College Accounting 21st Edition Heintz Test Bank

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Chapter 2—Analyzing Transactions: The Accounting Equation

TRUE/FALSE

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

ANS: TPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-1NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP:ACBSP: APC-03-Business FormsKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS: FPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-1NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP:ACBSP: APC-03-Business FormsKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS: FPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-2NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP: ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT: 1 min.

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

ANS: TPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-2NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS: TPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-1NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS: FPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-5NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP: ACBSP: APC-09-Financial StatementsKEY: Bloom's: EvaluationNOT: 1 min.

7. Any accounting period of twelve months' duration is usually referred to as a calendar year.

ANS: FPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-5NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS: TPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-4NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP: ACBSP: APC-09-Financial StatementsKEY: Bloom's: KnowledgeNOT: 1 min.

9. Since supplies last for several months, they are recorded as assets.

ANS: TPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-4NAT: BUSPROG: CommunicationSTA: AICPA FN-MeasurementTOP:ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT:1 min.

10. Since insurance lasts for several months, it is recorded as owner's equity.

ANS: FPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-4NAT: BUSPROG: CommunicationSTA: AICPA FN-MeasurementTOP: ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT: 1 min.

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

ANS: TPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-5NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP: ACBSP: APC-09-Financial StatementsKEY: Bloom's: KnowledgeNOT: 1 min.1

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

ANS: FPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-5NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP: ACBSP: APC-09-Financial StatementsKEY: Bloom's: KnowledgeNOT: 1 min.1

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

ANS: TPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-1NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS: FPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-1NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS:FPTS:1DIF:Difficulty: EasyOBJ:LO: 2-3NAT:BUSPROG:CommunicationSTA:AICPA BB-IndustryTOP:ACBSP:APC-02-GAAPKEY:Bloom's:KnowledgeNOT:1 min.

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

ANS: TPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-2NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS: FPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-1NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS: TPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-6NAT: BUSPROG: CommunicationSTA: AICPA FN-MeasurementTOP:ACBSP: APC-06-Recording TransactionsKEY: Bloom's: ComprehensionNOT:1 min.

19. Expenses represent a decrease in liabilities.

ANS: FPTS: 1DIF: Difficulty: EasyOBJ:LO: 2-4NAT: BUSPROG: CommunicationSTA: AICPA FN-MeasurementTOP:ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS: FPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-4NAT: BUSPROG: CommunicationSTA: AICPA FN-MeasurementTOP: ACBSP: APC-02-GAAPKEY: Bloom's: ComprehensionNOT: 1 min.

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

ANS: FPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-4NAT: BUSPROG: CommunicationSTA: AICPA FN-MeasurementTOP: ACBSP: APC-02-GAAPKEY: Bloom's: ComprehensionNOT: 1 min.

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

ANS: TPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-4NAT: BUSPROG: CommunicationSTA: AICPA FN-MeasurementTOP: ACBSP: APC-09-Financial StatementsKEY: Bloom's: ComprehensionNOT: 1 min.NOT: 1 min.

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

ANS:TPTS:1DIF:Difficulty: EasyOBJ:LO: 2-5NAT:BUSPROG: CommunicationSTA:AICPA FN-MeasurementTOP:ACBSP: APC-09-Financial StatementsKEY:Bloom's: KnowledgeNOT:1 min.

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

ANS: FPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-5NAT: BUSPROG: CommunicationSTA: AICPA FN-MeasurementTOP: ACBSP: APC-09-Financial StatementsKEY: Bloom's: KnowledgeNOT: 1 min.1

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

ANS: TPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-5NAT: BUSPROG: CommunicationSTA: AICPA FN-MeasurementTOP: ACBSP: APC-09-Financial StatementsKEY: Bloom's: KnowledgeNOT: 1 min.

