) Credits increase asset and expense accounts, and decrease liability, equity, and revenue accounts.

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

97) An account balance is:

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

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

98) Select the account below that normally has a credit balance.

- A) Owner, Withdrawals.
- B) Cash.
- C) Sales Salaries Expense.
- D) Office Equipment.
- E) Wages Payable.

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

- 99) A debit is used to record which of the following:
- A) A decrease in an expense account.
 - B) An increase in the owner's capital account.
 - C) An increase in a revenue account.
 - D) An increase in the owner's withdrawals account.
 - E) A decrease in an asset account.

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

- 100) A credit entry:
- A) Is recorded on the left side of a T-account.
 - B) Is always a decrease in an account.
 - C) Increases asset and expense accounts, and decreases liability, owner's capital, and revenue accounts.
 - D) Is always an increase in an account.
 - E) Decreases asset and expense accounts, and increases liability, owner's capital, and revenue accounts.

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

- 101) A double-entry accounting system is an accounting system:
- A) That may only be used if T-accounts are used.
 - B) That insures that errors never occur.
 - 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 records the effects of transactions and other events in at least two accounts with equal debits and credits.
 - E) That records each transaction twice.

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: C

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

- A) Debit to Accounts Receivable.
- B) Credit to Accounts Payable.
- C) Credit to Willow, Capital.
- D) Debit to Accounts Payable.
- E) Credit to Cash.

Answer: B

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 106) Richard Redden contributed \$70,000 in cash and land worth \$130,000 to open a new business, RR Consulting. Which of the following general journal entries will RR Consulting make to record this transaction?
- A) Debit Assets \$200,000; credit Redden, Capital, \$200,000.
 - B) Debit Redden, Capital, \$200,000; credit Cash \$70,000, credit Land, \$130,000.
 - C) Debit Cash \$70,000; debit Land \$130,000; credit Redden, Capital, \$200,000.
 - D) Debit Redden, Capital, \$200,000; credit Assets, \$200,000.
 - E) Debit Cash and Land, \$200,000; credit Redden, Capital, \$200,000.

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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 Accounts payable, \$500; credit Office supplies, \$500.
- B) Debit Cash, \$500; credit Office supplies, \$500.
- C) Debit Office supplies, \$500; credit Accounts payable, \$500.
- D) Debit Office supplies, \$500; credit Cash, \$500.
- E) Debit Office supplies expense, \$500; credit Cash, \$500.

Answer: C

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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 Accounts payable, \$500; credit Cash, \$500.
- B) Debit Office supplies expense, \$500; credit Cash, \$500.
- C) Debit Cash, \$500; credit Office supplies, \$500.
- D) Debit Office supplies, \$500; credit Accounts payable, \$500.
- E) Debit Office supplies, \$500; credit Cash, \$500.

Answer: A

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: C

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: C

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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)

Supplies Expense	7,000	
Accounts Payable		7,000

B)

Supplies	7,000	
Cash		7,000

C)

Supplies	7,000	
Accounts Payable		7,000

D)

Accounts Payable	7,000	
Supplies		7,000

E)

Cash	7,000	
Supplies		7,000

Answer: B

Explanation: A)
B)
C)
D)
E)

Diff: 2

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

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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)

Prepaid Utilities	500	
Accounts Payable		500

B)

Utilities Expense	500	
Cash		500

C)

Cash	500	
Accounts Payable		500

D)

Utilities Expense	500	
Accounts Payable		500

E)

Cash	500	
Utilities Expense		500

Answer: B

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions; Journal Entries

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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)

Cash	2,500	
Insurance Expense		2,500

B)

Prepaid Insurance	2,500	
Cash		2,500

C)

Cash	2,500	
Prepaid Insurance		2,500

D)

Insurance Expense	2,500	
Cash		2,500

E)

Insurance Expense	2,500	
Prepaid Insurance		2,500

Answer: B

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions; Journal Entries

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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)

Cash	800	
Unearned Catering Revenue		800

B)

Accounts Receivable	800	
Catering Revenue		800

C)

Cash	800	
Accounts Receivable		800

D)

Unearned Catering Revenue	800	
Catering Revenue		800

E)

Cash	800	
Catering Revenue		800

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 3

Topic: Analyzing Transactions; Journal Entries

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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)

Cash	1,000	
Catering Revenue		1,000

B)

Unearned Catering Revenue	1,000	
Catering Revenue		1,000

C)

Catering Revenue	1,000	
Accounts Receivable		1,000

D)

Accounts Receivable	1,000	
Catering Revenue		1,000

E)

Accounts Receivable	1,000	
Unearned Catering Revenue		1,000

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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)

Accounts Receivable	1,500	
Unearned Design Revenue		1,500

B)

Cash	1,500	
Unearned Design Revenue		1,500

C)

Cash	1,500	
Design Revenue		1,500

D)

Accounts Receivable	1,500	
Cash		1,500

E)

Cash	1,500	
Accounts Receivable		1,500

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

A)

J. Smith, Capital	100	
J. Smith, Withdrawals		100

B)

J. Smith, Withdrawals	100	
J. Smith, Capital		100

C)

Cash	100	
J. Smith, Withdrawals		100

D)

Cash	100	
J. Smith, Capital		100

E)

J. Smith, Withdrawals	100	
Cash		100

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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)

Salaries Expense	300	
Cash		300

C)

Salaries Expense	300	
J. Smith, Withdrawals		300

D)

Cash	300	
Salaries Expense		300

E)

Salaries Payable	300	
Salaries Expense		300

Answer: B

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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)

No journal entry is required		

B)

Utilities Expense	400	
Cash		400

C)

Utilities Expense	400	
Accounts Payable		400

D)

Accounts Payable	400	
Utilities Expense		400

E)

Cash	400	
Utilities Expense		400

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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)

Cash	900	
Consulting Revenue		800
Design Revenue		100

B)

Consulting Revenue	800	
Design Revenue	100	
Cash		900

C)

Accounts Payable	800	
Design Revenue		100
Consulting Revenue		800

D)

Accounts Receivable	900	
Consulting Revenue		800
Design Revenue		100

E)

Design Revenue	100	
Consulting Revenue	800	
Accounts Receivable		900

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 3

Topic: Analyzing Transactions; Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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)

Accounts Receivable	250	
Rental Revenue		100
Instruction Revenue		150

B)

Unearned Revenue	250	
Rental Revenue		100
Instruction Revenue		150

C)

Rental Revenue	100	
Instruction Revenue	150	
Cash		250

D)

Accounts Payable	250	
Rental Revenue		100
Instruction Revenue		150

E)

Cash	250	
Rental Revenue		100
Instruction Revenue		150

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 3

Topic: Analyzing Transactions; Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

A)

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

B)

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

C)

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

D)

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

E)

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

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 3

Topic: Analyzing Transactions; Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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 payable	12,000	
Consulting services revenue		12,000

B)

Cash	12,000	
Consulting services revenue		12,000

C)

Accounts receivable	12,000	
Cash		12,000

D)

Accounts Receivable	12,000	
Consulting services revenue		12,000

E)

Consulting services revenue	12,000	
Cash		12,000

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions; Journal Entries

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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	
Consulting services revenue		12,000

B)

Accounts receivable	12,000	
Cash		12,000

C)

Consulting services revenue	12,000	
Cash		12,000

D)

Cash	12,000	
Consulting services revenue		12,000

E)

Accounts payable	12,000	
Consulting services revenue		12,000

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

A)

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

B)

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

C)

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

D)

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

E)

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

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions; Journal Entries

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

A)

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

B)

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

C)

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

D)

Investments	40,000	
Cash		40,000

E)

Cash	40,000	
Increased Equity		40,000

Answer: B

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions; Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

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

Answer: A

Explanation: A) Beginning Cash Balance + Debits - Credits = Ending Cash Balance
Beginning Cash Balance + \$12,200 - \$11,500 = \$5,000
Beginning Cash Balance + \$700 = \$5,000; Beginning Balance = \$4,300 debit balance

	Cash
	4,300
12,200	11,500
	5,000

B) 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	

C) 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	

D) 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	

E) Beginning Cash Balance + Debits - Credits = Ending Cash Balance

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

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

Cash	
4,300	
12,200	11,500
5,000	

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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) \$47,000. B) \$5,000. C) \$52,000. D) \$32,000. E) \$57,000.

