

c2

Student: _____

1. Which of the following would be listed as a long-term asset?

- A. Cash.
- B. Supplies.
- C. Buildings and equipment.
- D. Total assets.

2. Which of the following would be listed as a current liability?

- A. Cash in the bank.
- B. Notes payable due in two years.
- C. Bank loan due in 10 years.
- D. Accounts payable.

3. A long-term liability is one that the company:

- A. has owed for over one year.
- B. has owed for over five years.
- C. will not pay off for at least over one year.
- D. will not pay off for at least over five years.

4. A current asset is one that:

- A. the company has owned for over one year.
- B. the company will use up or convert into cash in five years or more.
- C. the company will use up or convert into cash in one year or less.
- D. the company will use up or convert into cash in more than one year.

5. At the start of the first year of operations, a company's retained earnings on the balance sheet would be:

- A. equal to zero.
- B. equal to contributed capital.
- C. equal to shareholders' equity.
- D. equal to the negative of liabilities.

6. Which of the following is **not** true. Account names in the chart of accounts have to be:
- A. sufficiently descriptive to enable users to quickly understand items.
 - B. consistent throughout the financial statements and records.
 - C. linked to account numbers.
 - D. general purpose and do not have to indicate the nature of the account.

PURRFECT PETS, INC.
BALANCE SHEET
At JUNE 30, 2011

Assets		Liabilities	
Cash	\$732,600	Accounts Payable	\$349,200
Accounts Receivable	419,200	Notes Payable, due 2011	<u>268,900</u>
Supplies	58,400	Total Liabilities	<u>618,100</u>
Property, Plant and Equipment	118,500		
Other Assets	69,400	Shareholders' Equity	
		Contributed Capital	662,100
		Retained Earnings	<u>117,900</u>
		Total Equity	<u>780,000</u>
Total Assets	<u>\$1,398,100</u>	Total Liabilities and Shareholders' Equity	<u>\$1,398,100</u>

7. Which line item(s) on the above balance sheet would be classified as long term?
- A. Cash; Supplies; Accounts Payable.
 - B. Property, Plant and Equipment; Notes payable
 - C. Supplies; Property, Plant and Equipment; Notes Payable.
 - D. Contributed Capital; Total Liabilities; Accounts Receivable.
8. In the above balance sheet how much financing did the shareholders of Purrfect Pets Inc., directly contribute to the company?
- A. \$117,900.
 - B. \$662,100.
 - C. \$780,000.
 - D. \$1,398,100.
9. What would be the current ratio for the above company?
- A. 1.95.
 - B. 3.46.
 - C. 1.18.
 - D. 2.26.

10. The local branch of the Universal Bank System (UBS) receives money from some of its customers as deposits and lends it to other customers as loans. Which of the following would be true about UBS's financial statements?

- A. UBS reports customers' deposits as assets and customers' loans as liabilities.
- B. UBS reports both customers' deposits and customers' loans as assets.
- C. UBS reports customers' deposits as liabilities and customers' loans as assets.
- D. UBS reports both customers' deposits and customers' loans as liabilities.

11. Which of the following is *not* an example of an asset?

- A. Notes receivable.
- B. Supplies.
- C. Prepaid Insurance.
- D. Unearned revenues.

12. If a company borrows money from a bank and signs an agreement to repay the loan several years from now, in which account would the company report the amount borrowed?

- A. Contributed Capital.
- B. Accounts Payable.
- C. Notes Payable.
- D. Bonds Payable.

13. The Sweet Smell of Success Fragrance Company borrowed \$60,000 from the bank and used all of the money to re-design its new store. Sweet Smell's balance sheet would show this as:

- A. \$60,000 under Furnishings & Equipment and \$60,000 under Notes Payable.
- B. \$60,000 under Supplies and \$60,000 under Accounts Payable.
- C. \$60,000 under Prepaid Expenses and \$60,000 under Accrued Liabilities.
- D. \$60,000 under Other Assets and \$60,000 under Other Liabilities.

14. The Buddy Burger Corporation owes \$1.5 million to the Alberta Wholesale Meat Company from whom Buddy Burger buys its burger meat. Which account would Buddy Burger use to report the amount owed?

- A. Unearned Revenue.
- B. Accounts Payable.
- C. Supplies.
- D. Accounts Receivable.

15. Which of the following describes the classification and normal balance of the retained earnings account?

- A. Asset, debit
- B. Shareholders' equity, credit
- C. Liability, credit
- D. Shareholders' equity, debit

16. If a company is paid \$20,000 on accounts receivable and uses the money to pay \$20,000 on accounts payable then:

- A. assets would increase by \$20,000 while liabilities would decrease by \$20,000.
- B. liabilities would decrease by \$20,000 while shareholders' equity would increase by \$20,000.
- C. Both assets and liabilities would decrease by \$20,000.
- D. Both assets and shareholders' equity would decrease by \$20,000.

17. In 1999, the Denim Company bought land that cost \$15,000. In 2005, a similar piece of land was bought for \$28,000 and the company's existing land was estimated to be worth \$18,000. On the balance sheet at the end of 2005, the land that was purchased in 1999 would be reported at:

- A. \$15,000.
- B. \$28,000.
- C. \$18,000.
- D. the average of the three prices.

18. What is the minimum number of ways that a transaction could effect the basic accounting equation?

- A. One.
- B. Two.
- C. Three.
- D. No minimum.

19. Transactions include which two types of events?

- A. Direct events and indirect events.
- B. Monetary events and production events.
- C. External exchanges and internal events.
- D. Current events and future events.

20. A company disposes of \$1 million of its assets. Which of the following could **not** be true about its effects on the basic accounting equation?

- A. Assets remain the same, and liabilities and shareholders' equity both decrease by \$1 million.
- B. Assets decrease by \$1 million, liabilities decrease by \$1 million, and shareholders' equity is unchanged.
- C. Assets, liabilities, and shareholders' equity all remain the same.
- D. Assets decrease by \$1 million, and liabilities and shareholders' equity both decrease by \$500,000.

21. Your company orders and broadcasts a 30 second advertisement during the Super Bowl for \$1.2 million. It is legally obligated to pay for this service but has not yet done so.
- A. This is an internal unobservable event so it does **not** affect the balance sheet.
 - B. This is an external unobservable event so it does **not** affect the balance sheet.
 - C. This is an internal observable event that affects the balance sheet.
 - D. This is an external observable event that affects the balance sheet.

22. In part, a transaction affects the accounting equation as follows:

Assets	=	Liabilities	+	Shareholders' Equity
↓ Accounts receivable	=	No change	+	

Which of the following must be true for this transaction to keep the accounting equation in balance?

- A. If other assets remain the same, shareholders' equity must increase.
- B. If other assets remain the same, shareholders' equity must decrease.
- C. If shareholders' equity remains the same, another asset must decrease.
- D. If shareholders' equity remains the same, all other assets must remain the same.

23. A company buys equipment for \$500,000 and signs a promissory note for the full amount. How does this transaction affect the accounting equation?

- A. Assets: ↑ Property and equipment, ↓ Cash; Liabilities: no change; Shareholders' Equity: no change.
- B. Assets: ↑ Property and equipment; Liabilities: ↓ Notes payable; Shareholders' Equity: no change.
- C. Assets: ↑ Property and equipment; Liabilities: no change; Shareholders' Equity: ↓ Retained earnings.
- D. Assets: ↑ Property and equipment; Liabilities: no change; Shareholders' Equity: ↓ Contributed capital.

24. Your company pays back \$2 million on a loan it had received earlier from a bank. How does this transaction affect the accounting equation?

- A. Assets are unchanged, liabilities and shareholders' equity both increase by \$2 million.
- B. Assets decrease by \$2 million, liabilities decrease by \$2 million, shareholders' equity is unchanged.
- C. Assets are unchanged, liabilities increase by \$2 million, contributed capital decreases by \$2 million.
- D. Assets decrease by \$2 million, liabilities are unchanged, contributed capital decreases by \$2 million.

25. A company issues \$20 million in new stock. It later uses this money to pay off promissory notes. How many different accounts and which account names are affected by these two transactions?

- A. 3 accounts are affected: contributed capital, cash, and notes payable.
- B. 4 accounts are affected: contributed capital, cash, liabilities, and accounts payable.
- C. 3 accounts are affected: cash, assets, and accounts payable.
- D. 3 accounts are affected: contributed capital, investments, and accounts payable.

26. A company borrows \$2 million from its bank. It then uses this money to buy equipment. How does this transaction affect the accounting equation?

- A. Assets and Liabilities both rise \$2 million.
- B. Assets and Shareholders' Equity both fall \$2 million.
- C. Assets, Liabilities, and Shareholders' Equity are unchanged.
- D. Shareholders' Equity rises \$2 million and Liabilities fall \$2 million.

27. A company receives \$10 million cash from investors in exchange for new common stock. Several weeks later, the company buys a \$25 million machinery using all of the cash from the stock issue and signing a promissory note for the remainder. The accounts involved in these two transactions are:

- A. Long-term Investments; Cash; Equipment; and Accounts Payable.
- B. Shareholders' Equity; Cash; Long-term Investments; and Notes Payable.
- C. Contributed Capital; Cash; Equipment; and Notes Payable.
- D. Retained Earnings; Equipment; and Notes Payable.

28. A company purchases \$23,000 of supplies in the current month and promises to pay for them next month. How would the company record a liability for the supplies?

- A. This liability is not a recognized liability until the payment is due.
- B. \$23,000 would be posted as a credit to Accounts Payable.
- C. \$23,000 would be posted as a debit to Accounts Payable.
- D. \$23,000 would be posted as a debit to Note Payable.

29. If total liabilities decreased by \$25,000 and shareholders' equity increased by \$5,000 during a period of time, then total assets must change by what amount and direction during the same time period?

- A. \$20,000 increase.
- B. \$20,000 decrease.
- C. \$30,000 increase.
- D. \$30,000 decrease.