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

ANS: TPTS: 1DIF: Difficulty: EasyOBJ: LO: 2-5NAT: BUSPROG: CommunicationSTA: AICPA FN-MeasurementTOP: ACBSP: APC-09-Financial StatementsKEY: Bloom's: KnowledgeNOT: 1 min.1

MULTIPLE CHOICE

- 1. The accounting equation may be expressed as
 - a. owner's equity = assets liabilities.
 - b. revenue expenses = net income.
 - c. revenue = net income expenses.
 - d. liabilities owner's equity = assets.

ANS: APTS: 1DIF: Difficulty: EasyOBJ:LO: 2-2NAT: BUSPROG: CommunicationSTA: AICPA FN-MeasurementTOP:ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS:BPTS:1DIF:Difficulty: ModerateOBJ:LO:2-4NAT:BUSPROG:AnalyticSTA:AICPA FN-MeasurementTOP:ACBSP:APC-02-GAAPKEY:Bloom's:KnowledgeNOT:1 min.

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

ANS:BPTS:1DIF:Difficulty: ModerateOBJ:LO:2-4NAT:BUSPROG:AnalyticSTA:AICPA FN-MeasurementTOP:ACBSP:APC-02-GAAPKEY:Bloom's:KnowledgeNOT:1 min.

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

ANS:APTS:1DIF:Difficulty: ModerateOBJ:LO:2-4NAT:BUSPROG:AnalyticSTA:AICPA FN-MeasurementTOP:ACBSP:APC-02-GAAPKEY:Bloom's:KnowledgeNOT:1 min.

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

ANS: APTS: 1DIF: Difficulty: EasyOBJ:LO: 2-4NAT: BUSPROG: CommunicationSTA: AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY: Bloom's: KnowledgeNOT:1 min.

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

ANS:DPTS:1DIF:Difficulty: EasyOBJ:LO: 2-4NAT:BUSPROG:CommunicationSTA:AICPA BB-Critical ThinkingTOP:ACBSP:APC-09-Financial StatementsKEY:Bloom's:ComprehensionNOT:1 min.

- 7. Tyler paid \$3,700 on account to the company from which equipment was purchased on credit. This transaction would
 - a. decrease assets and decrease liabilities.
 - b. increase assets and increase owner's equity.
 - c. increase assets and increase liabilities.
 - d. increase one asset and decrease another asset.

ANS:APTS:1DIF:Difficulty: ModerateOBJ:LO:2-4NAT:BUSPROG:AnalyticSTA:AICPA FN-MeasurementTOP:ACBSP:APC-02-GAAPKEY:Bloom's:KnowledgeNOT:1 min.

- 8. An example of an expense is
 - a. investments.
 - b. supplies consumed.
 - c. prepaid insurance.
 - d. withdrawals by the owner.

ANS:BPTS:1DIF:Difficulty: EasyOBJ:LO:2-4NAT:BUSPROG:CommunicationSTA:AICPA FN-MeasurementTOP:ACBSP:APC-02-GAAPKEY:Bloom's:KnowledgeNOT:1 min.

- 9. A decrease in owner's equity may result from a(n)
 - a. purchase of office supplies for cash.
 - b. withdrawal of cash from the business by the owner.
 - c. revenue that is derived from sales of goods or services.
 - d. investment of cash in the business by the owner.

ANS:BPTS:1DIF:Difficulty: EasyOBJ:LO: 2-4NAT:BUSPROG: AnalyticSTA:AICPA BB-Critical ThinkingTOP:ACBSP: APC-09-Financial StatementsKEY:Bloom's: ComprehensionNOT:1 min.

- 10. Which phase of the accounting process involves recognizing the effect of transactions on assets, liabilities, owner's equity, revenue, and expenses of a business?
 - a. input
 - b. processing
 - c. output
 - d. summarizing

ANS:BPTS:1DIF:Difficulty: EasyOBJ:LO: 2-6NAT:BUSPROG: CommunicationSTA:AICPA BB-IndustryTOP:ACBSP: APC-06-Recording TransactionsKEY:Bloom's: KnowledgeNOT:1 min.