Answer: A

Explanation: A) Beginning Accounts Receivable Balance + Credit Sales (Debits) - Customer Payments (Credits) = Ending Accounts Receivable Balance
 $\$18,000 + \text{Credit Sales (Debits)} - \$52,000 = \$13,000$
 $\text{Credit Sales (Debits)} - \$34,000 = \$13,000$
 $\text{Credit Sales (Debits)} = \$47,000$

Accounts Receivable

18,000
47,000 52,000
13,000

B) Beginning Accounts Receivable Balance + Credit Sales (Debits) - Customer Payments (Credits) = Ending Accounts Receivable Balance
 $\$18,000 + \text{Credit Sales (Debits)} - \$52,000 = \$13,000$
 $\text{Credit Sales (Debits)} - \$34,000 = \$13,000$
 $\text{Credit Sales (Debits)} = \$47,000$

Accounts Receivable

18,000
47,000 52,000
13,000

C) Beginning Accounts Receivable Balance + Credit Sales (Debits) - Customer Payments (Credits) = Ending Accounts Receivable Balance
 $\$18,000 + \text{Credit Sales (Debits)} - \$52,000 = \$13,000$
 $\text{Credit Sales (Debits)} - \$34,000 = \$13,000$
 $\text{Credit Sales (Debits)} = \$47,000$

Accounts Receivable	
18,000	
47,000	52,000
13,000	

D) Beginning Accounts Receivable Balance + Credit Sales (Debits) - Customer Payments (Credits) = Ending Accounts Receivable Balance
 $\$18,000 + \text{Credit Sales (Debits)} - \$52,000 = \$13,000$
 $\text{Credit Sales (Debits)} - \$34,000 = \$13,000$
 $\text{Credit Sales (Debits)} = \$47,000$

Accounts Receivable	
18,000	
47,000	52,000
13,000	

E) Beginning Accounts Receivable Balance + Credit Sales (Debits) - Customer Payments (Credits) = Ending Accounts Receivable Balance
 $\$18,000 + \text{Credit Sales (Debits)} - \$52,000 = \$13,000$
 $\text{Credit Sales (Debits)} - \$34,000 = \$13,000$
 $\text{Credit Sales (Debits)} = \$47,000$

Accounts Receivable	
18,000	
47,000	52,000
13,000	

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: A

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

$$\text{Beginning Cash Balance} + \$7,500 - \$8,600 = \$1,800$$

$$\text{Beginning Cash Balance} - \$1,100 = \$1,800$$

$$\text{Beginning Cash Balance} = \$2,900$$

Cash
2,900
7,500 8,600
1,800

B) Beginning Cash Balance + Cash Receipts - Cash Disbursements = Ending Cash Balance

$$\text{Beginning Cash Balance} + \$7,500 - \$8,600 = \$1,800$$

$$\text{Beginning Cash Balance} - \$1,100 = \$1,800$$

$$\text{Beginning Cash Balance} = \$2,900$$

Cash
2,900
7,500 8,600
1,800

C) Beginning Cash Balance + Cash Receipts - Cash Disbursements = Ending Cash Balance

$$\text{Beginning Cash Balance} + \$7,500 - \$8,600 = \$1,800$$

$$\text{Beginning Cash Balance} - \$1,100 = \$1,800$$

$$\text{Beginning Cash Balance} = \$2,900$$

Cash
2,900
7,500 8,600
1,800

D) 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

E) Beginning Cash Balance + Cash Receipts - Cash Disbursements = Ending Cash Balance

Beginning Cash Balance + \$7,500 - \$8,600 = \$1,800

Beginning Cash Balance - \$1,100 = \$1,800

Beginning Cash Balance = \$2,900

Cash

2,900

7,500 8,600

1,800

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

132) The following transactions occurred during July:

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

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

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

Provided services to a customer on credit, \$375.

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

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

What was the amount of revenue for July?

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

Answer: D

Explanation: A) Revenues = \$900 (from #1) + \$375 (from #4) = \$1,275

B) Revenues = \$900 (from #1) + \$375 (from #4) = \$1,275

C) Revenues = \$900 (from #1) + \$375 (from #4) = \$1,275

D) Revenues = \$900 (from #1) + \$375 (from #4) = \$1,275

E) Revenues = \$900 (from #1) + \$375 (from #4) = \$1,275

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

A) Debit Cash and credit T. Willow, Withdrawals.

B) Debit T. Willow, Withdrawals and credit Cash.

C) Debit Automobiles and credit Cash.

D) Debit Cash and credit Salary Expense.

E) Debit Salary Expense and credit Cash.

Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: B

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

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: D

Explanation: A) Beginning Accounts Receivable Balance + Services on Account - Collections from Customers = Ending Accounts Receivable Balance
 \$52,000 + \$12,500 - \$14,800 = Ending Accounts Receivable Balance
 Ending Accounts Receivable = \$49,700

Accounts Receivable	
52,000	
12,500	14,800
49,700	

B) Beginning Accounts Receivable Balance + Services on Account - Collections from Customers = Ending Accounts Receivable Balance
 $\$52,000 + \$12,500 - \$14,800 = \text{Ending Accounts Receivable Balance}$
 Ending Accounts Receivable = \$49,700

Accounts Receivable	
52,000	
12,500	14,800
49,700	

C) Beginning Accounts Receivable Balance + Services on Account - Collections from Customers = Ending Accounts Receivable Balance
 $\$52,000 + \$12,500 - \$14,800 = \text{Ending Accounts Receivable Balance}$
 Ending Accounts Receivable = \$49,700

Accounts Receivable	
52,000	
12,500	14,800
49,700	

D) Beginning Accounts Receivable Balance + Services on Account - Collections from Customers = Ending Accounts Receivable Balance
 $\$52,000 + \$12,500 - \$14,800 = \text{Ending Accounts Receivable Balance}$
 Ending Accounts Receivable = \$49,700

Accounts Receivable	
52,000	
12,500	14,800
49,700	

E) Beginning Accounts Receivable Balance + Services on Account - Collections from Customers = Ending Accounts Receivable Balance
 $\$52,000 + \$12,500 - \$14,800 = \text{Ending Accounts Receivable Balance}$
 Ending Accounts Receivable = \$49,700

Accounts Receivable	
52,000	
12,500	14,800
49,700	

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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) \$4,900. D) \$75,900. E) \$6,600.

Answer: A

Explanation: A) Beginning Accounts Payable Balance + Purchases on Account - Payments on Accounts = Ending Accounts Payable Balance
 $\$77,300 + \$43,500 - \$36,900 = \text{Ending Accounts Payable Balance}$
Ending Accounts Payable = \$83,900

Accounts Payable	
	77,300
36,900	43,500
	83,900

B) Beginning Accounts Payable Balance + Purchases on Account - Payments on Accounts = Ending Accounts Payable Balance
 $\$77,300 + \$43,500 - \$36,900 = \text{Ending Accounts Payable Balance}$
Ending Accounts Payable = \$83,900

Accounts Payable	
	77,300
36,900	43,500
	83,900

C) Beginning Accounts Payable Balance + Purchases on Account - Payments on Accounts = Ending Accounts Payable Balance
 $\$77,300 + \$43,500 - \$36,900 = \text{Ending Accounts Payable Balance}$
 Ending Accounts Payable = \$83,900

Accounts Payable	
	77,300
36,900	43,500
	83,900

D) Beginning Accounts Payable Balance + Purchases on Account - Payments on Accounts = Ending Accounts Payable Balance
 $\$77,300 + \$43,500 - \$36,900 = \text{Ending Accounts Payable Balance}$
 Ending Accounts Payable = \$83,900

Accounts Payable	
	77,300
36,900	43,500
	83,900

E) Beginning Accounts Payable Balance + Purchases on Account - Payments on Accounts = Ending Accounts Payable Balance
 $\$77,300 + \$43,500 - \$36,900 = \text{Ending Accounts Payable Balance}$
 Ending Accounts Payable = \$83,900

Accounts Payable	
	77,300
36,900	43,500
	83,900

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 137) On January 1 of the current year, Jimmy's Sandwich Company reported owner's capital totaling \$122,500. During the current year, total revenues were \$96,000 while total expenses were \$85,500. Also, during the current year Jimmy withdrew \$20,000 from the company. No other changes in equity occurred during the year. If, on December 31 of the current year, total assets are \$196,000, the **change** in owner's capital during the year was:
- A) A decrease of \$9,500.
 - B) An increase of \$73,500.