30. The characteristic shared by all liabilities is that they:

- A. provide a future economic benefit.
- B. result in an inflow of resources to the company.
- C. always end in the word "payable."
- D. obligate the company to do something in the future.

31. A company issues \$50 million in new stock. The company later uses this money to buy construction machinery. How many accounts will be affected by these transactions and which particular account names are most likely to be used to record the effects of these transactions?

- A. 3 accounts affected: Contributed Capital, Cash, and Equipment.
- B. 4 accounts affected: Contributed Capital, Cash, Supplies and Accounts Payable.
- C. 3 accounts affected: Cash, Accounts Receivable, and Equipment.
- D. 3 accounts affected: Contributed Capital, Investments, and Notes Payable.

32. Park & Company was recently formed with a \$5,000 investment in the company by shareholders. The company then borrowed \$2,000 from a local bank, purchased \$1,000 of supplies on account, and also purchased \$5,000 of equipment by paying \$2,000 in cash and signing a promissory note for the balance. Based on these transactions, the company's total assets are:

- A. \$7,000.
- B. \$9,000.
- C. \$10,000.
- D. \$11,000.

33. Which of the following is the common characteristic possessed by all assets?

- A. long life.
- B. great financial value.
- C. physical substance.
- D. future economic benefits.

34. Current liabilities are expected to be:

- A. converted to cash within one year.
- B. paid within one year.
- C. used in the business within one year.
- D. acquired within one year.

35. If Accounts Payable had a balance of \$18,200 at the beginning of the month, and the six amounts shown below were posted to this account, what should be the ending balance?

Three debits posted to Accounts Payable this month: \$4,700, \$11,300, and \$14,800.

Three credits posted to Accounts Payable this month: \$3,600, \$9,500, and \$12,700.

- A. \$13,200.
- B. \$5,000.
- C. \$23,200.
- D. \$49,000.

36. In a T-account debits appear in what manner?

- A. They are on the left under assets but on the right under liabilities and shareholders' equity.
- B. They are always listed on the right.
- C. They are always listed on the left.
- D. They are on the right under assets but on the left under liabilities and shareholders' equity.

37. A company uses \$100,000 in cash to pay off \$100,000 in notes payable. This would result in a:

- A. \$100,000 credit to Cash and a \$100,000 debit to Notes Payable.
- B. \$100,000 credit to Cash and a \$100,000 credit to Notes Payable.
- C. \$100,000 debit to Cash and a \$100,000 credit to Notes Payable.
- D. \$100,000 debit to Cash and a \$100,000 debit to Notes Payable.

38. PetPlanet Ltd., uses \$10,000 in cash to pay \$10,000 on Accounts Payable. This would result in a:

- A. \$10,000 credit to Cash and a \$10,000 credit to Accounts Payable.
- B. \$10,000 debit to Cash and a \$10,000 debit to Accounts Payable.
- C. \$10,000 credit to Cash and a \$10,000 debit to Accounts Payable.
- D. \$10,000 debit to Cash and a \$10,000 credit to Accounts Payable.

39. The best interpretation of the word credit is that it's the:

- A. left side of an account.
- B. increase side of an account.
- C. right side of an account.
- D. decrease side of an account.

Cash			
Beginning			
Balance	123,900		
(a)	14,700	(c)	6,000
(b)	38,300	(d)	5,800
		(e)	7,400
		(f)	12,000
		(g)	11,200

40. The final balance of the Cash account would be:

- A. \$219,300.
- B. \$113,300.
- C. \$28,500.
- D. \$134,500.

41. In the T-account above:

- i) (a) and (b) are credits while (c) through (g) are debits.
- ii) (a) and (b) are increases while (c) through (g) are decreases.
- iii) (a) and (b) are debits while (c) through (g) are credits.
- iv) (a) and (b) are decreases while (c) through (g) are increases.

Which of the following pair is true?

- A. i and ii
- B. ii and iii
- C. i and iv
- D. iii and iv

42. A credit would decrease the balance in which of the following account?

- A. Contributed Capital.
- B. Inventories.
- C. Notes Payable.
- D. Retained Earnings.

43. Your company buys a \$2 million warehouse paying \$300,000 in cash and issuing \$1.7 million in promissory notes. This will be posted as:

- A. \$2 million credited and \$300,000 debited to assets; \$1.7 million debited to liabilities.
- B. \$2 million debited to assets and \$2 million credited to liabilities.
- C. \$2 million debited and \$300,000 credited to assets; \$1.7 million credited to liabilities.
- D. \$2 million credited to assets and \$2 million debited to liabilities.

44. Cash had a beginning balance of \$68,900. During the month, Cash was credited for \$16,000 and debited for \$18,300. At the end of the month, the balance is:

- A. \$2,300.
- B. \$71,200.
- C. \$66,700.
- D. \$(2,300).

45. On January 1, 2010, Yukon Inc., had assets of \$156,000 and shareholders's equity of \$88, 000. During the year assets increased by \$35,000 and shareholders's equity decreased by \$27, 500. What were the liabilities on December 31, 2011?

- A. \$7,500.
- B. \$68,000.
- C. \$130,500.
- D. \$251,500.

46. Which of the following is true?

- A. Assets have debit balances and liabilities have credit balances.
- B. Assets and liabilities have credit balances.
- C. Assets have credit balances and liabilities have debit balances.
- D. Assets and liabilities have debit balances.

47. The standard formatting for a journal entry:

- A. lists credits first and then debits, both aligned to the left.
- B. lists credits first and then debits, indented underneath.
- C. lists debits first and then credits, both aligned to the right.
- D. lists debits first and then credits, indented underneath.

48. Which of the following scenarios could explain the journal entry below?

<i>dr</i>	Cash	4,000	
<i>dr</i>	Notes Receivable	6,000	
<i>cr</i>	Equipment		10,000

- A. The company buys \$10,000 of equipment for \$4,000 in cash and \$6,000 on credit.
- B. The company pays \$4,000 in cash and \$6,000 in notes payable to buy \$10,000 of equipment.
- C. The company sells \$10,000 of equipment, for \$4,000 in cash and \$6,000 on credit.
- D. The company sells \$10,000 of equipment, for \$4,000 in cash and pays off \$6,000 it owes on the equipment.

49. Which of the following statements is **not** true?

- A. Assets must always equal liabilities plus shareholders' equity.
- B. The total value of credits in all accounts must always equal the total value of debits in all accounts.
- C. The net changes in assets must always equal the sum of the net changes in liabilities and shareholders' equity.
- D. The number of credits posted must equal to number of debits posted.

50. The normal balance of any account is the:

- A. left side.
- B. right side.
- C. side which increases that account.
- D. side which decreases that account.

51. During the month you purchased \$12,000 of supplies on credit and \$19,000 of equipment for cash. When you prepare a balance sheet, assets are \$24,000 more than liabilities plus shareholders' equity.

- A. You may have posted the increase in supplies as a credit rather than a debit.
- B. You may have neglected to post the change in accounts payable.
- C. You may have posted the increase in accounts payable as a debit rather than a credit.
- D. All of the above would have resulted in the \$24,000 error.

52. If no transactions were posted to a particular asset, liability, or shareholders' equity account during a period then:

- A. the amounts from the previous balance sheet are repeated unchanged on the current balance sheet.
- B. the account is left off of the balance sheet.
- C. the account is posted as zero on the current balance sheet for that account.
- D. the words "no change" are entered in the current balance sheet.

53. Consider the data in the Inventories T-account shown below and the partial listing of account balances at the end of the year.

Inventories	
Beginning Balance	187,500
	104,900
	63,900
	18,000
	5,400
	14,700
	19,200

Partial listing of account balances at the end of the year:

Cash	\$28,000
Accounts Receivable	35,600
Inventories	?
Other Current Assets	5,900

The amount of Total Current Assets that would be reported on the company's balance sheet at the end of the year would be:

- A. \$180,800.
- B. \$368,500.
- C. \$145,700.
- D. \$298,800.

54. Which of the following is **not** an example of a liability?

- A. Account receivable.
- B. Wages payable.
- C. Interest payable.
- D. Bonds payable.

55. According to the principle of conservatism, when faced with uncertainty about the value of an item, a company should use the measure that avoids:

- A. overstating assets and liabilities.
- B. overstating assets and understating liabilities.
- C. understating assets and overstating liabilities.
- D. understating assets and liabilities.

56. Your company's president donates a large amount of her own money to charity and receives significant publicity that includes the company's name. How would the benefits of this publicity appear on the balance sheet?

- A. It would appear as a current asset.
- B. It would appear as a liability.
- C. It would appear as a long-term asset.
- D. It would not appear on the balance sheet.

57. Which of the following would a company be most likely to overstate on its balance sheet if the company was trying to mislead potential external investors or creditors?

- A. Accounts Receivable.
- B. Notes Payable.
- C. Unearned Revenues.
- D. Accounts Payable.

58. Which of the following would **not** be recorded as an identifiable accounting transaction?

- A. Putting a deposit down on a new vehicle.
- B. Hiring a new employee.
- C. Obtaining a bank loan.
- D. Receiving a deposit from a customer.

59. Which concept should be applied when reporting a piece of land that was bought for \$50,000 five years ago, and which would probably now sell for \$80,000?

- A. The cost principle.
- B. The asset principle.
- C. The separate entity concept.
- D. The duality of effects.

60. Conservatism means:

- A. not underestimating asset values.
- B. not overestimating liabilities.
- C. using the least optimistic measurement when faced with uncertainty about the value of assets and liabilities.
- D. using the most optimistic measurement when faced with uncertainty about the value of assets and liabilities.