11. The financial statement that should be completed first is the

- a. balance sheet.
- b. statement of financial position.
- c. statement of financial condition.
- d. income statement.

ANS:	D	PTS:	1	DIF:	Difficulty: Eas	sy	
OBJ:	LO: 2-5	NAT:	BUSPROG: C	Commur	nication	STA:	AICPA FN-Measurement
TOP:	ACBSP: APC	-09-Fin	ancial Stateme	nts		KEY:	Bloom's: Analysis
NOT:	1 min.						

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

ANS: APTS: 1DIF:Difficulty: ModerateOBJ:LO: 2-4NAT:BUSPROG: AnalyticSTA:AICPA FN-MeasurementTOP:ACBSP:APC-02-GAAPKEY:Bloom's:KnowledgeNOT:1 min.

- 13. The financial statement that shows the state of the firm's assets, liabilities, and owner's equity on a specific date is called a(n)
 - a. balance sheet.
 - b. statement of operations.
 - c. statement of owner's equity.
 - d. income statement.

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

ANS:DPTS:1DIF:Difficulty: ModerateOBJ:LO:2-4NAT:BUSPROG:AnalyticSTA:AICPA FN-MeasurementTOP:ACBSP:APC-02-GAAPKEY:Bloom's:KnowledgeNOT:1 min.

PROBLEM

- 1. Match the letter corresponding to one of the basic elements of accounting to each of the accounts below.
 - A = Asset
 - L = Liability
 - OE = Owner's Equity
 - R = Revenue
 - E = Expense
 - 1. Utility Expense
 - 2. Accounts Payable
 - 3. Prepaid Rent
 - 4. Supplies
 - 5. P. Coyote, Drawing
 - 6. Wages Expense
 - 7. P. Coyote, Capital
 - 8. Cash
 - 9. Advertising Expense
 - 10. Fees Earned

ANS	:				
1.	E				
2.	L				
3.	А				
4.	А				
5.	OE				
6.	E				
7.	OE				
8.	А				
9.	E				
10.	R				
PTS:	1 DIF:	Difficulty: Ea	ısy	OBJ:	LO: 2-4
NAT	: BUSPROG: Commu	inication	STA:	AICPA BB-Industry	
TOP	: ACBSP: APC-02-G	AAP		Bloom's: Knowledge	
NOT	: 5 min.			C	

- 2. Show the effect of each transaction on the three basic accounting elements by indicating the dollar amount of the increase or decrease under the proper element heading. Compute the resulting accounting equation.
 - a. Owner invested \$16,500 cash in the business.
 - b. Paid premium for two-year insurance policy, \$1,500.
 - c. Purchased a van valued at \$35,000 with \$5,000 down payment; the balance to be paid over three years.
 - d. Paid the rent for the month, \$900.
 - e. Purchased \$470 of supplies for cash.
 - f. Cash sales for the month, \$8,750.
 - g. Billed credit customers \$14,200 for monthly services.
 - h. Paid monthly utility bill, \$210.
 - i. Owner withdrew \$2,200 for personal use.
 - j. Received payments of \$3,300 from credit customers.

					ASSETS					=	>
			Accounts				Prepaid				>
	Cash	+	Rec.	+	Supplies	+	Ins.	+	Van	=	
											>
a.											>
b.											>
c.											>
d.											>
e.											>
f.											>
g.											>
h.											>
i.											>
j.											>
											>

<	LIAB.	+	OWNER'S EQUITY											
<	Notes Payable	+	Capital	_	Drawing	+	Revenues	_	Expenses					
<														
< a.														
< b.														
< c.														
< d.														
< e.														
< f.														
< g.														
< h.														
< i.														
< j.														
<														

PROOF

Cash Accounts Receivable	 Notes Payable Capital	
Supplies Prepaid Insurance	 Drawing Revenues	
Van	 Expenses	