- C) An increase of \$9,500.
- D) A decrease of \$30,500.
- E) An increase of \$30,500.

Answer: A

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

$$\$122,500 + \$96,000 - \$85,500 - \$20,000 = \text{Ending Owner's Capital}$$

$$\text{Ending Owner's Capital} = \$113,000$$

$$\text{Change in Equity} = \text{Beginning Owner's Capital} - \text{Ending Owner's Capital}$$

$$\text{Change in Equity} = \$122,500 - \$113,000 = \$9,500 \text{ Decrease}$$

B) Beg. Owner's Capital + Revenues - Expenses - Withdrawals = End. Owner's Capital

$$\$122,500 + \$96,000 - \$85,500 - \$20,000 = \text{Ending Owner's Capital}$$

$$\text{Ending Owner's Capital} = \$113,000$$

$$\text{Change in Equity} = \text{Beginning Owner's Capital} - \text{Ending Owner's Capital}$$

$$\text{Change in Equity} = \$122,500 - \$113,000 = \$9,500 \text{ Decrease}$$

C) Beg. Owner's Capital + Revenues - Expenses - Withdrawals = End. Owner's Capital

$$\$122,500 + \$96,000 - \$85,500 - \$20,000 = \text{Ending Owner's Capital}$$

$$\text{Ending Owner's Capital} = \$113,000$$

$$\text{Change in Equity} = \text{Beginning Owner's Capital} - \text{Ending Owner's Capital}$$

$$\text{Change in Equity} = \$122,500 - \$113,000 = \$9,500 \text{ Decrease}$$

D) Beg. Owner's Capital + Revenues - Expenses - Withdrawals = End. Owner's Capital

$$\$122,500 + \$96,000 - \$85,500 - \$20,000 = \text{Ending Owner's Capital}$$

$$\text{Ending Owner's Capital} = \$113,000$$

$$\text{Change in Equity} = \text{Beginning Owner's Capital} - \text{Ending Owner's Capital}$$

$$\text{Change in Equity} = \$122,500 - \$113,000 = \$9,500 \text{ Decrease}$$

E) Beg. Owner's Capital + Revenues - Expenses - Withdrawals = End. Owner's Capital

$$\$122,500 + \$96,000 - \$85,500 - \$20,000 = \text{Ending Owner's Capital}$$

$$\text{Ending Owner's Capital} = \$113,000$$

$$\text{Change in Equity} = \text{Beginning Owner's Capital} - \text{Ending Owner's Capital}$$

$$\text{Change in Equity} = \$122,500 - \$113,000 = \$9,500 \text{ Decrease}$$

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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:

Andrea invested \$13,500 cash in the business.

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

The company paid \$2,100 cash for an insurance policy covering the next 24 months.

The company received \$5,700 cash for services provided during January.

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

The company provided \$2,750 of services to customers on account.

The company paid cash of \$1,500 for monthly rent.

The company paid \$3,100 on the office equipment purchased in transaction #5 above.

Paid \$275 cash for January utilities.

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

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

Answer: A

Explanation: A) Ending Cash Balance = \$13,500 (#1) - \$2,100 (#3) + \$5,700 (#4) - \$1,500 (#7) - \$3,100 (#8) - \$275 (#9) = \$12,225
B) Ending Cash Balance = \$13,500 (#1) - \$2,100 (#3) + \$5,700 (#4) - \$1,500 (#7) - \$3,100 (#8) - \$275 (#9) = \$12,225
C) Ending Cash Balance = \$13,500 (#1) - \$2,100 (#3) + \$5,700 (#4) - \$1,500 (#7) - \$3,100 (#8) - \$275 (#9) = \$12,225
D) Ending Cash Balance = \$13,500 (#1) - \$2,100 (#3) + \$5,700 (#4) - \$1,500 (#7) - \$3,100 (#8) - \$275 (#9) = \$12,225
E) Ending Cash Balance = \$13,500 (#1) - \$2,100 (#3) + \$5,700 (#4) - \$1,500 (#7) - \$3,100 (#8) - \$275 (#9) = \$12,225

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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:

Andrea invested \$13,500 cash in the business.

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

The company paid \$2,100 cash for an insurance policy covering the next 24 months.
The company received \$5,700 cash for services provided during January.
The company purchased \$6,200 of office equipment on credit.
The company provided \$2,750 of services to customers on account.
The company paid cash of \$1,500 for monthly rent.
The company paid \$3,100 on the office equipment purchased in transaction #5 above.
Paid \$275 cash for January utilities.

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

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

Answer: B

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

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

140) The debt ratio is used:

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

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Debt Ratio

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

141) Identify the correct formula below used to calculate the debt ratio.

- A) Total Liabilities/Total Assets.
- B) Total Equity/Total Assets.
- C) Total Assets/Total Liabilities.
- D) Total Equity/Total Liabilities.
- E) Total Liabilities/Total Equity.

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Debt Ratio

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

- 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) Higher financial leverage involves lower risk.
 - C) Able's Bakery's financial leverage is *greater* than Lu Lu's.
 - D) Able's Bakery's financial leverage is *less* than Lu Lu's.
 - E) Lu Lu's has a higher risk from its financial leverage.

Answer: C

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: Debt Ratio

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

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

Answer: E

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: Debt Ratio

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

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

Answer: D

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: Debt Ratio

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

- 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 has a lower risk from its financial leverage.
 - B) Billy's Catering has the exact same dollar amount of total liabilities and total assets.
 - C) Billy's Catering finances a relatively lower portion of its assets with liabilities than Jackson's Shoes.
 - D) Jackson's Shoes has a higher risk from its financial leverage.
 - E) Jackson's Shoes has less equity per dollar of assets than Billy's Catering.

Answer: B

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: Debt Ratio

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

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

Answer: A

Explanation: A) Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = \$110 million/\$425 million; Debt Ratio = 0.2588 = 25.9%

B) Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = \$110 million/\$425 million; Debt Ratio = 0.2588 = 25.9%

C) Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = \$110 million/\$425 million; Debt Ratio = 0.2588 = 25.9%

D) Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = \$110 million/\$425 million; Debt Ratio = 0.2588 = 25.9%

E) Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = \$110 million/\$425 million; Debt Ratio = 0.2588 = 25.9%

Diff: 3

Topic: Debt Ratio

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

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

Answer: B

Explanation: A) Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = \$100 million/\$385 million; Debt Ratio = 0.2597 = 26.0%

B) Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = \$100 million/\$385 million; Debt Ratio = 0.2597 = 26.0%

C) Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = \$100 million/\$385 million; Debt Ratio = 0.2597 = 26.0%

D) Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = \$100 million/\$385 million; Debt Ratio = 0.2597 = 26.0%

E) Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = \$100 million/\$385 million; Debt Ratio = 0.2597 = 26.0%

Diff: 3

Topic: Debt Ratio

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

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

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 3

Topic: Debt Ratio

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

- 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) \$400,000. B) 66.67%. C) 33.3%. D) 75.0%. E) 300%.

Answer: D

Explanation: A) Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = \$300,000/\$400,000*; Debt Ratio = 0.75 = 75%

*Total Assets = Total Liabilities + Total Equity
Total Assets = \$300,000 + \$100,000; Total Assets = \$400,000

B) 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

C) 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

D) 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

E) 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

Diff: 3

Topic: Debt Ratio

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

- 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 owner withdrawals of \$5,000. There were no other changes in owner's capital during the year and total assets at the end of the year were \$260,000. Trenton Company's debt ratio at the end of the current year is:

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

Answer: D

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

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

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

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

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

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

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

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

B) Debt Ratio = Total Liabilities/Total Assets

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

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

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

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

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

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

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

C) Debt Ratio = Total Liabilities/Total Assets

$$\text{Debt Ratio} = \$175,000^{**}/\$260,000; \text{Debt Ratio} = 0.6730 = 67.3\%$$

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

$$\$248,000 = \$175,000 + \text{Beginning Total Equity}; \text{Beginning Total Equity} = \$73,000$$

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

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

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

$$\$260,000 = \text{Ending Total Liabilities} + \$85,000; \text{Ending Total Liabilities} = \$175,000$$

D) Debt Ratio = Total Liabilities/Total Assets

$$\text{Debt Ratio} = \$175,000^{**}/\$260,000; \text{Debt Ratio} = 0.6730 = 67.3\%$$

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

$$\$248,000 = \$175,000 + \text{Beginning Total Equity}; \text{Beginning Total Equity} = \$73,000$$

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

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

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

$$\$260,000 = \text{Ending Total Liabilities} + \$85,000; \text{Ending Total Liabilities} = \$175,000$$

E) Debt Ratio = Total Liabilities/Total Assets

$$\text{Debt Ratio} = \$175,000^{**}/\$260,000; \text{Debt Ratio} = 0.6730 = 67.3\%$$

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

$$\$248,000 = \$175,000 + \text{Beginning Total Equity}; \text{Beginning Total Equity} = \$73,000$$

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

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

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

$$\$260,000 = \text{Ending Total Liabilities} + \$85,000; \text{Ending Total Liabilities} = \$175,000$$

Diff: 3

Topic: Debt Ratio

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

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

- A) Journalizing.
- B) Double-entry accounting.
- C) Balancing.
- D) Posting.
- E) Balancing an account.