61. The MegaBuck movie studio's name has become famous for adventure movies. Another studio once offered to buy the name for \$20 million, but MegaBuck turned down the offer. The MegaBuck balance sheet will show:

- A. The company's name under Other Assets, valued at \$20 million.
- B. The company's name under Other Assets, valued conservatively at \$10 million.
- C. The company's name under Accounts Receivable, valued at \$20 million.
- D. The company's name will not be shown as an asset on the balance sheet.

62. Which of the following is the financing that a business acquires through owners' contributions and reinvestment of profits?

- A. Debt.
- B. Equity.
- C. External Exchanges.
- D. Current Assets.

63. Which of the following is the financing a business acquires through borrowing money?

- A. Debt.
- B. Equity.
- C. External Exchanges.
- D. Current Assets.

64. When supplies are paid in cash, which of the following would hold true?

- A. Total assets will increase.
- B. Total assets will decrease.
- C. Total assets will remain unchanged.
- D. Total liabilities will decrease.

65. Which of the following are the three steps applied to daily transactions in the accounting cycle?

- A. Analyze, record, summarize.
- B. Present, process, summarize.
- C. Determine, Scrutinize, record.
- D. Analyze, determine, record.

66. Current assets are those assets that a company will use up or convert into cash within the next three months.

True False

67. A "classified" balance sheet is one that contains privileged information.

True False

68. All liabilities require that the company sacrifice resources at some time in the future.

True False

69. A chart of accounts is a list of account titles used to record financial transactions.

True False

70. A summary of account names and account numbers is kept by a company in the table of contents of its annual report.

True False

71. A transaction is an exchange or event that directly affects the assets, liabilities, or shareholders' equity of a company.

True False

72. A vitamin manufacturer combines ingredients when making its vitamin pills. This is an observable internal event.

True False

73. A transaction can cause only one account on the balance sheet to change.

True False

74. If a company uses \$100 million in cash to pay off debt, its shareholders' equity will increase by \$100 million.

True False

75. General Motors (GM) signs a new labour agreement agreeing to give its workers a 5% wage increase next year. This transaction will affect GM's financial statements in the current year.

True False

76. The basic accounting equation must always balance for each transaction.

True False

77. All of a company's business activities have a direct economic effect on the company.

True False

78. If total assets increase, then either liabilities or shareholders' equity also must increase.

True False

79. Assets are listed on the balance sheet in order of how soon they are used or can be turned into cash.

True False

80. Facebook issues new stock worth \$40 million for cash. This would **not** affect the shareholders' equity on the balance sheet because as new shares are sold the value of existing shares will decline by the same amount.

True False

81. The current ratio is used to assess a company's ability to pay its current liabilities.

True False

82. Any item on a balance sheet labelled payable is a liability of that company.

True False

83. A credit to an asset account will cause a decrease in assets on the financial statements.

True False

84. Across all accounts, the total value of all debits must equal the total value of all credits.

True False

85. The total value of all debits to a particular account must equal the total value of all credits to that account.

True False

86. Within a journal entry, credits are written first and debits are written beneath them indented to the right.

True False

87. You are pleasantly surprised to discover that a popular actress appears on The Tonight Show wearing your company's jeans. As a result of that your company's sales increase by \$500,000. When the actress appeared on TV, you would have recorded an asset because the TV appearance was expected to bring future economic benefits to your company.

True False

88. If the total dollar value of credits to an account exceed the total dollar value of debits to that account, the ending balance of the account will be a debit balance.

True False

89. Posting journal entries involves copying the dollar amounts from the journal into the ledger.

True False

90. If a \$100 debit is erroneously posted to an account as a \$100 credit, the accounts will be out of balance by \$100.

True False

91. The accounting equation will still balance if a \$5,000 liability is misclassified as shareholders' equity.

True False

92. A company buys land for \$5 million dollars in 1983. The land is now worth \$15 million. The company should increase the book value of this asset on its balance sheet to reflect its current value.

True False

93. All events affecting the current value of a company are reported on the balance sheet.

True False

94. According to the cost principle, assets are valued at their replacement cost.

True False

95. Selected accounts for Moonbills Corporation appear below.

Instructions-For each account, indicate the following:

(A) In the first column at the right, indicate the nature of each account, using the following abbreviations:

Asset—A, Liability—L, Shareholders' Equity—SE.

(B) In the second column, indicate the normal balance by inserting *dr* or *cr*.

	(A) Type of Account	(B) Normal Balance
1.Supplies	_____	_____
2.Notes Payable	_____	_____
3.Unearned Revenue	_____	_____
4.Equipment	_____	_____
5.Accounts Payable	_____	_____
6.Accounts Receivable	_____	_____
7.Contributed Capital	_____	_____
8.Cash	_____	_____
9.Retained Earnings	_____	_____
10.Land	_____	_____

96. Prepare a classified balance sheet for Toys for Tots Inc., using the following data for June 30, 2007.

Accounts Payable	\$115,500	Other Assets	\$37,200
Property and Equipment	421,600	Contributed Capital	200,000
Inventories	16,300	Unearned Revenue	3,900
Bonds Payable, due 2012	226,700	Notes Payable, due 2012	116,500
Interest Receivable	3,200	Accounts Receivable	183,000
Retained Earnings	54,700	Cash	56,000

97. Shareholders contribute \$10,000 cash to a company, of which \$5,000 is used to buy new equipment and \$3,000 is used to pay off accounts payable. Applying transaction analysis show the effect of these transactions on the basic accounting equation. Then, show the journal entries that would be used to record the transactions.

98. The balance sheet for Toronto Pets Inc., as of June 30, 2011 is shown below. During July, 2011, shareholders contribute \$300,000 cash for additional ownership shares. The company pays \$550,000 in cash and signs \$150,000 in promissory notes to buy some new stores.

TORONTO PETS Inc.,
BALANCE SHEET
At JUNE 30, 2011

Assets		Liabilities	
Cash	\$732,600	Accounts Payable	\$349,200
Accounts Receivable	419,200	Notes Payable	<u>268,900</u>
Inventories	58,400		
		Total Liabilities	<u>618,100</u>
Property, Plant and Equipment	118,500		
Other Assets	<u>69,400</u>	Shareholders' Equity	
		Contributed Capital	662,100
		Retained Earnings	<u>117,900</u>
		Total Shareholders' Equity	<u>780,000</u>
Total Assets	<u>\$1,398,100</u>	Total Liabilities and Shareholders' Equity	<u>\$1,398,100</u>

Show the journal entries and the effects of these transactions on the basic accounting equation.

Show the balance sheet as of July 31, 2008, after these transactions have been made, assuming there was no other activities in July 2011.

99. During the month, a company buys \$4,000 of supplies on account and pays \$5,000 cash for new equipment. The company also pays off \$3,000 of accounts payable and \$1,500 of promissory notes. Show the journal entries and analyze the effect of these transactions on the basic accounting equation.

100. If a purchase of supplies for \$400 was mistakenly recorded as a credit to Supplies, but the cash paid for the supplies was correctly recorded, what would be the effect on the accounting equation?

101. CheapBooks Incorporated (CI) had the following business activities, for which you are to prepare journal entries. *Reference each journal entry to the transaction number, shown below.*

1. Shareholders invest \$25,000 cash in the corporation.
2. CI purchased \$400 of office supplies on credit.
3. CI purchased office equipment for \$7,000, paying \$2,500 in cash and signing a 30-day note payable for the remainder.
4. CI paid \$200 cash on account for office supplies purchased in transaction 2.
5. CI purchased two acres of land for \$10,000, signing a 2-year note payable.
6. CI sold one acre of land at one-half of the total cost of the two acres, receiving the full amount or \$5,000 in cash.
7. CI made a payment of \$5,000 on its 2-year note.

102. On January 1, 2007, NWK, Inc.'s assets were \$300,000 and its shareholders' equity was \$140,000. During the year, assets increased \$15,000 and liabilities decreased \$10,000. What was the shareholders' equity on December 31, 2007?

103. On March 3, 2011, your company pays \$4,000 to acquire supplies. Should this be a recognized accounting transaction? If so, what accounts are affected and by how much each?

104. Use the following information as of December 31, 2011 to calculate the amounts of cash and retained earnings. The company's total assets are \$36,000. This company doesn't have other accounts.

Accounts Payable	\$7,000
Accounts Receivable	8,000
Supplies	1,000
Furniture and Equipment	22,000
Contributed Capital	10,000
Cash	?
Retained Earnings	?

105. For each of the following, indicate how the line item would be categorized on a classified balance sheet.

CA (current asset)

LTA (long-term asset)

CL (current liability)

LTL (long-term liability)

SE (shareholders' equity)

___ Property and Equipment

___ Contributed Capital

___ Accrued Liabilities

___ Supplies

___ Unearned Revenue

___ Retained Earnings

___ Wages Payable

___ Accounts Receivable

___ Inventory

___ Bonds Payable

___ Accounts Payable

106. Match the term and the explanation. There are more definitions than terms.

_____ dr
_____ Unobservable event
_____ Classified balance sheet
_____ Contributed capital
_____ Accounting equation
_____ Transaction
_____ Accounts payable
_____ Journal entry
_____ Unearned Revenues
_____ Prepaid Rent

- A. The account credited when cash is received in exchange for stock issued.
- B. Every transaction has at least two effects.
- C. Quantitative record of an exchange or event that has a direct impact on a company's balance sheet.
- D. A balance sheet that has not yet been publicly released.
- E. Amount paid for future rent.
- F. A method of recording a transaction in debit/credit format.
- G. A transaction that is triggered automatically merely by the passage of time.
- H. The abbreviation for an item posted on the left side of a T-account.
- I. The expression that assets must equal liabilities plus shareholders' equity.
- J. The value of a company's public relations campaign.
- K. Amounts owed to suppliers for goods or services bought on credit.
- L. An event that has no effect on the balance sheet and is not recorded in the financial statements.
- M. Liabilities divided by assets.
- N. A balance sheet that has assets and liabilities categorized as current vs. long-term.
- O. The abbreviation for an item posted on the right side of a T-account.
- P. When a company becomes included in the Fortune 500.
- Q. Amount received in advance from customers for providing goods and services to customers.
- S. Another name for shareholders' equity.