ANS:

					ASSETS					=	>
			Accounts				Prepaid				>
	Cash	+	Rec.	+	Supplies	+	Ins.	+	Van	=	
											>
a.	16,500										>
b.	(1,500)						1,500				>
c.	(5,000)								35,000		>
d.	(900)										>
e.	(470)				470						>
f.	8,750										>
g.			14,200								>
h.	(210)										>
i.	(2,200)										>
j.	3,300		(3,300)								>
5	18,270		10,900		470		1,500		<u>35,000</u>		>

<		LIAB.	+	OWNER'S EQUITY											
<		Note Payable	+	Capital	_	Drawing	+	Revenues	_	Expenses					
< <	a.			16 , 500											
< < < < <	b. c. d. e.	30,000								900					

< f.				8 , 750	
< g.				14,200	
< h.					210
< i.			2,200		
< j.		1.6.500			
<	30,000	<u>16,500</u>	2,200	22,950	<u> </u>

PROOF

NUOF			
Cash	18,270	Notes Payable	30,000
Accounts Receivable	10,900	Capital	16,500
Supplies	470	Drawing	(2,200)
Prepaid Insurance	1,500	Revenues	22,950
Van	35,000	Expenses	(1,110)
	66,140	•	66,140

PTS:1DIF:Difficulty: EasyOBJ:LO:2-2 | LO:2-3 | LO:2-4NAT:BUSPROG: AnalyticSTA:AICPA FN-MeasurementTOP:ACBSP: APC-06-Recording TransactionsKEY:Bloom's: ApplicationNOT:15 min.

- 3. Show the effects of each transaction on the accounting equation by indicating under the proper heading the dollar amount of increase or decrease for each transaction listed below. Compute the resulting accounting equation.
 - a. Owner deposited \$20,000 in his new business checking account.
 - b. Supplies were purchased for \$300 on account.
 - c. Paid a \$1,200 premium for six months of liability insurance.
 - d. Purchased supplies for \$200 cash.
 - e. Purchased equipment for \$4,000 by paying \$1,000; the rest to be paid in six months.
 - f. Paid the \$300 bill outstanding (from transaction b).
 - g. Owner withdrew \$700 from the business for personal use.

			A	ASSE	TS		=	LIAB.	+	+ OWNER'S EQUITY			
	Cash	+	Supp.	+	Prep. Insur.	+	Equip	=	Accts. Pay.	+	Capital	_	Drawing
a.													
b.													
c.													
d.													
e.													
f.													
g.													

ANS:			ASS	SETS	5			=	LIAB.	+	OWNER	R'S E	QUITY
0	Cash 20,000	+	Supp.	+	Prep. Insur.	+	Equip	=	Accts. Pay.	+	Capital 20,000	_	Drawing
a. b.	20,000		300						300		20,000		
с.	(1,200)				1,200								
d.	(200)		200										
e.	(1,000)						4,000		3,000				
f.	(300)								(300)				
g.	(700)		<u> </u>		1 200		4 000		2 000		20 000		700
	<u>16,600</u>		<u>500</u>		<u>1,200</u>		4,000		<u>3,000</u>		20,000		<u>700</u>
PRO					1 6 604	2					2 2 2 2		
Ca					16,600		Accou		ayable		3,000		
	pplies				500		Capita				20,000		
	epaid Insura	nce			1,200 4,000		Drawin	ng			(700)		
Еq	uipment				22,300	_					22,300		
PTS:	1		DIF:	Diff	ioulty: Ec				OP	ът	0.2210	<u> </u>	10.24
	BUSPRO	G. A		וווע	iculty: Ea	•		י אסי	EN-Measu		O: 2-2 LO:	2-3	LO. 2-4
	ACBSP: A		•	ordi	no Transa			IAI			loom's: App	licat	ion
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4. Madame Shira began a fortune telling business on May 1. The following transactions occurred:

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

Required:

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

ANS: 1.