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) Debit column.
- B) Credit column.
- C) Account balance column.
- D) Description column.
- E) Posting reference column.

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) Journal.
- B) Trial balance.
- C) Ledger.
- D) Account balance.
- E) Cash account.

Answer: A

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) The names of the accounts involved.
- B) An explanation of the transaction.
- C) The amount of each debit and credit.
- D) The balance in each account.
- E) The transaction date.

Answer: D

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

155) The balance column in a ledger account is:

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

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

156) A general journal is:

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

Answer: B

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

- 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) Trial balance.
 - B) Balance column account.
 - C) Journal.
 - D) T-account.
 - E) Account.

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

- 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
T. Happy, Capital		4,900
Service Revenue		7,000
Salaries Expense	500	
Utilities Expense	1,000	
Totals	<u>\$16,900</u>	<u>\$16,900</u>

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

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

Answer: D

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

(Service Revenue \$7,000 - Salaries Expense \$500 - Utilities Expense \$1,000 = \$5,500)

- B) Net Income = Total Revenues - Total Expenses.
(Service Revenue \$7,000 - Salaries Expense \$500 - Utilities Expense \$1,000 = \$5,500)
- C) Net Income = Total Revenues - Total Expenses.
(Service Revenue \$7,000 - Salaries Expense \$500 - Utilities Expense \$1,000 = \$5,500)
- D) Net Income = Total Revenues - Total Expenses.
(Service Revenue \$7,000 - Salaries Expense \$500 - Utilities Expense \$1,000 = \$5,500)
- E) Net Income = Total Revenues - Total Expenses.
(Service Revenue \$7,000 - Salaries Expense \$500 - Utilities Expense \$1,000 = \$5,500)

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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
R. Jackson, Capital		16,200
R. Jackson, Withdrawals	1,000	
Service Revenue		20,000
Utilities Expense	2,000	
Salaries Expense	1,200	
Totals	<u>\$36,700</u>	<u>\$36,700</u>

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

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

Answer: A

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

Service Revenue \$20,000 - Utilities Expense \$2,000 - Salaries Expense \$1,200 = \$16,800

- B) Net Income = Total Revenues - Total Expenses.
Service Revenue \$20,000 - Utilities Expense \$2,000 - Salaries Expense \$1,200 = \$16,800
- C) Net Income = Total Revenues - Total Expenses.
Service Revenue \$20,000 - Utilities Expense \$2,000 - Salaries Expense \$1,200 = \$16,800
- D) Net Income = Total Revenues - Total Expenses.
Service Revenue \$20,000 - Utilities Expense \$2,000 - Salaries Expense \$1,200 = \$16,800
- E) Net Income = Total Revenues - Total Expenses.
Service Revenue \$20,000 - Utilities Expense \$2,000 - Salaries Expense \$1,200 = \$16,800

Diff: 2

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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	
B. Oscar, Capital		14,900
Totals	<u>\$25,900</u>	<u>\$25,900</u>

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

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

Answer: B

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

- B) (Cash \$20,000 + Accounts Receivable \$2,000 + Prepaid Insurance \$1,400 + Supplies \$1,500 = \$24,900)
- C) (Cash \$20,000 + Accounts Receivable \$2,000 + Prepaid Insurance \$1,400 + Supplies \$1,500 = \$24,900)
- D) (Cash \$20,000 + Accounts Receivable \$2,000 + Prepaid Insurance \$1,400 + Supplies \$1,500 = \$24,900)
- E) (Cash \$20,000 + Accounts Receivable \$2,000 + Prepaid Insurance \$1,400 + Supplies \$1,500 = \$24,900)

Diff: 3

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

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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 owner's total investment for this first month was \$5,000. There were no owner withdrawals in the first month.

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

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

Answer: C

- Explanation: A) Investments \$5,000 + Net Income \$25,000 = \$30,000
- B) Investments \$5,000 + Net Income \$25,000 = \$30,000
- C) Investments \$5,000 + Net Income \$25,000 = \$30,000
- D) Investments \$5,000 + Net Income \$25,000 = \$30,000
- E) Investments \$5,000 + Net Income \$25,000 = \$30,000

Diff: 3

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

- A) Assets and revenues.
- B) Revenues and expenses.
- C) Liabilities and expenses.
- D) Assets and expenses.
- E) Liabilities and withdrawals.

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Preparing a Trial Balance

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

- A) Revenues and liabilities.
- B) Liabilities and expenses.
- C) Revenues and expenses.
- D) Assets and revenues.
- E) Withdrawals and liabilities.

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Preparing a Trial Balance

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Analyzing and Recording Process

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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 liability account for \$1,500.
- B) Credit another asset account for \$1,500.
- C) Credit the owner's capital account for \$1,500.
- D) Credit a revenue account for \$1,500.
- E) Debit another asset account for \$1,500.

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 3

Topic: Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Preparing a Trial Balance

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

- 167) Identify the statement below that is *true*.
- A) The trial balance is another name for the balance sheet as long as debits balance with credits.
 - B) Another name for the trial balance is the chart of accounts.
 - C) If the trial balance is in balance, it proves that no errors have been made in recording and posting transactions.
 - 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 a book of original entry.

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Preparing a Trial Balance

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: B

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: Preparing a Trial Balance

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: A

Explanation: A) $\$150 - 15 = \135
 B) $\$150 - 15 = \135
 C) $\$150 - 15 = \135
 D) $\$150 - 15 = \135
 E) $\$150 - 15 = \135

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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) An error in the general journal where a \$4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable.
 - E) The balance of \$5,500 in the Office Equipment account being entered on the trial balance as a debit of \$550.

Answer: E

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: Preparing a Trial Balance

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

- A) The cash payment of a \$750 account payable was posted as a debit to Accounts Payable and a debit to Cash for \$750.
- B) A \$50 cash receipt for the performance of a service was not recorded at all.
- C) A \$1,000 collection of an account receivable was erroneously posted as a debit to Accounts Receivable and a credit to Cash.
- D) The purchase of office supplies on account for \$3,250 was erroneously recorded in the journal as \$2,350 debit to Office Supplies Normal 0 false false false EN-IN X-NONE X-NONE and \$2,350 credit to Accounts Payable.
- E) The purchase of office equipment for \$1,200 was posted as a debit to Office Supplies and a credit to Cash for \$1,200.

Answer: A

Explanation: A)
 B)
 C)
 D)
 E)

Diff: 2

Topic: Preparing a Trial Balance

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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 \$9,400.
 - B) The total of the Debit column of the trial balance will equal the total of the Credit column.
 - C) The total of the Credit column of the trial balance will exceed the total of the Debit column by \$4,700.
 - 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 exceed the total of the Credit column by \$4,700.

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Preparing a Trial Balance

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: D

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Preparing a Trial Balance

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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 \$75 cash receipt from a customer in payment of her account posted as a \$75 debit to Cash and a \$75 credit to Cash.
 - C) 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.
 - D) 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.
 - E) A \$50 cash purchase of office supplies posted as a \$50 debit to Office Equipment and a \$50 credit to Cash.