107. For each of the following, indicate how the event would most likely be categorized.

OE (Observable External Event)

OI (Observable Internal Event)

UE (Unobservable Event)

NT (No transaction)

- _____ A company sells \$2 million in goods for immediate payment.
- _____ The company uses up office supplies.
- _____ The stock market rises 10% and the value of a company's stock increases.
- _____ Each day the company owes more interest on a loan.
- _____ A company pays cash to an inventor for the legal rights to produce a new product.
- _____ Management pays workers an overtime bonus as required by their union contract.
- _____ A company uses up supplies to manufacture a product.
- _____ A company receives orders worth \$1 million but no down payments.

108. Match the transaction with the appropriate T-account entry, debit (dr) or credit (cr).

- _____ Decrease in Wages Payable.
- _____ Increase in Cash.
- _____ Increase in Accounts Payable.
- _____ Decrease in Notes Payable.
- _____ Increase in Inventory.
- _____ Increase in Contributed Capital.
- _____ Decrease in Accrued Liabilities.
- _____ Decrease in Property and Equipment.

109. Match the term and the explanation. There are more explanations than terms.

- _____ Duality of effects
- _____ Journal entry
- _____ Posting
- _____ Conservatism
- _____ Debit
- _____ Chart of accounts
- _____ T-account
- _____ Credit
- _____ Cost principle

- A. A journal entry that lowers the balance of the account.
- B. When journal entries are copied to the appropriate T-account.
- C. The concept that a company must keep separate accounts by time period.
- D. A simplified version of an account in the General Ledger.
- E. The mechanism used to record each transaction in the General Journal.
- F. When a company's balance sheet has been verified by an outside auditor.
- G. The concept that any transaction must have at least two effects on the accounting equation.
- H. When a dollar value is assigned to an item recorded in the accounting system.
- I. Compares balance sheet items from two different time periods.
- J. An entry that is posted on the left side of a T-account or ledger.
- K. The principle that a company should use the least optimistic measure, when uncertainty exists.
- L. Assets and liabilities are initially recorded at their original cost to the company.
- M. A journal entry that raises the balance of the account.
- N. A balance sheet where assets appear on the top, liabilities in the middle and shareholders' equity appears on the bottom.
- O. An entry that is posted on the right side of a T-account.
- P. A summary of account names and numbers.

c2 Key

1. (p. 59) Which of the following would be listed as a long-term asset?

- A. Cash.
- B. Supplies.
- C.** Buildings and equipment.
- D. Total assets.

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 02 #1*

2. (p. 59) Which of the following would be listed as a current liability?

- A. Cash in the bank.
- B. Notes payable due in two years.
- C. Bank loan due in 10 years.
- D.** Accounts payable.

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 02 #2*

3. (p. 59) A long-term liability is one that the company:

- A. has owed for over one year.
- B. has owed for over five years.
- C.** will not pay off for at least over one year.
- D. will not pay off for at least over five years.

*BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 02 #3*

4. (p. 59) A current asset is one that:

- A. the company has owned for over one year.
- B. the company will use up or convert into cash in five years or more.
- C. the company will use up or convert into cash in one year or less.
- D. the company will use up or convert into cash in more than one year.

BT: Knowledge

Difficulty: Easy

Gradable: automatic

Learning Objective: 4

Phillips - Chapter 02 #4

5. (p. 59) At the start of the first year of operations, a company's retained earnings on the balance sheet would be:

- A. equal to zero.
- B. equal to contributed capital.
- C. equal to shareholders' equity.
- D. equal to the negative of liabilities.

BT: Knowledge

Difficulty: Easy

Gradable: automatic

Learning Objective: 4

Phillips - Chapter 02 #5

6. (p. 45) Which of the following is **not** true. Account names in the chart of accounts have to be:

- A. sufficiently descriptive to enable users to quickly understand items.
- B. consistent throughout the financial statements and records.
- C. linked to account numbers.
- D. general purpose and do not have to indicate the nature of the account.

BT: Knowledge

Difficulty: Medium

Gradable: automatic

Learning Objective: 2

Phillips - Chapter 02 #6

PURRFECT PETS, INC.
BALANCE SHEET
At JUNE 30, 2011

Assets		Liabilities	
Cash	\$732,600	Accounts Payable	\$349,200
Accounts Receivable	419,200	Notes Payable, due 2011	<u>268,900</u>
Supplies	58,400	Total Liabilities	<u>618,100</u>
Property, Plant and Equipment	118,500		
Other Assets	69,400	Shareholders' Equity	
		Contributed Capital	662,100
		Retained Earnings	<u>117,900</u>
		Total Equity	<u>780,000</u>
Total Assets	<u>\$1,398,100</u>	Total Liabilities and Shareholders' Equity	<u>\$1,398,100</u>

Phillips - Chapter 02

7. (p. 59) Which line item(s) on the above balance sheet would be classified as long term?

- A. Cash; Supplies; Accounts Payable.
- B. Property, Plant and Equipment; Notes payable**
- C. Supplies; Property, Plant and Equipment; Notes Payable.
- D. Contributed Capital; Total Liabilities; Accounts Receivable.

*BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 02 #7*

8. (p. 59) In the above balance sheet how much financing did the shareholders of Purrfect Pets Inc., directly contribute to the company?

- A. \$117,900.
- B. \$662,100.**
- C. \$780,000.
- D. \$1,398,100.

*BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 1; 4
Phillips - Chapter 02 #8*

9. (p. 61) What would be the current ratio for the above company?

- A. 1.95.
- B. 3.46.**
- C. 1.18.
- D. 2.26.

$$732,600 + 419,200 + 58,400 / 349,200 = 3.46$$

BT: Application

Difficulty: Medium

Gradable: automatic

Learning Objective: 5

Phillips - Chapter 02 #9

10. (p. 42) The local branch of the Universal Bank System (UBS) receives money from some of its customers as deposits and lends it to other customers as loans. Which of the following would be true about UBS's financial statements?

- A. UBS reports customers' deposits as assets and customers' loans as liabilities.
- B. UBS reports both customers' deposits and customers' loans as assets.
- C. UBS reports customers' deposits as liabilities and customers' loans as assets.**
- D. UBS reports both customers' deposits and customers' loans as liabilities.

BT: Comprehension

Difficulty: Medium

Gradable: automatic

Learning Objective: 1

Phillips - Chapter 02 #10

11. (p. 59) Which of the following is **not** an example of an asset?

- A. Notes receivable.
- B. Supplies.
- C. Prepaid Insurance.
- D. Unearned revenues.**

BT: Comprehension

Difficulty: Hard

Gradable: automatic

Learning Objective: 4

Phillips - Chapter 02 #11

12. (p. 47) If a company borrows money from a bank and signs an agreement to repay the loan several years from now, in which account would the company report the amount borrowed?

- A. Contributed Capital.
- B. Accounts Payable.
- C. Notes Payable.**
- D. Bonds Payable.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #12

13. (p. 47) The Sweet Smell of Success Fragrance Company borrowed \$60,000 from the bank and used all of the money to re-design its new store. Sweet Smell's balance sheet would show this as:

- A. \$60,000 under Furnishings & Equipment and \$60,000 under Notes Payable.**
- B. \$60,000 under Supplies and \$60,000 under Accounts Payable.
- C. \$60,000 under Prepaid Expenses and \$60,000 under Accrued Liabilities.
- D. \$60,000 under Other Assets and \$60,000 under Other Liabilities.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #13

14. (p. 51) The Buddy Burger Corporation owes \$1.5 million to the Alberta Wholesale Meat Company from whom Buddy Burger buys its burger meat. Which account would Buddy Burger use to report the amount owed?

- A. Unearned Revenue.
- B. Accounts Payable.**
- C. Supplies.
- D. Accounts Receivable.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #14

15. (p. 51) Which of the following describes the classification and normal balance of the retained earnings account?

- A. Asset, debit
- B. Shareholders' equity, credit**
- C. Liability, credit
- D. Shareholders' equity, debit

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #15

16. (p. 45) If a company is paid \$20,000 on accounts receivable and uses the money to pay \$20,000 on accounts payable then:

- A. assets would increase by \$20,000 while liabilities would decrease by \$20,000.
- B. liabilities would decrease by \$20,000 while shareholders' equity would increase by \$20,000.
- C. Both assets and liabilities would decrease by \$20,000.**
- D. Both assets and shareholders' equity would decrease by \$20,000.

BT: Comprehension
Difficulty: Hard
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #16

17. (p. 59) In 1999, the Denim Company bought land that cost \$15,000. In 2005, a similar piece of land was bought for \$28,000 and the company's existing land was estimated to be worth \$18,000. On the balance sheet at the end of 2005, the land that was purchased in 1999 would be reported at:

- A. \$15,000.**
- B. \$28,000.
- C. \$18,000.
- D. the average of the three prices.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 5
Phillips - Chapter 02 #17

18. (p. 45) What is the minimum number of ways that a transaction could effect the basic accounting equation?

- A. One.
- B. Two.**
- C. Three.
- D. No minimum.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #18

19. (p. 44) Transactions include which two types of events?

- A. Direct events and indirect events.
- B. Monetary events and production events.
- C. External exchanges and internal events.**
- D. Current events and future events.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #19

20. (p. 45) A company disposes of \$1 million of its assets. Which of the following could **not** be true about its effects on the basic accounting equation?

- A. Assets remain the same, and liabilities and shareholders' equity both decrease by \$1 million.**
- B. Assets decrease by \$1 million, liabilities decrease by \$1 million, and shareholders' equity is unchanged.
- C. Assets, liabilities, and shareholders' equity all remain the same.
- D. Assets decrease by \$1 million, and liabilities and shareholders' equity both decrease by \$500,000.