				ASS	ETS Crystal		Accounts		Prepaid	=	LIABII Accounts	LITIF	S Notes	>
	Cash	+	Furniture	+	Ball	+	Rec.	+	Ins.	=	Payable	+	Payable	-
1.	5,000													>
2.	(500)		2,000								1,500			>
з.	(700)													>
4.	(300)				300									>
5.	(1,700)								1,700					>
6.	2,500													>
7.							2,000							>
8.	(1,500)													>
9.	600						(600)							>
10.	3,200												3,200	>
11.	(500)										(500)			>
12.	(300)													>
13.	(60)													>
	(39)													>
	(52)													>
	<u>5,649</u>		2,000		300		1,400		<u>1,700</u>		1,000		<u>3,200</u>	>

<	+				OW	NER'S EQUITY	Y		
<	+	Shira, Capital	_	Shira, Drawing	+	Revenues	_	Expenses	Desc.
<		5,000							
<									
<								700	Rent
<									
<									
<						2,500			
<						2,000			
<								1,500	Wages
<									
<									
<									
<				300					
<								60	Advertising
<								39	Utilities
<								52	Repairs
<		5,000		300		4,500		2,351	

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

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

3.

Madame Shira Fortune Telling Statement of Owner's Equity For Month Ended May 31, 20		
Madame Shira, capital May 1, 20		\$0
Investment by owner		5,000
Net income for May	\$2,149	
Less withdrawals for May	300	
Increase in capital		1,849
Madame Shira, capital May 31, 20		<u>\$6,849</u>

PTS:1DIF:Difficulty: ModerateOBJ:LO: 2-3 | LO: 2-4 | LO: 2-5NAT:BUSPROG: AnalyticSTA:AICPA FN-MeasurementTOP:ACBSP: APC-06-Recording TransactionsKEY:Bloom's: ApplicationNOT:15 min.15 min.Image: Constraint of the second second

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

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

2.

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

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

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

For the Tear Ended Detember 51, 20-		
D. Milner, capital January 1, 20		\$ 6,000
Net income for the year	\$10,832	
Less withdrawals for the year	1,750	
Increase in capital		9,082
D. Milner, capital December 31, 20		<u>\$15,082</u>

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

Assets		Liabilities		
Cash	\$ 2,026	Accounts payable	\$ 7 , 530	
Prepaid insurance	1,216			
Accounts receivable	4,080	Owner's Equity	Owner's Equity	
Equipment	15,290	D. Milner, capital	15,082	
Total assets	<u>\$22,612</u>	Total liab. & owner's equity $\frac{$22}{}$		
PTS: 1 DIF: NAT: BUSPROG: Analytic TOP: ACBSP: APC-09-Fir		OBJ: LO: 2-5 AICPA FN-Reporting KEY: Bloom's: A	Application	

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

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

NOT: 15 min.

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

Revenues:		
Fees earned	\$4	41,500
Expenses:		
Rent expense	\$10,000	
Wages expense	14,000	
Repairs expense	250	
Total expenses		24,250
Net income	<u>\$1</u>	17,250

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

For the Tear Ended December 51, 20-		
J. Carr, capital January 1, 20		\$14 , 500
Net income for the year	\$17 , 250	
Less withdrawals for the year	7,000	
Increase in capital		10,250
J. Carr, capital December 31, 20		<u>\$24,750</u>

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

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

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

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

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

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

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

Required:

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

Assets = Liabilities + Owner's Equity

- b. Assuming that during January there is an increase of \$4,600 in Dr. Jenson's business assets and an increase of \$2,500 in the business liabilities, compute the resulting equation as of January 31.
- c. Assuming that during February there is a decrease of \$1,500 in assets and a decrease of \$1,200 in liabilities, compute the resulting accounting equation as of February 28.