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Preparing a Trial Balance

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

- 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, overstated \$130; Fees Earned, understated \$130.
 - C) Supplies, overstated \$130; Fees Earned, overstated \$130.
 - D) Supplies, understated \$260; Fees Earned, overstated \$130.
 - E) Supplies, overstated \$260; Fees Earned, understated \$130.

Answer: C

Explanation: A)
B)
C)
D)
E)

Diff: 3

Topic: Preparing a Trial Balance

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

176) All of the following are asset accounts except:

- A) Prepaid insurance.
- B) Supplies expense.
- C) Accounts Receivable.
- D) Equipment.
- E) Buildings.

Answer: B

Explanation: A)
B)
C)
D)
E)

Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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) Unearned Revenue; Accounts Payable; Owner's Withdrawals.
- B) Notes Payable; Cash; Owner's Withdrawals.
- C) Building; Prepaid Insurance; Supplies Expense.
- D) Accounts Payable; Cash; Supplies.
- E) Cash; Prepaid Insurance; Equipment.

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- A) Balance sheet.
- B) Cash flow statement.
- C) Trial balance.
- D) Income statement.
- E) Statement of owner's equity.

Answer: A

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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:

Jackson invested \$25,000 cash in the business.

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

The company paid \$2,000 cash to rent office space for the month of March.

The company received \$16,000 cash for repair services provided during March.

The company paid \$6,200 for salaries for the month of March.

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

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

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

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

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

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

Answer: E

Explanation: A) Net Income = Revenues - Expenses
Net Income = \$16,000 (#4) - \$2,000 (#3) - \$6,200 (#5) + \$3,000 (#6) - \$500 (#7) = \$10,300
B) Net Income = Revenues - Expenses
Net Income = \$16,000 (#4) - \$2,000 (#3) - \$6,200 (#5) + \$3,000 (#6) - \$500 (#7) = \$10,300

C) Net Income = Revenues - Expenses

$$\text{Net Income} = \$16,000 \text{ (\#4)} - \$2,000 \text{ (\#3)} - \$6,200 \text{ (\#5)} + \$3,000 \text{ (\#6)} - \$500 \text{ (\#7)} = \$10,300$$

D) Net Income = Revenues - Expenses

$$\text{Net Income} = \$16,000 \text{ (\#4)} - \$2,000 \text{ (\#3)} - \$6,200 \text{ (\#5)} + \$3,000 \text{ (\#6)} - \$500 \text{ (\#7)} = \$10,300$$

E) Net Income = Revenues - Expenses

$$\text{Net Income} = \$16,000 \text{ (\#4)} - \$2,000 \text{ (\#3)} - \$6,200 \text{ (\#5)} + \$3,000 \text{ (\#6)} - \$500 \text{ (\#7)} = \$10,300$$

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

Answer: E

Explanation: A)
B)
C)
D)
E)

Diff: 2

Topic: Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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:

Wiley invested \$25,000 cash in the business.

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

The company paid \$2,000 cash to rent office space for the month of March.

The company received \$16,000 cash for repair services provided during March.

The company paid \$6,200 for salaries for the month of March.

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

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

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

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

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

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

Answer: D

Explanation: A) Ending Capital = \$25,000 (#1) + \$100,000 (#2) + \$16,000 (#4) + \$3,000 (#6) - \$2,000 (#3) - \$6,200 (#5) - \$500 (#7) - \$5,000 (#9) = \$130,300
B) Ending Capital = \$25,000 (#1) + \$100,000 (#2) + \$16,000 (#4) + \$3,000 (#6) - \$2,000 (#3) - \$6,200 (#5) - \$500 (#7) - \$5,000 (#9) = \$130,300
C) Ending Capital = \$25,000 (#1) + \$100,000 (#2) + \$16,000 (#4) + \$3,000 (#6) - \$2,000 (#3) - \$6,200 (#5) - \$500 (#7) - \$5,000 (#9) = \$130,300
D) Ending Capital = \$25,000 (#1) + \$100,000 (#2) + \$16,000 (#4) + \$3,000 (#6) - \$2,000 (#3) - \$6,200 (#5) - \$500 (#7) - \$5,000 (#9) = \$130,300
E) Ending Capital = \$25,000 (#1) + \$100,000 (#2) + \$16,000 (#4) + \$3,000 (#6) - \$2,000 (#3) - \$6,200 (#5) - \$500 (#7) - \$5,000 (#9) = \$130,300

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

SHORT ANSWER QUESTIONS

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, owner withdrawal and expense account, and increase in a liability, owner's capital and revenue account; recorded on the right side of a T-account.

- 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, owner's capital, 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

Explanation:

Diff: 1

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

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

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

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

Explanation:

Diff: 1

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

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Explanation:

Diff: 1

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

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

- _____ 1. Salary Expense
- _____ 2. Cash
- _____ 3. Equipment
- _____ 4. Owner, Capital
- _____ 5. Fees Revenue
- _____ 6. Accounts Receivable
- _____ 7. Accounts Payable
- _____ 8. Owner, Withdrawals
- _____ 9. Supplies
- _____ 10. Unearned Revenue
- _____ 11. Prepaid Insurance
- _____ 12. Office Furniture

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

Explanation:

Diff: 2

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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):

- ☒ 1. Salary Payable was increased.
- ☐ 2. Cash was decreased
- ☐ 3. Equipment was increased
- ☐ 4. Owner, Capital was increased
- ☐ 5. Salaries Expense was increased
- ☐ 6. Accounts Receivable was decreased
- ☐ 7. Unearned Revenue was increased
- ☐ 8. Owner, Withdrawals was increased
- ☐ 9. Supplies was increased
- ☐ 10. Building was increased
- ☐ 11. Utilities Expense was increased
- ☐ 12. Service Revenue was increased

Answer: ☒ 1. Salary Payable was increased.
☒ 2. Cash was decreased
☐ 3. Equipment was increased
☒ 4. Owner, Capital was increased
☐ 5. Salaries Expense was increased
☒ 6. Accounts Receivable was decreased
☒ 7. Unearned Revenue was increased
☐ 8. Owner, Withdrawals was increased
☐ 9. Supplies was increased
☐ 10. Building was increased
☐ 11. Utilities Expense was increased
☒ 12. Service Revenue was increased

Explanation:

Diff: 2

Topic: Journalizing and Posting Transactions

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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. Owner, Capital
- _____ 7. Fees Revenue
- _____ 8. Cash
- _____ 9. Notes Receivable
- _____ 10. Wages Payable

Answer: 1. BS; 2. IS; 3. BS; 4. IS; 5. BS; 6. BS; 7. IS; 8. BS; 9. BS; 10. BS

Explanation:

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

ESSAY QUESTIONS

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	7.	Telephone Expense
2.	Accounts Receivable	8.	Unearned Revenue
3.	Cash	9.	Miley Block, Capital
4.	Consulting Fees Earned	10.	Miley Block, Withdrawals
5.	Office Supplies	11.	Insurance Expense
6.	Office Supplies Expense	12.	Prepaid Insurance

		Debit	Credit
	Example:	2	4
	Completed consulting work for a client who will pay at a later date.		
A.	Received cash in advance from a customer for designing a building		
B.	Purchased office supplies on credit.		
C.	Paid for the supplies purchased in B.		
D.	Received the telephone bill of the	106	

D.	Received the telephone bill of the business and immediately paid it.		
E.	Paid for a 3-year insurance policy		

Answer:

	Debit	Credit
A	3	8
B	5	1
C	1	3
D	7	3
E	12	3

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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 | 8. Office Supplies Expense |
| 2. Accounts Receivable | 9. Prepaid Insurance |
| 3. Appraisal Fees Earned | 10. Salaries Expense |
| 4. Cash | 11. Telephone Expense |
| 5. Insurance Expense | 12. Unearned Appraisal Fees |
| 6. Office Equipment | 13. Drew Castle, Capital |
| 7. Office Supplies | 14. Drew Castle, Withdrawals |

	Debit	Credit
Example:		
Completed an appraisal for a client who promised to pay at a later date.	2	3
A. Received cash in advance for appraising a hail damage claim.....		
B. Purchased office supplies on credit.....		
C. Drew Castle used cash from the business to pay his home telephone bill. There were no business calls on the bill.....		
D. Received the telephone bill of the business and immediately paid it.....		
E. Paid the salary of the office assistant....		

E.	Paid the salary of the office assistant....		
F.	Paid for the supplies purchased in transaction B.....		
G.	Completed an appraisal for a client and immediately collected cash for the work done...		