BT: Comprehension
Difficulty: Hard
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #20

21. (p. 48) Your company orders and broadcasts a 30 second advertisement during the Super Bowl for \$1.2 million. It is legally obligated to pay for this service but has not yet done so.

- A. This is an internal unobservable event so it does **not** affect the balance sheet.
- B. This is an external unobservable event so it does **not** affect the balance sheet.
- C. This is an internal observable event that affects the balance sheet.
- D. This is an external observable event that affects the balance sheet.**

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #21

22. (p. 45) In part, a transaction affects the accounting equation as follows:

Assets	=	Liabilities	+	Shareholders' Equity
↓ Accounts receivable	=	No change	+	

Which of the following must be true for this transaction to keep the accounting equation in balance?

- A. If other assets remain the same, shareholders' equity must increase.
- B.** If other assets remain the same, shareholders' equity must decrease.
- C. If shareholders' equity remains the same, another asset must decrease.
- D. If shareholders' equity remains the same, all other assets must remain the same.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #22

23. (p. 45) A company buys equipment for \$500,000 and signs a promissory note for the full amount. How does this transaction affect the accounting equation?

- A. Assets: ↑ Property and equipment, ↓ Cash; Liabilities: no change; Shareholders' Equity: no change.
- B.** Assets: ↑ Property and equipment; Liabilities: ↓ Notes payable; Shareholders' Equity: no change.
- C. Assets: ↑ Property and equipment; Liabilities: no change; Shareholders' Equity: ↓ Retained earnings.
- D. Assets: ↑ Property and equipment; Liabilities: no change; Shareholders' Equity: ↓ Contributed capital.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #23

24. (p. 45) Your company pays back \$2 million on a loan it had received earlier from a bank. How does this transaction affect the accounting equation?

- A. Assets are unchanged, liabilities and shareholders' equity both increase by \$2 million.
- B.** Assets decrease by \$2 million, liabilities decrease by \$2 million, shareholders' equity is unchanged.
- C. Assets are unchanged, liabilities increase by \$2 million, contributed capital decreases by \$2 million.
- D. Assets decrease by \$2 million, liabilities are unchanged, contributed capital decreases by \$2 million.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #24

25. (p. 45) A company issues \$20 million in new stock. It later uses this money to pay off promissory notes. How many different accounts and which account names are affected by these two transactions?

- A. 3 accounts are affected: contributed capital, cash, and notes payable.
- B. 4 accounts are affected: contributed capital, cash, liabilities, and accounts payable.
- C. 3 accounts are affected: cash, assets, and accounts payable.
- D. 3 accounts are affected: contributed capital, investments, and accounts payable.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #25

26. (p. 45) A company borrows \$2 million from its bank. It then uses this money to buy equipment. How does this transaction affect the accounting equation?

- A. Assets and Liabilities both rise \$2 million.
- B. Assets and Shareholders' Equity both fall \$2 million.
- C. Assets, Liabilities, and Shareholders' Equity are unchanged.
- D. Shareholders' Equity rises \$2 million and Liabilities fall \$2 million.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #26

27. (p. 45) A company receives \$10 million cash from investors in exchange for new common stock. Several weeks later, the company buys a \$25 million machinery using all of the cash from the stock issue and signing a promissory note for the remainder. The accounts involved in these two transactions are:

- A. Long-term Investments; Cash; Equipment; and Accounts Payable.
- B. Shareholders' Equity; Cash; Long-term Investments; and Notes Payable.
- C. Contributed Capital; Cash; Equipment; and Notes Payable.
- D. Retained Earnings; Equipment; and Notes Payable.

BT: Comprehension
Difficulty: Hard
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #27

28. (p. 45) A company purchases \$23,000 of supplies in the current month and promises to pay for them next month. How would the company record a liability for the supplies?

- A. This liability is not a recognized liability until the payment is due.
- B. \$23,000 would be posted as a credit to Accounts Payable.**
- C. \$23,000 would be posted as a debit to Accounts Payable.
- D. \$23,000 would be posted as a debit to Note Payable.

BT: Comprehension

Difficulty: Easy

Gradable: automatic

Learning Objective: 2

Phillips - Chapter 02 #28

29. (p. 46) If total liabilities decreased by \$25,000 and shareholders' equity increased by \$5,000 during a period of time, then total assets must change by what amount and direction during the same time period?

- A. \$20,000 increase.
- B. \$20,000 decrease.**
- C. \$30,000 increase.
- D. \$30,000 decrease.

BT: Comprehension

Difficulty: Medium

Gradable: automatic

Learning Objective: 2

Phillips - Chapter 02 #29

30. (p. 42) The characteristic shared by all liabilities is that they:

- A. provide a future economic benefit.
- B. result in an inflow of resources to the company.
- C. always end in the word "payable."
- D. obligate the company to do something in the future.**

BT: Knowledge

Difficulty: Easy

Gradable: automatic

Learning Objective: 1

Phillips - Chapter 02 #30

31. (p. 45) A company issues \$50 million in new stock. The company later uses this money to buy construction machinery. How many accounts will be affected by these transactions and which particular account names are most likely to be used to record the effects of these transactions?

- A.** 3 accounts affected: Contributed Capital, Cash, and Equipment.
- B. 4 accounts affected: Contributed Capital, Cash, Supplies and Accounts Payable.
- C. 3 accounts affected: Cash, Accounts Receivable, and Equipment.
- D. 3 accounts affected: Contributed Capital, Investments, and Notes Payable.

*BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #31*

32. (p. 45) Park & Company was recently formed with a \$5,000 investment in the company by shareholders. The company then borrowed \$2,000 from a local bank, purchased \$1,000 of supplies on account, and also purchased \$5,000 of equipment by paying \$2,000 in cash and signing a promissory note for the balance. Based on these transactions, the company's total assets are:

- A. \$7,000.
- B. \$9,000.
- C. \$10,000.
- D.** \$11,000.

5,000 cash from stockholders
+ 2,000 borrowed from bank
+ 1,000 purchase of supplies on account
+ 3,000 = 5000 - 2000 (Equipment purchased minus cash paid)
= 11,000

*BT: Application
Difficulty: Hard
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #32*

33. (p. 42) Which of the following is the common characteristic possessed by all assets?

- A. long life.
- B. great financial value.
- C. physical substance.
- D.** future economic benefits.

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #33*

34. (p. 59) Current liabilities are expected to be:

- A. converted to cash within one year.
- B. paid within one year.**
- C. used in the business within one year.
- D. acquired within one year.

BT: Knowledge

Difficulty: Easy

Gradable: automatic

Learning Objective: 4

Phillips - Chapter 02 #34

35. (p. 51) If Accounts Payable had a balance of \$18,200 at the beginning of the month, and the six amounts shown below were posted to this account, what should be the ending balance?

Three debits posted to Accounts Payable this month: \$4,700, \$11,300, and \$14,800.

Three credits posted to Accounts Payable this month: \$3,600, \$9,500, and \$12,700.

- A. \$13,200.**
- B. \$5,000.
- C. \$23,200.
- D. \$49,000.

Debit	Credit
	18,200 Beg Balance
4,700	
11,300	
14,800	
	3,600
	9,500
	12,700
	<u>13,200</u> End Balance

BT: Application

Difficulty: Medium

Gradable: automatic

Learning Objective: 3

Phillips - Chapter 02 #35

36. (p. 51) In a T-account debits appear in what manner?

- A. They are on the left under assets but on the right under liabilities and shareholders' equity.
- B. They are always listed on the right.
- C. They are always listed on the left.**
- D. They are on the right under assets but on the left under liabilities and shareholders' equity.

BT: Knowledge

Difficulty: Easy

Gradable: automatic

Learning Objective: 3

Phillips - Chapter 02 #36

37. (p. 51) A company uses \$100,000 in cash to pay off \$100,000 in notes payable. This would result in a:
- A. \$100,000 credit to Cash and a \$100,000 debit to Notes Payable.
 - B. \$100,000 credit to Cash and a \$100,000 credit to Notes Payable.
 - C. \$100,000 debit to Cash and a \$100,000 credit to Notes Payable.
 - D. \$100,000 debit to Cash and a \$100,000 debit to Notes Payable.

BT: Comprehension
 Difficulty: Medium
 Gradable: automatic
 Learning Objective: 3
 Phillips - Chapter 02 #37

38. (p. 51) PetPlanet Ltd., uses \$10,000 in cash to pay \$10,000 on Accounts Payable. This would result in a:
- A. \$10,000 credit to Cash and a \$10,000 credit to Accounts Payable.
 - B. \$10,000 debit to Cash and a \$10,000 debit to Accounts Payable.
 - C. \$10,000 credit to Cash and a \$10,000 debit to Accounts Payable.
 - D. \$10,000 debit to Cash and a \$10,000 credit to Accounts Payable.

BT: Comprehension
 Difficulty: Medium
 Gradable: automatic
 Learning Objective: 3
 Phillips - Chapter 02 #38

39. (p. 52) The best interpretation of the word credit is that it's the:
- A. left side of an account.
 - B. increase side of an account.
 - C. right side of an account.
 - D. decrease side of an account.

BT: Knowledge
 Difficulty: Easy
 Gradable: automatic
 Learning Objective: 3
 Phillips - Chapter 02 #39

Cash			
Beginning			
Balance	123,900		
(a)	14,700	(c)	6,000
(b)	38,300	(d)	5,800
		(e)	7,400
		(f)	12,000
		(g)	11,200

Phillips - Chapter 02

40. (p. 51) The final balance of the Cash account would be:

- A. \$219,300.
- B. \$113,300.
- C. \$28,500.
- D. \$134,500.**

$$(123,900 + 14,700 + 38,300) - (6,000 - 5,800 - 7,400 - 12,000 - 11,200) = 134,500$$

BT: Application
Difficulty: Medium
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #40

41. (p. 52) In the T-account above:

- i) (a) and (b) are credits while (c) through (g) are debits.
- ii) (a) and (b) are increases while (c) through (g) are decreases.
- iii) (a) and (b) are debits while (c) through (g) are credits.
- iv) (a) and (b) are decreases while (c) through (g) are increases.