Answer:

	Debit	Credit
A	4	12
B	7	1
C	14	4
D	11	4
E	10	4
F	1	4
G	4	3

Diff: 3

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

SHORT ANSWER QUESTIONS

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.

Explanation:

Diff: 2

Topic: Analyzing and Recording Process

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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.

Explanation:

Diff: 1

Topic: Analyzing and Recording Process

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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.

Explanation:

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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.

Explanation:

Diff: 3

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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 $\text{assets} = \text{liabilities} + \text{equity}$. Assets, expenses and the owner's withdrawal account, all have normal debit balances, and liabilities, revenues and the owner's capital account, all have normal credit balances.

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

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.

Explanation:

Diff: 2

Topic: Debt Ratio

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

Bloom's: Understand

AACSB: Analytic

AICPA: BB Industry; FN Risk Analysis

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.

Explanation:

Diff: 2

Topic: Journalizing and Posting Transactions

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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.

Explanation:

Diff: 1

Topic: Preparing a Trial Balance

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

198) Describe the link between a business's income statement, the statement of owner's equity, and the balance sheet.

Answer: The income statement shows the amount of net income the company has earned. That income is carried to the statement of owner's equity. The net income is added to the beginning owner's equity, and owner's withdrawals are subtracted to determine the ending owner's equity. The ending owner's equity is then carried to the balance sheet.

Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

ESSAY QUESTIONS

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	

Diff: 2

Topic: Analyzing and Recording Process

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

Bloom's: Understand

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

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 Owner, Capital
- 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 Owner, Withdrawals.

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

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

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. Homer, Capital | F. Prepaid Rent |
| B. Interest Payable | G. Advertising Expense |
| C. Land | H. Unearned Rent Revenue |
| D. Homer, Withdrawals | I. Commissions Earned |
| E. Fees Earned | J. Notes Receivable |

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
A			X		X
B					
C					
D					
E					
F					
G					
H					
I					
J					

Answer:	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
A			X		X
B		X			X
C	X			X	
D			X	X	
E			X		X
F	X			X	
G			X	X	
H		X			X
I			X		X
J	X			X	

Diff: 2

Topic: Accounts; Ledger and Chart of Accounts; Debits and Credits

Learning Objective: 02-C2 Describe an account and its use in recording transactions.; 02-C3 Describe a ledger and a chart of accounts;
02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

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.
- 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	
	R. Bolton, Capital		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

Diff: 3

Topic: Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

- 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				Catering Fees Earned		
2,500						2,500

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

- 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				Cash		
2,500						2,500

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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

Answer:

Charles Nice, Withdrawals					Cash
100					100

Diff: 2

Topic: Analyzing Transactions

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

- 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

Diff: 2

Topic: Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

- 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

Diff: 3

Topic: Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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.

b.	4	Equipment	2,550	
		Cash		550
		Notes Payable		2,000
		To record purchase of equipment, paying \$550 in cash and paying a \$2,000 note payable for the balance due.		

d.	11	Cash	150	
		Revenue		150
To record cash sale of service.				

4	Completed work for a client and immediately received a payment of \$900 cash.
8	Completed work for Precept Paper Co. on credit, \$1,700.
10	Paid for the supplies purchased on credit on December 3.
14	Paid for the annual \$960 premium on an insurance policy.
18	Received payment in full from Precept Paper Co. for the work completed on December 8.
27	Larry withdrew \$650 cash from the practice to pay personal expenses.
30	Paid \$175 cash for the December utility bills.
30	Received \$2,000 from a client for financial services to be rendered next year.

Prepare general journal entries to record these transactions.

Answer: Dec. 1	Cash	15,000	
	Office Equipment	5,000	
	L Matt, Capital	20,000	
	<i>Owner invested in business.</i>		
2	Office Equipment	1,200	
	Accounts Payable		1,200
	<i>Purchased office equipment and supplies on credit.</i>		
3	Office Supplies	300	
	Accounts Payable		300
4	Cash	900	
	Fees Earned		900
	<i>Rendered services for cash.</i>		
8	Accounts Receivable	1,700	
	Fees Earned		1,700
	<i>Rendered services on account.</i>		
10	Accounts Payable	300	
	Cash		300
	<i>Paid amount owed for supplies.</i>		
14	Prepaid Insurance	960	
	Cash		960
	<i>Paid insurance premium for one year.</i>		
18	Cash	1,700	
	Accounts Receivable		1,700

Answer: *Received payment on account.*

27	L. Matt, Withdrawals	650	
	Cash		650
	<i>Owner withdrew cash.</i>		
30	Utility Expense	175	
	Cash		175
	<i>Paid utility bills.</i>		
30	Cash	2,000	
	Unearned Fees		2,000
	<i>Received cash for services to be provided next year.</i>		

Diff: 3

Topic: Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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.
- 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) Mary withdrew \$2,000 cash for personal use.
- 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.

Answer:

Sunny Law Firm

Answer: Trial Balance
November 30

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$11,000	
Accounts Receivable	1,500	
Law Library	6,000	
Office Equipment	7,500	
Accounts Payable		\$4,000
M. Sunny, Capital		21,000
M. Sunny, Withdrawal	2,000	
Legal Fees Earned		5,500
Salaries Expense	2,500	
Totals	<u>\$30,500</u>	<u>\$30,500</u>

Diff: 3

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

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.; 02-P2 Prepare and explain the use of a trial balance.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

- 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 Jerry made no investments in the business and withdrew no assets during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer: Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

Increase in owner's equity = \$62,000 - \$46,000 = \$16,000

Since there were no investments or withdrawals during the year, the net income is \$16,000.

Diff: 3

Topic: Analyzing Transactions; Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements; 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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 Jerry invested an additional \$12,000 in the business during the year, but withdrew no assets during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer: Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

Increase in owner's equity = \$62,000 - \$46,000 = \$16,000

Net income = \$16,000 - \$12,000 = \$4,000

Diff: 3

Topic: Analyzing Transactions; Financial Statements

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements; 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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 Jerry made no investments in the business but withdrew \$5,000 during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer: Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

Increase in owner's equity = \$62,000 - \$46,000 = \$16,000

Net income = \$16,000 + \$5,000 = \$21,000

Diff: 3

Topic: Analyzing Transactions; Financial Statements

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements; 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

- 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 Jerry invested an additional \$12,000 in the business and withdrew \$5,000 during the year, what was the amount of net income earned by Jerry's Butcher Shop?

Answer: Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

Increase in owner's equity = \$62,000 - \$46,000 = \$16,000

Net income = \$16,000 - \$12,000 + \$5,000 = \$9,000

Diff: 3

Topic: Analyzing Transactions; Financial Statements

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements; 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

- 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%

Diff: 3

Topic: Debt Ratio

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Decision Making, Risk Analysis

- 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%

Diff: 3

Topic: Debt Ratio

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Decision Making, Risk Analysis

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.

Diff: 1

Topic: Analyzing and Recording Process

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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 Having Larger Total
a.	<u>\$100</u>	<u>Debit</u>
b.	<u>\$1,710</u>	<u>Debit</u>
c.	_____	_____
d.	<u>\$562.50</u>	<u>Credit</u>
e.	<u>\$520</u>	<u>Debit</u>

Diff: 3

Topic: Preparing a Trial Balance

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

- 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 owner was recorded as a debit to R, Chang, Capital 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	_____	<u>X</u> _____
2	<u>X</u> _____	_____
3	_____	<u>X</u> _____
4	_____	<u>X</u> _____
5	<u>X</u> _____	_____

Yes, the trial balance will be out of balance.

Diff: 3

Topic: Preparing a Trial Balance

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

- 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	127	

Office Supplies.	1,200		
Building.....	125,000		
Supplies Expense.....	21,500	Land.....	50,000
D. Milo, Capital.....	118,700	Unearned Management Fees	4,000
Management Revenue.	175,000	D. Milo, Withdrawals	48,000

Calculate the correct balance for Cash and prepare a trial balance.

Answer:

MILOS MANAGEMENT CO.