Which of the following pair is true?

- A. i and ii
- B. ii and iii**
- C. i and iv
- D. iii and iv

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #41

42. (p. 52) A credit would decrease the balance in which of the following account?

- A. Contributed Capital.
- B. Inventories.**
- C. Notes Payable.
- D. Retained Earnings.

BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #42

43. (p. 51) Your company buys a \$2 million warehouse paying \$300,000 in cash and issuing \$1.7 million in promissory notes. This will be posted as:

- A. \$2 million credited and \$300,000 debited to assets; \$1.7 million debited to liabilities.
- B. \$2 million debited to assets and \$2 million credited to liabilities.
- C. \$2 million debited and \$300,000 credited to assets; \$1.7 million credited to liabilities.**
- D. \$2 million credited to assets and \$2 million debited to liabilities.

BT: Comprehension
Difficulty: Hard
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #43

44. (p. 51) Cash had a beginning balance of \$68,900. During the month, Cash was credited for \$16,000 and debited for \$18,300. At the end of the month, the balance is:

- A. \$2,300.
- B. \$71,200.**
- C. \$66,700.
- D. \$(2,300).

$$68,900 - 16,000 + 18,300 = 71,200$$

BT: Application
Difficulty: Medium
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #44

45. (p. 58) On January 1, 2010, Yukon Inc., had assets of \$156,000 and shareholders's equity of \$88, 000. During the year assets increased by \$35,000 and shareholders's equity decreased by \$27, 500. What were the liabilities on December 31, 2011?

- A. \$7,500.
- B. \$68,000.
- C. \$130,500.**
- D. \$251,500.

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
156,000		68,000		88,000
+35,000				-27,500
191,000		130, 500		60,500

BT: Comprehension
Difficulty: Hard
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 02 #45

46. (p. 51) Which of the following is true?

- A. Assets have debit balances and liabilities have credit balances.
- B. Assets and liabilities have credit balances.
- C. Assets have credit balances and liabilities have debit balances.
- D. Assets and liabilities have debit balances.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #46

47. (p. 52) The standard formatting for a journal entry:

- A. lists credits first and then debits, both aligned to the left.
- B. lists credits first and then debits, indented underneath.
- C. lists debits first and then credits, both aligned to the right.
- D. lists debits first and then credits, indented underneath.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #47

48. (p. 51) Which of the following scenarios could explain the journal entry below?

dr	Cash	4,000	
dr	Notes Receivable	6,000	
cr	Equipment		10,000

- A. The company buys \$10,000 of equipment for \$4,000 in cash and \$6,000 on credit.
- B. The company pays \$4,000 in cash and \$6,000 in notes payable to buy \$10,000 of equipment.
- C. The company sells \$10,000 of equipment, for \$4,000 in cash and \$6,000 on credit.
- D. The company sells \$10,000 of equipment, for \$4,000 in cash and pays off \$6,000 it owes on the equipment.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #48

49. (p. 51) Which of the following statements is **not** true?

- A. Assets must always equal liabilities plus shareholders' equity.
- B. The total value of credits in all accounts must always equal the total value of debits in all accounts.
- C. The net changes in assets must always equal the sum of the net changes in liabilities and shareholders' equity.
- D.** The number of credits posted must equal to number of debits posted.

BT: Comprehension

Difficulty: Easy

Gradable: automatic

Learning Objective: 3

Phillips - Chapter 02 #49

50. (p. 51) The normal balance of any account is the:

- A. left side.
- B. right side.
- C.** side which increases that account.
- D. side which decreases that account.

BT: Knowledge

Difficulty: Easy

Gradable: automatic

Learning Objective: 3

Phillips - Chapter 02 #50

51. (p. 58) During the month you purchased \$12,000 of supplies on credit and \$19,000 of equipment for cash. When you prepare a balance sheet, assets are \$24,000 more than liabilities plus shareholders' equity.

- A. You may have posted the increase in supplies as a credit rather than a debit.
- B. You may have neglected to post the change in accounts payable.
- C.** You may have posted the increase in accounts payable as a debit rather than a credit.
- D. All of the above would have resulted in the \$24,000 error.

BT: Analysis

Difficulty: Hard

Gradable: automatic

Learning Objective: 4

Phillips - Chapter 02 #51

52. (p. 51) If no transactions were posted to a particular asset, liability, or shareholders' equity account during a period then:

- A.** the amounts from the previous balance sheet are repeated unchanged on the current balance sheet.
- B. the account is left off of the balance sheet.
- C. the account is posted as zero on the current balance sheet for that account.
- D. the words "no change" are entered in the current balance sheet.

BT: Comprehension

Difficulty: Easy

Gradable: automatic

Learning Objective: 3

Phillips - Chapter 02 #52

53. (p. 51) Consider the data in the Inventories T-account shown below and the partial listing of account balances at the end of the year.

Inventories	
Beginning Balance	187,500
	104,900
	63,900
	18,000
	5,400
	14,700
	19,200

Partial listing of account balances at the end of the year:

Cash	\$28,000
Accounts Receivable	35,600
Inventories	?
Other Current Assets	5,900

The amount of Total Current Assets that would be reported on the company's balance sheet at the end of the year would be:

- A. \$180,800.
- B.** \$368,500.
- C. \$145,700.
- D. \$298,800.

$$\text{Inventories} = (187,500 + 104,900 + 63,900) - (18,000 + 5,400 + 14,700 + 19,200) = 299,000$$

$$\text{Current Assets} = 28,000 + 35,600 + 299,000 + 5,900 = 368,500$$

BT: Application
 Difficulty: Hard
 Gradable: automatic
 Learning Objective: 3
 Phillips - Chapter 02 #53

54. (p. 42) Which of the following is **not** an example of a liability?

- A.** Account receivable.
- B. Wages payable.
- C. Interest payable.
- D. Bonds payable.

BT: Comprehension
 Difficulty: Easy
 Gradable: automatic
 Learning Objective: 1
 Phillips - Chapter 02 #54

55. (p. 61) According to the principle of conservatism, when faced with uncertainty about the value of an item, a company should use the measure that avoids:

- A. overstating assets and liabilities.
- B.** overstating assets and understating liabilities.
- C. understating assets and overstating liabilities.
- D. understating assets and liabilities.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 5
Phillips - Chapter 02 #55

56. (p. 44) Your company's president donates a large amount of her own money to charity and receives significant publicity that includes the company's name. How would the benefits of this publicity appear on the balance sheet?

- A. It would appear as a current asset.
- B. It would appear as a liability.
- C. It would appear as a long-term asset.
- D.** It would not appear on the balance sheet.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #56

57. (p. 61) Which of the following would a company be most likely to overstate on its balance sheet if the company was trying to mislead potential external investors or creditors?

- A.** Accounts Receivable.
- B. Notes Payable.
- C. Unearned Revenues.
- D. Accounts Payable.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 4; 5
Phillips - Chapter 02 #57

58. (p. 44) Which of the following would **not** be recorded as an identifiable accounting transaction?

- A. Putting a deposit down on a new vehicle.
- B. Hiring a new employee.**
- C. Obtaining a bank loan.
- D. Receiving a deposit from a customer.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #58

59. (p. 43) Which concept should be applied when reporting a piece of land that was bought for \$50,000 five years ago, and which would probably now sell for \$80,000?

- A. The cost principle.**
- B. The asset principle.
- C. The separate entity concept.
- D. The duality of effects.

BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 5
Phillips - Chapter 02 #59

60. (p. 61) Conservatism means:

- A. not underestimating asset values.
- B. not overestimating liabilities.
- C. using the least optimistic measurement when faced with uncertainty about the value of assets and liabilities.**
- D. using the most optimistic measurement when faced with uncertainty about the value of assets and liabilities.

BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 5
Phillips - Chapter 02 #60

61. (p. 44) The MegaBuck movie studio's name has become famous for adventure movies. Another studio once offered to buy the name for \$20 million, but MegaBuck turned down the offer. The MegaBuck balance sheet will show:

- A. The company's name under Other Assets, valued at \$20 million.
- B. The company's name under Other Assets, valued conservatively at \$10 million.
- C. The company's name under Accounts Receivable, valued at \$20 million.
- D.** The company's name will not be shown as an asset on the balance sheet.

BT: Application
Difficulty: Medium
Gradable: automatic
Learning Objective: 1; 5
Phillips - Chapter 02 #61

62. (p. 42) Which of the following is the financing that a business acquires through owners' contributions and reinvestment of profits?

- A. Debt.
- B.** Equity.
- C. External Exchanges.
- D. Current Assets.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #62

63. (p. 42) Which of the following is the financing a business acquires through borrowing money?

- A.** Debt.
- B. Equity.
- C. External Exchanges.
- D. Current Assets.

BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #63

64. (p. 51) When supplies are paid in cash, which of the following would hold true?

- A. Total assets will increase.
- B. Total assets will decrease.
- C.** Total assets will remain unchanged.
- D. Total liabilities will decrease.

*BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #64*

65. (p. 42) Which of the following are the three steps applied to daily transactions in the accounting cycle?

- A.** Analyze, record, summarize.
- B. Present, process, summarize.
- C. Determine, Scrutinize, record.
- D. Analyze, determine, record.

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #65*

66. (p. 59) Current assets are those assets that a company will use up or convert into cash within the next three months.

FALSE

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 02 #66*

67. (p. 59) A "classified" balance sheet is one that contains privileged information.

FALSE

*BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 02 #67*

68. (p. 43) All liabilities require that the company sacrifice resources at some time in the future.

TRUE

*BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #68*

69. (p. 45) A chart of accounts is a list of account titles used to record financial transactions.