Trial Balance

December 31

Cash**	\$9,500	
Accounts Receivable	7,000	
Office Supplies	1,200	
Land	50,000	
Building	125,000	
Accounts Payable		\$6,500
Unearned Management Fees		4,000
D. Milo, Capital		118,700
D. Milo, Withdrawal	48,000	
Management Revenue		175,000
Wages Expense	36,000	
Rent Expense	6,000	
Supplies Expense	21,500	
Totals	\$304,200	\$304,200
**Total credits	\$304,200	
Total debits (excluding cash)	294,700	
Cash	\$9,500	

Diff: 3

Topic: Preparing a Trial Balance

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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 Del Henry was recorded as a debit to Del Henry, Capital 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 withdrawal was recorded as a \$100 debit to Del Henry, Withdrawal and \$100 credit to cash.

Using the form below, indicate whether each error would cause the trial balance to be out of balance, the amount of any imbalance, and whether a correcting journal entry is required.

Error	Would the error cause the trial balance to be out of balance?		Amount of Imbalance	Correcting Journal Entry Required	
	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?		Amount of Imbalance	Correcting Journal Entry Required	
	Yes	No		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	

Answer:

7.		X	0	X	
8.		X	0	X	
9.	X		18,000		X
10.		X	0	X	

Diff: 3

Topic: Journalizing and Posting Transactions; Preparing a Trial Balance

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.; 02-P2 Prepare and explain the use of a trial balance.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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
Hal Griffin, Capital		22,000
Hal Griffin, Withdrawals	4,200	
Repair fees earned		11,875
Supplies expense	8,600	
Totals	<u>\$37,675</u>	<u>\$38,385</u>

Because the trial balance did not balance, you decided to examine the accounting records. You found that the following errors had been made:

1. A purchase of supplies on account for \$245 was posted as a debit to Supplies and as a debit to Accounts Payable.
2. An investment of \$500 cash by the owner was debited to Hal Griffin, Capital and credited to Cash.
3. In computing the balance of the Accounts Receivable account, a debit of \$600 was omitted from the computation.
4. One debit of \$300 to the Hal Griffin, Withdrawals account was posted as a credit.
5. Office equipment purchased for \$800 was posted to the Shop Equipment account.
6. One entire entry was not posted to the general ledger. The transaction involved the receipt of \$125 cash for repair services performed for cash.

Prepare a corrected trial balance for the HG's Auto Maintenance as of October 31.

Answer:

HG'S AUTO MAINTENANCE

Trial Balance

October 31

	Debit	Credit
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
Hal Griffin, Capital ^f		23,000
Hal Griffin, Withdrawals ^g	4,800	
Repair fees earned ^h		12,000
Supplies expense	<u>8,600</u>	
Totals	<u>\$40,000</u>	<u>\$40,000</u>

^aCash: Balance \$1,975 + \$1,000 (2) + 125 (#6) = \$3,100

^bAccounts Receivable: Bal. \$2,800 + 600 (#3) = \$3,400

^cShop Equipment: Bal. \$13,000 — 800 (#5) = \$12,200

^dOffice Equipment: Bal. \$6,600 + 800 (#5) = \$7,400

^eAccounts Payable: Bal \$4,510 + 490 (#1) = \$5,000

^fHal Griffin, Capital: Bal. \$22,000 + 1,000 (#2) = \$23,000

^gHal Griffin, Withdrawals: Bal. \$4,200 + 600 (#4) = \$4,800

^hRepair fees earned: Bal \$11,875 + 125 (#6) = \$12,000

Diff: 3

Topic: Analyzing Transactions; Preparing a Trial Balance

Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P2 Prepare and explain the use of a trial balance.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

- 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	J. Figgaro, Withdrawals..	24,000
Office supplies.....	1,500	Salaries expense.....	30,000
Notes payable.....	22,000	J. Figgaro, Capital.....	58,100

- a. Calculate net income.
b. Determine the amount of owner's equity to be shown on the August 31 balance sheet.

Answer: A. \$75,000 Service revenues earned
 (3,600) Rent expense
 (5,000) Advertising expense
 (30,000) Salaries expense
 \$36,400 Net income

B. \$58,100 J. Figgaro, Capital (beginning)
 36,400 Net income
 (24,000) J. Figgaro, Withdrawals
 \$70,500 J. Figgaro, Capital (ending)

Diff: 3

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Reporting

- 225) Based on the following trial balance for Sally's Salon, prepare an income statement, statement of owner's equity, and a balance sheet. Sally Crawford made no additional investments in the company during the year.

Sally's Salon
Trial Balance
December 31

Cash	\$ 6,500	
Accounts receivable	475	
Beauty supplies	2,500	
Beauty shop equipment	17,000	
Accounts payable		\$ 745
S. Crawford, Capital		21,155
S. Crawford, Withdrawals	36,000	
Revenue earned		72,000
Beauty supplies expense	3,425	

Beauty supplies expense	3,425	
Rent expense	6,000	
Wages expense	22,000	
Totals	<u>\$93,900</u>	<u>\$93,900</u>

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.....		<u>31,425</u>
Net Income.....		<u>\$40,575</u>

Sally's Salon
Statement of Owner's Equity
For Year Ended December 31

S. Crawford, Capital, January 1.....	\$21,155
Plus: Net income.....	<u>40,575</u>
	\$61,730
Less: Withdrawals by owner.....	<u>(36,000)</u>
S. Crawford, Capital, December 31.....	<u>\$25,730</u>

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....	<u>17,000</u>	S. Crawford, Capital	<u>\$25,730</u>
Total assets.....	<u>\$26,475</u>	Total liabilities and equity	<u>\$26,475</u>

Diff: 3

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Reporting

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.
- May 2 Butler paid \$3,000 cash for office equipment to help him keep track of business activities.
- May 3 Butler bought boating supplies costing \$2,500 on credit.
- May 4 Butler paid the river master \$500 cash for the first month's dock rental.
- May 5 Butler paid \$1,800 cash for a six-month insurance policy.
- May 10 Butler received \$2,000 cash from clients for his first tour.
- May 12 Butler provided a \$3,500 tour on credit, the customer has agreed to pay within 10 days
- May 19 Butler paid for the boating supplies originally purchased on May 3.
- May 22 Butler receives payment on the account from the client entry on May 12.
- May 25 Butler received \$2,750 cash for additional tours that he completed that day.
- May 31 Butler paid his crew member a salary of \$1,000.
- May 31 Butler withdrew \$2,000 for personal use.

Answer: May 1

Cash.....	20,000	
Tugboat.....	90,000	
G. Butler, Capital.....		110,000
<i>Owner invested in business.</i>		

2 Office Equipment.....	3,000	
Cash.....		3,000
<i>Purchased office equipment.</i>		

3 Boating Supplies.....	2,500	
Accounts Payable.....		2,500
<i>Purchased supplies on account.</i>		

4 Rent Expense.....	500	
Cash.....		500
<i>Paid for dock rent.</i>		

5 Prepaid Insurance.....	1,800	
Cash.....		1,800
<i>Paid for six month insurance policy.</i>		

10 Cash.....	2,000	
Tugboat Tour Revenue.....		2,000
<i>Recorded tour revenue.</i>		

Answer:

12	Accounts Receivable.....	3,500	
	Tugboat Tour Revenue		3,500
	<i>Recorded tour revenue provided on account.</i>		
19	Accounts Payable.....	2,500	
	Cash.....		2,500
	<i>Paid on account.</i>		
22	Cash.....	3,500	
	Accounts Receivable.....		3,500
	<i>Record collection on account.</i>		
25	Cash.....	2,750	
	Tugboat Tour Revenue		2,750
	<i>Recorded tour revenue.</i>		
31	Salary Expense.....	1,000	
	Cash.....		1,000
	<i>Paid assistant's salary.</i>		
31	G. Butler, Withdrawals.....	2,000	
	Cash.....		2,000
	<i>Record owner's withdrawals.</i>		

Diff: 3

Topic: Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

- 227) Based on the following trial balance for Barry's Automotive Shop, prepare an income statement, statement of owner's equity, and a balance sheet. Barry made no additional investments in the company during the year.