TRUE

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #69*

70. (p. 45) A summary of account names and account numbers is kept by a company in the table of contents of its annual report.

FALSE

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #70*

71. (p. 44) A transaction is an exchange or event that directly affects the assets, liabilities, or shareholders' equity of a company.

TRUE

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #71*

72. (p. 44) A vitamin manufacturer combines ingredients when making its vitamin pills. This is an observable internal event.

TRUE

*BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #72*

73. (p. 44) A transaction can cause only one account on the balance sheet to change.

FALSE

*BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #73*

74. (p. 58) If a company uses \$100 million in cash to pay off debt, its shareholders' equity will increase by \$100 million.

FALSE

*BT: Application
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 02 #74*

75. (p. 44) General Motors (GM) signs a new labour agreement agreeing to give its workers a 5% wage increase next year. This transaction will affect GM's financial statements in the current year.

FALSE

*BT: Application
Difficulty: Hard
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #75*

76. (p. 47) The basic accounting equation must always balance for each transaction.

TRUE

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #76*

77. (p. 44) All of a company's business activities have a direct economic effect on the company.

FALSE

*BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #77*

78. (p. 47) If total assets increase, then either liabilities or shareholders' equity also must increase.

TRUE

*BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #78*

79. (p. 59) Assets are listed on the balance sheet in order of how soon they are used or can be turned into cash.

TRUE

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 02 #79*

80. (p. 46) Facebook issues new stock worth \$40 million for cash. This would ***not*** affect the shareholders' equity on the balance sheet because as new shares are sold the value of existing shares will decline by the same amount.

FALSE

*BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 2
Phillips - Chapter 02 #80*

81. (p. 60) The current ratio is used to assess a company's ability to pay its current liabilities.

TRUE

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 5
Phillips - Chapter 02 #81*

82. (p. 59) Any item on a balance sheet labelled payable is a liability of that company.

TRUE

*BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 02 #82*

83. (p. 51) A credit to an asset account will cause a decrease in assets on the financial statements.

TRUE

*BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #83*

84. (p. 52) Across all accounts, the total value of all debits must equal the total value of all credits.

TRUE

*BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #84*

85. (p. 52) The total value of all debits to a particular account must equal the total value of all credits to that account.

FALSE

*BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #85*

86. (p. 52) Within a journal entry, credits are written first and debits are written beneath them indented to the right.

FALSE

*BT: Knowledge
Difficulty: Easy
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #86*

87. (p. 44) You are pleasantly surprised to discover that a popular actress appears on The Tonight Show wearing your company's jeans. As a result of that your company's sales increase by \$500,000. When the actress appeared on TV, you would have recorded an asset because the TV appearance was expected to bring future economic benefits to your company.

FALSE

*BT: Evaluation
Difficulty: Hard
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #87*

88. (p. 51) If the total dollar value of credits to an account exceed the total dollar value of debits to that account, the ending balance of the account will be a debit balance.

FALSE

*BT: Comprehension
Difficulty: Hard
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #88*

89. (p. 52) Posting journal entries involves copying the dollar amounts from the journal into the ledger.

TRUE

*BT: Knowledge
Difficulty: Medium
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #89*

90. (p. 51) If a \$100 debit is erroneously posted to an account as a \$100 credit, the accounts will be out of balance by \$100.

FALSE

*BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 3
Phillips - Chapter 02 #90*

91. (p. 58) The accounting equation will still balance if a \$5,000 liability is misclassified as shareholders' equity.

TRUE

*BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 4
Phillips - Chapter 02 #91*

92. (p. 43) A company buys land for \$5 million dollars in 1983. The land is now worth \$15 million. The company should increase the book value of this asset on its balance sheet to reflect its current value.

FALSE

*BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #92*

93. (p. 44) All events affecting the current value of a company are reported on the balance sheet.

FALSE

*BT: Comprehension
Difficulty: Medium
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #93*

94. (p. 43) According to the cost principle, assets are valued at their replacement cost.

FALSE

*BT: Comprehension
Difficulty: Easy
Gradable: automatic
Learning Objective: 1
Phillips - Chapter 02 #94*

95. (p. 45) Selected accounts for Moonbills Corporation appear below.

Instructions-For each account, indicate the following:

(A) In the first column at the right, indicate the nature of each account, using the following abbreviations: Asset—A, Liability—L, Shareholders' Equity—SE.

(B) In the second column, indicate the normal balance by inserting *dr* or *cr*.

	(A) Type of Account	(B) Normal Balance
1.Supplies	_____	_____
2.Notes Payable	_____	_____
3.Unearned Revenue	_____	_____
4.Equipment	_____	_____
5.Accounts Payable	_____	_____
6.Accounts Receivable	_____	_____
7.Contributed Capital	_____	_____
8.Cash	_____	_____
9.Retained Earnings	_____	_____
10.Land	_____	_____

	(A) Type of Account	(B) Normal Balance
1.Supplies	A	dr
2.Notes Payable	L	cr
3.Unearned Revenue	L	cr
4.Equipment	A	dr
5.Accounts Payable	L	cr
6.Accounts Receivable	A	dr
7.Contributed Capital	SE	cr
8.Cash	A	dr
9.Retained Earnings	SE	cr
10.Land	A	dr

BT: Knowledge

Difficulty: Easy

Gradable: manual

Learning Objective: 1; 3

Phillips - Chapter 02 #95

96. (p. 58) Prepare a classified balance sheet for Toys for Tots Inc., using the following data for June 30, 2007.

Accounts Payable	\$115,500	Other Assets	\$37,200
Property and Equipment	421,600	Contributed Capital	200,000
Inventories	16,300	Unearned Revenue	3,900
Bonds Payable, due 2012	226,700	Notes Payable, due 2012	116,500
Interest Receivable	3,200	Accounts Receivable	183,000
Retained Earnings	54,700	Cash	56,000

Toys for Tots Inc.,
BALANCE SHEET
At JUNE 30, 2007

Assets		Current Liabilities	
Cash	\$56,000	Accounts Payable	\$115,500
Accounts Receivable	183,000	Unearned Revenue	<u>3,900</u>
Inventories	16,300	Total Current Liabilities	119,400
Interest Receivable	<u>3,200</u>	Long -Term Liabilities	
Total Current Assets	258,500	Notes Payable	116,500
		Bonds Payable	<u>226,700</u>
		Total Liabilities	<u>462,600</u>
Other Assets	37,200	Shareholders' Equity	
Property and Equipment	421,600	Contributed Capital	200,000
		Retained Earnings	<u>54,700</u>
		Total Shareholders' Equity	<u>254,700</u>
Total Assets	<u><u>\$717,300</u></u>	Total Liabilities and Shareholders' Equity	<u><u>\$717,300</u></u>

BT: Application
BT: Synthesis
Difficulty: Hard
Gradable: manual
Learning Objective: 4
Phillips - Chapter 02 #96

97. (p. 44) Shareholders contribute \$10,000 cash to a company, of which \$5,000 is used to buy new equipment and \$3,000 is used to pay off accounts payable. Applying transaction analysis show the effect of these transactions on the basic accounting equation. Then, show the journal entries that would be used to record the transactions.

Transaction Analysis

<u>Assets</u>		=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
Cash	Property & Equipment		Accounts Payable		Contributed Capital
+2,000	+5,000		-3,000		+10,000

Journal entry:

dr	Cash (+A)	2,000
dr	Property & Equipment (+A)	5,000
dr	Accounts Payable (-L)	3,000
cr	Contributed Capital (+SE)	10,000

BT: Analysis

Difficulty: Hard

Gradable: manual

Learning Objective: 2; 3

Phillips - Chapter 02 #97

98. (p. 45) The balance sheet for Toronto Pets Inc., as of June 30, 2011 is shown below. During July, 2011, shareholders contribute \$300,000 cash for additional ownership shares. The company pays \$550,000 in cash and signs \$150,000 in promissory notes to buy some new stores.

TORONTO PETS Inc.,
BALANCE SHEET
At JUNE 30, 2011

Assets		Liabilities	
Cash	\$732,600	Accounts Payable	\$349,200
Accounts Receivable	419,200	Notes Payable	<u>268,900</u>
Inventories	58,400	Total Liabilities	<u>618,100</u>
Property, Plant and Equipment	118,500		
Other Assets	<u>69,400</u>	Shareholders' Equity	
		Contributed Capital	662,100
		Retained Earnings	<u>117,900</u>
		Total Shareholders' Equity	<u>780,000</u>
Total Assets	<u>\$1,398,100</u>	Total Liabilities and Shareholders' Equity	<u>\$1,398,100</u>

Show the journal entries and the effects of these transactions on the basic accounting equation.

Show the balance sheet as of July 31, 2008, after these transactions have been made, assuming there was no other activities in July 2011.

Journal entries:

dr	Cash (+A)	300,000	
cr	Contributed Capital (+SE)		300,000
dr	Property, Plant & Equipment (+A)	700,000	
cr	Cash (-A)		550,000
cr	Notes Payable (+L)		150,000

Transaction Analysis:

<u>Assets</u>		=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
Cash	Property, Plant and Equipment		Notes Payable		Contributed Capital
+300,000			+150,000		+300,000
-550,000	+700,000				

TORONTO PETS Inc., BALANCE SHEET At JULY 31, 2008

Assets		Liabilities	
Cash	\$482,600	Accounts Payable	\$349,200
Accounts Receivable	419,200	Notes Payable	<u>418,900</u>
Inventories	58,400	Total Liabilities	<u>768,100</u>
Property, Plant and Equipment	818,500		
Other Assets	<u>69,400</u>	Shareholders' Equity	
		Contributed Capital	962,100
		Retained Earnings	<u>117,900</u>
		Total Shareholders' Equity	<u>1,080,000</u>
Total Assets	<u>\$1,848,100</u>	Total Liabilities and Shareholders' Equity	<u>\$1,848,100</u>

BT: Analysis

BT: Application

BT: Synthesis

Difficulty: Hard

Gradable: manual

Learning Objective: 2; 3; 4

Phillips - Chapter 02 #98

99. (p. 45) During the month, a company buys \$4,000 of supplies on account and pays \$5,000 cash for new equipment. The company also pays off \$3,000 of accounts payable and \$1,500 of promissory notes. Show the journal entries and analyze the effect of these transactions on the basic accounting equation.

Journal entries:

dr	Supplies (+A)	4,000	
cr	Accounts Payable (+L)		4,000
dr	Equipment (+A)	5,000	
cr	Cash (-A)		5,000
dr	Accounts Payable (-L)	3,000	
dr	Notes Payable (-L)	1,500	
cr	Cash (-A)		4,500

Transaction Analysis:

<u>Assets</u>			=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
Cash	Supplies	Equipment		Accounts Payable		Notes Payable
				+4,000		
-5,000	+4,000	+5,000		-3,000		-1,500
-4,500						

BT: Analysis
 Difficulty: Hard
 Gradable: manual
 Learning Objective: 2; 3
 Phillips - Chapter 02 #99

100. (p. 51) If a purchase of supplies for \$400 was mistakenly recorded as a credit to Supplies, but the cash paid for the supplies was correctly recorded, what would be the effect on the accounting equation?

Assets would be \$800 less than liabilities plus shareholders' equity.

BT: Comprehension
 Difficulty: Hard
 Gradable: manual
 Learning Objective: 3
 Phillips - Chapter 02 #100

101. (p. 51) CheapBooks Incorporated (CI) had the following business activities, for which you are to prepare journal entries. *Reference each journal entry to the transaction number, shown below.*

1. Shareholders invest \$25,000 cash in the corporation.
2. CI purchased \$400 of office supplies on credit.
3. CI purchased office equipment for \$7,000, paying \$2,500 in cash and signing a 30-day note payable for the remainder.
4. CI paid \$200 cash on account for office supplies purchased in transaction 2.
5. CI purchased two acres of land for \$10,000, signing a 2-year note payable.
6. CI sold one acre of land at one-half of the total cost of the two acres, receiving the full amount or \$5,000 in cash.
7. CI made a payment of \$5,000 on its 2-year note.

1.	dr	Cash	25,000	
		Cr	Contributed Capital	25,000
2.	dr	Supplies	400	
		Cr	Accounts Payable	400
3.	dr	Equipment	7,000	
		Cr	Cash	2,500
		Cr	Notes Payable	4,500
4.	dr	Accounts Payable	200	
		Cr	Cash	200
5.	dr	Land	10,000	
		Cr	Notes Payable	10,000
6.	dr	Cash	5,000	
		Cr	Land	5,000
7.	dr	Notes Payable	5,000	
		Cr	Cash	5,000

BT: Application

Difficulty: Hard

Gradable: manual

Learning Objective: 2

Phillips - Chapter 02 #101

102. (p. 58) On January 1, 2007, NWK, Inc.'s assets were \$300,000 and its shareholders' equity was \$140,000. During the year, assets increased \$15,000 and liabilities decreased \$10,000. What was the shareholders' equity on December 31, 2007?

\$165,000.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
	\$300,000		160,000		140,000
	+15,000		-10,000		
Feedback:	315,000		150,000		165,000

BT: Analysis
 Difficulty: Medium
 Gradable: manual
 Learning Objective: 4
 Phillips - Chapter 02 #102

103. (p. 42) On March 3, 2011, your company pays \$4,000 to acquire supplies. Should this be a recognized accounting transaction? If so, what accounts are affected and by how much each?

It should be a recognized transaction. Supplies (an asset) are increased by \$4,000 and Cash (also an asset) is decreased by \$4,000.

BT: Application
 Difficulty: Medium
 Gradable: manual
 Learning Objective: 1; 2
 Phillips - Chapter 02 #103

104. (p. 58) Use the following information as of December 31, 2011 to calculate the amounts of cash and retained earnings. The company's total assets are \$36,000. This company doesn't have other accounts.

Accounts Payable	\$7,000
Accounts Receivable	8,000
Supplies	1,000
Furniture and Equipment	22,000
Contributed Capital	10,000
Cash	?
Retained Earnings	?

Cash: \$5,000; Retained Earnings: \$19,000.

Feedback: Total Assets = 36,000 = Cash + 8,000 + 1,000 + 22,000

36,000 = Cash + 31,000

5,000 = Cash

Assets = Liabilities + Stockholders' Equity

36,000 = 7,000 + (10,000 + Retained Earnings)

19,000 = Retained Earnings

BT: Analysis

Difficulty: Hard

Gradable: manual

Learning Objective: 4

Phillips - Chapter 02 #104

105. (p. 58) For each of the following, indicate how the line item would be categorized on a classified balance sheet.

CA (current asset)

LTA (long-term asset)

CL (current liability)

LTL (long-term liability)

SE (shareholders' equity)

_____ Property and Equipment

_____ Contributed Capital

_____ Accrued Liabilities

_____ Supplies

_____ Unearned Revenue

_____ Retained Earnings

_____ Wages Payable

_____ Accounts Receivable

_____ Inventory

_____ Bonds Payable

_____ Accounts Payable

LTA, SE, CL, CA, CL, SE, CL, CA, CA, LTL, CL

BT: Knowledge

Difficulty: Medium

Gradable: manual

Learning Objective: 4

Phillips - Chapter 02 #105

106. (p. 42, 58) Match the term and the explanation. There are more definitions than terms.

_____ dr
_____ Unobservable event
_____ Classified balance sheet
_____ Contributed capital
_____ Accounting equation
_____ Transaction
_____ Accounts payable
_____ Journal entry
_____ Unearned Revenues
_____ Prepaid Rent

- A. The account credited when cash is received in exchange for stock issued.
- B. Every transaction has at least two effects.
- C. Quantitative record of an exchange or event that has a direct impact on a company's balance sheet.
- D. A balance sheet that has not yet been publicly released.
- E. Amount paid for future rent.
- F. A method of recording a transaction in debit/credit format.
- G. A transaction that is triggered automatically merely by the passage of time.
- H. The abbreviation for an item posted on the left side of a T-account.
- I. The expression that assets must equal liabilities plus shareholders' equity.
- J. The value of a company's public relations campaign.
- K. Amounts owed to suppliers for goods or services bought on credit.
- L. An event that has no effect on the balance sheet and is not recorded in the financial statements.
- M. Liabilities divided by assets.
- N. A balance sheet that has assets and liabilities categorized as current vs. long-term.
- O. The abbreviation for an item posted on the right side of a T-account.
- P. When a company becomes included in the Fortune 500.
- Q. Amount received in advance from customers for providing goods and services to customers.
- S. Another name for shareholders' equity.

H, J, N, A, I, C, K, F, Q, E

BT: Comprehension

Difficulty: Medium

Gradable: manual

Learning Objective: 1; 5

Phillips - Chapter 02 #106

107. (p. 44) For each of the following, indicate how the event would most likely be categorized.

OE (Observable External Event)

OI (Observable Internal Event)

UE (Unobservable Event)

NT (No transaction)

- _____ A company sells \$2 million in goods for immediate payment.
- _____ The company uses up office supplies.
- _____ The stock market rises 10% and the value of a company's stock increases.
- _____ Each day the company owes more interest on a loan.
- _____ A company pays cash to an inventor for the legal rights to produce a new product.
- _____ Management pays workers an overtime bonus as required by their union contract.
- _____ A company uses up supplies to manufacture a product.
- _____ A company receives orders worth \$1 million but no down payments.

OE, OI, NT, UE, OE, OE, OI, NT

BT: Comprehension

Difficulty: Medium

Gradable: manual

Learning Objective: 1; 2

Phillips - Chapter 02 #107

108. (p. 51) Match the transaction with the appropriate T-account entry, debit (dr) or credit (cr).

- _____ Decrease in Wages Payable.
- _____ Increase in Cash.
- _____ Increase in Accounts Payable.
- _____ Decrease in Notes Payable.
- _____ Increase in Inventory.
- _____ Increase in Contributed Capital.
- _____ Decrease in Accrued Liabilities.
- _____ Decrease in Property and Equipment.

dr, dr, cr, dr, dr, cr, dr, cr

BT: Comprehension

Difficulty: Medium

Gradable: manual

Learning Objective: 3

Phillips - Chapter 02 #108

109. (p. 45, 59) Match the term and the explanation. There are more explanations than terms.

_____ Duality of effects
_____ Journal entry
_____ Posting
_____ Conservatism
_____ Debit
_____ Chart of accounts
_____ T-account
_____ Credit
_____ Cost principle

- A. A journal entry that lowers the balance of the account.
- B. When journal entries are copied to the appropriate T-account.
- C. The concept that a company must keep separate accounts by time period.
- D. A simplified version of an account in the General Ledger.
- E. The mechanism used to record each transaction in the General Journal.
- F. When a company's balance sheet has been verified by an outside auditor.
- G. The concept that any transaction must have at least two effects on the accounting equation.
- H. When a dollar value is assigned to an item recorded in the accounting system.
- I. Compares balance sheet items from two different time periods.
- J. An entry that is posted on the left side of a T-account or ledger.
- K. The principle that a company should use the least optimistic measure, when uncertainty exists.
- L. Assets and liabilities are initially recorded at their original cost to the company.
- M. A journal entry that raises the balance of the account.
- N. A balance sheet where assets appear on the top, liabilities in the middle and shareholders' equity appears on the bottom.
- O. An entry that is posted on the right side of a T-account.
- P. A summary of account names and numbers.

G, E, B, K, J, P, D, O and L.

BT: Comprehension

Difficulty: Medium

Gradable: manual

Learning Objective: 2; 3; 5

Phillips - Chapter 02 #109

c2 Summary

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