Barry's Automotive Shop
Trial Balance
December 31

Cash	\$ 12,500	
Accounts receivable	1,500	
Supplies	500	
Repair shop equipment	27,000	
Service truck	33,000	
Accounts payable		\$2,600
Barry, Capital	135	38,525

Barry, Capital		38,525
Barry, Withdrawals	36,000	
Service revenue		125,000
Supplies expense	3,425	
Rent expense	18,000	
Utilities expense	5,000	
Gas expense	7,200	
Wages expense	22,000	
Totals	<u>\$166,125</u>	<u>\$166,125</u>

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		<u>55,625</u>
Net Income		<u>\$69,375</u>

Barry's Automotive Shop	
Statement of Owner's Equity	
For Year Ended December 31	
Barry, Capital, January 1	\$38,525
Plus: Net income	69,375
	\$107,900
Less: Withdrawals by owner	(36,000)
Barry, Capital, December 31	\$71,900

Barry's Automotive Shop
Balance Sheet
December 31

Assets		Liabilities	
Cash	\$ 12,500	Accounts payable	\$ 2,600
Accounts receivable	1,500		
Supplies	500	Equity	
Repair shop equipment	27,000		

Answer:	Repair shop equipment	27,000		
	Service truck	33,000	Barry, Capital	\$71,900
	Total assets	<u>\$74,500</u>	Total liabilities and equity	<u>\$74,500</u>

Diff: 3

Topic: Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

- 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. Owner, Capital		
f. Unearned Advertising Revenue		
g. Salaries Expense		
h. Magazine Subscription Revenue		
i. Owner, Withdrawal		
j. Prepaid Insurance		

Answer:		Account Type	Normal Balance
	a. Wages Expense	expense	debit
	b. Accounts Receivable	asset	debit
	c. Commissions Earned	revenue	credit
	d. Salaries Payable	liability	credit
	e. Owner, Capital	equity	credit
	f. Unearned Advertising Revenue	liability	credit
	g. Salaries Expense	expense	debit
	h. Magazine Subscription Revenue	revenue	credit
	i. Owner, Withdrawal	equity	debit
	j. Prepaid Insurance	asset	debit

Diff: 2

Topic: Ledger and Chart of Accounts; Debits and Credits

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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 Owner, Capital	
f. To decrease Notes Payable	
g. To increase Prepaid Rent	
h. To increase Salaries Expense	
i. To increase Accounts Payable	
j. To decrease Prepaid Insurance	

Answer:	a. To increase Fees Earned	credit
	b. To decrease Cash	credit
	c. To decrease Unearned Revenue	debit
	d. To increase Accounts Receivable	debit
	e. To increase Owner, Capital	credit
	f. To decrease Notes Payable	debit
	g. To increase Prepaid Rent	debit
	h. To increase Salaries Expense	debit
	i. To increase Accounts Payable	credit
	j. To decrease Prepaid Insurance	credit

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

230) Indicate on which of the financial statements the following items appears. Use I for income statement, E for statement of owner's equity, and B for balance sheet. More than one statement may be appropriate for some items.

a. Fees Earned	
b. Cash	138

b. Cash	
c. Unearned Revenue	
d. Rent expense	
e. Owner, Capital	
f. Notes Payable	
g. Prepaid Rent	
h. Salaries Expense	
i. Notes Payable	
j. Owner, Withdrawal	

Answer:	a. Fees Earned	I
	b. Cash	B
	c. Unearned Revenue	B
	d. Rent expense	I
	e. Owner, Capital	E,B
	f. Notes Payable	B
	g. Prepaid Rent	B
	h. Salaries Expense	I
	i. Notes Payable	B
	j. Owner, Withdrawal	E

Diff: 2

Topic: Using a Trial Balance to Prepare Financial Statements

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Bloom's: Remember

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

- 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
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

June 14	Received cash payments of \$13,000 from current customers staying at the hotel in June.
June 15	Paid the staff \$2,000 for the first semi-monthly payroll.
June 16	Paid \$500 for general maintenance and repairs expense.
June 17	Received \$10,000 payment for a wedding reception during the weekend.
June 18	Paid the caterer \$2,500 for providing catering services for the wedding reception.
June 18	Paid Fixture Rentals \$1,000 for table and chair rental.
June 19	Paid the florist \$2,000 for flowers for the event.
June 24	Paid for the linens and supplies purchased on June 5.
June 25	Recorded an additional \$5,000 from current hotel customers for June.
June 30	Paid the staff \$2,000 for the second semi-monthly payroll.
June 30	The owner withdrew \$4,000 for personal use.

Answer:

June 1	Cash	400,000	
	J. Hope, Capital		400,000
June 2	Land	100,000	
	Building	800,000	
	Cash		250,000
	Mortgage Note Payable		650,000
June 3	Prepaid Insurance	6,000	
	Cash		6,000
June 5	Supplies	4,000	
	Accounts Payable		4,000
June 10	Cash	12,000	
	Unearned Rental Revenue		12,000
June 14	Cash	13,000	
	Room Rental Revenue		13,000
June 15	Salaries Expense	2,000	
	Cash		2,000
June 16	Maintenance and Repairs Expense	500	
	Cash		500
June 17	Cash	10,000	
	Event Revenue		10,000

Answer:

	Event Revenue		10,000
June 18	Catering Expense	2,500	
	Cash		2,500
June 18	Event Expense	1,000	
	Cash		1,000
June 19	Event Expense	2,000	
	Cash		2,000
June 24	Accounts Payable	4,000	
	Cash		4,000
June 25	Cash	5,000	
	Room Rental Revenue		5,000
June 30	Salaries Expense	2,000	
	Cash		2,000
June 30	J. Hope, Withdrawals	4,000	
	Cash		4,000

Diff: 3

Topic: Journalizing and Posting Transactions

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

- 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. J. Jason, Capital		
d. Utilities Expense		
e. Land		
f. Services Revenue		
g. Notes Receivable		
h. Advertising Expense		
i. Unearned Revenue		

i. Unearned Revenue		
j. Service Revenue		

Answer:	Account Title	Account Type	Normal Balance
	a. Prepaid Insurance	asset	debit
	b. Accounts Payable	liability	credit
	c. J. Jason, Capital	equity	credit
	d. Utilities Expense	expense	debit
	e. Land	asset	debit
	f. Services Revenue	revenue	credit
	g. Notes Receivable	asset	debit
	h. Advertising Expense	expense	debit
	i. Unearned Revenue	liability	credit
	j. Service Revenue	revenue	credit

Diff: 2

Topic: Ledger and Chart of Accounts; Debits and Credits

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

- 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

Diff: 1

Topic: Analyzing and Recording Process

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

Bloom's: Remember

AACSB: Analytic

AICPA: BB Industry; FN Reporting

SHORT ANSWER QUESTIONS

234) _____ and _____ are the starting points for the *analyzing and recording* process.

Answer: Business transactions; Events

Explanation:

Diff: 2

Topic: Analyzing and Recording Process

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Explanation:

Diff: 2

Topic: Analyzing and Recording Process

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: ledger accounts

Explanation:

Diff: 2

Topic: Analyzing and Recording Process

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: Source

Explanation:

Diff: 2

Topic: Analyzing and Recording Process

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

238) Revenues and expenses are two categories of _____ accounts.

Answer: equity

Explanation:

Diff: 2

Topic: The Account and Its Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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)

Explanation: *either answer is acceptable*

Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: Accounts receivable

Explanation:

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: liability

Explanation:

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

242) The four categories of equity accounts are _____, _____, _____, and _____.

Answer: owner, capital; owner, withdrawals; revenues; expenses

Explanation: *answers can appear in any order*

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Explanation:

Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: ledger

Explanation:

Diff: 1

Topic: Ledger and Chart of Accounts

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Explanation:

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: account balance

Explanation:

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

247) To increase an asset account we would _____ it and to increase a liability account, we would _____ it.

Answer: debit; credit

Explanation: answers need to appear in the order shown above

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

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

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Understand

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

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%

Explanation: Debt Ratio = Total Liabilities/Total Assets

Debt Ratio = \$130 million/\$375 million = 34.7%

Diff: 3

Topic: Debt Ratio

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Decision Making

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

Answer: Posting

Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: journal

Explanation:

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Explanation:

Diff: 1

Topic: The Account and Its Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

253) The posting process is the link between the _____ and the _____.

Answer: journal; ledger

Explanation: answers can be recorded in either order

Diff: 1

Topic: Journalizing and Posting Transactions

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

254) You increase the *Service Revenue* account on the _____ side of its account.

Answer: right or credit

Explanation:

Diff: 1

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

255) You decrease the *Accounts Payable* account on the _____ side of its account.

Answer: left or debit

Explanation:

Diff: 2

Topic: Debits and Credits

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making