ANS:

	Assets	=	Liabilities	+	Owner's Equity	
a.	\$22,100	=	\$6,200	+	\$15,900	
b.	26,700	=	8,700	+	18,000	
c.	25,200	=	7,500	+	17,700	
PTS:	1	DIF:	Difficulty: Ea	asy	OBJ: LO: 2-3 LO: 2-4	
NAT:	BUSPROG: A	Analytic	;	STA:	AICPA FN-Measurement	
TOP:	ACBSP: APC	C-02-GA	AP	KEY:	Bloom's: Comprehension	
NOT:	3 min.				•	

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

Required:

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

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

Bal.	 	 	 >
f.	 	 	 >
Bal.	 	 	 >
g.			>
g. Bal. h. Bal.	 	 	 >
h.	 	 	 >
Bal	 	 	 \$
Dui.	 	 	

<		+			OWNER'S EQ	UITY	
<			Client				Utilities
		+	Fees	-	Rent Expense	—	Expense
<	a.						
<	Bal.						
<	b.						
<	Bal.						
<	c.						
<	Bal.						
<	d.						
<	Bal.						
<	e.						
<	Bal.						
<	f.						
<	Bal.						
<	g.						
<	Bal.						
<	h.						
<	Bal.						

ANS:

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

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

PTS:1DIF:Difficulty: EasyOBJ:LO: 2-4NAT:BUSPROG: AnalyticSTA:AICPA FN-MeasurementTOP:ACBSP: APC-06-Recording TransactionsKEY:Bloom's: KnowledgeNOT:10 min.10 min.

COMPLETION

1. Most businesses recognize ______ when earned, even if cash has not yet been received.

ANS: revenue

PTS:1DIF:Difficulty: EasyOBJ:LO: 2-4NAT:BUSPROG:CommunicationSTA:AICPA FN-MeasurementTOP:ACBSP:APC-04-Cash vs.AccrualKEY:Bloom's:KnowledgeNOT:1 min.

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

ANS: Expenses

PTS:1DIF:Difficulty: EasyOBJ:LO:2-4NAT:BUSPROG:CommunicationSTA:AICPA FN-ReportingTOP:ACBSP:APC-09-Financial StatementsKEY:Bloom's:KnowledgeNOT:1 min.

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

ANS: income statement

	PTS:1DIF:Difficulty: EasyOBJ:LO: 2-5NAT:BUSPROG: CommunicationSTA:AICPA BB-IndustryTOP:ACBSP:APC-02-GAAPKEY:Bloom's: KnowledgeNOT:1 min.
4.	represent the amount a business charges customers for products sold or services performed.
	ANS: Revenues
	PTS:1DIF:Difficulty: EasyOBJ:LO: 2-4NAT:BUSPROG: CommunicationSTA:AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY:Bloom's: KnowledgeNOT:1 min.
5.	The relationship between the three basic accounting elements:, , and, can be expressed in the form of a simple equation known as the accounting equation.
	ANS: assets, liabilities, owner's equity assets, owner's equity, liabilities liabilities, assets, owner's equity liabilities, owner's equity, assets owner's equity, assets, liabilities owner's equity, liabilities, assets
	PTS:1DIF:Difficulty: EasyOBJ:LO: 2-2NAT:BUSPROG:CommunicationSTA:AICPA BB-IndustryTOP:ACBSP:APC-02-GAAPKEY:Bloom's:KnowledgeNOT:1 min.
6.	represent something owed to another business entity.
	ANS: Liabilities
	PTS:1DIF:Difficulty: EasyOBJ:LO: 2-1NAT:BUSPROG: CommunicationSTA:AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY:Bloom's: KnowledgeNOT:1 min.
7.	A(n) is a written promise to pay a supplier for assets purchased or services received.
	ANS: notes payable
	PTS:1DIF:Difficulty: EasyOBJ:LO: 2-1NAT:BUSPROG: CommunicationSTA:AICPA BB-IndustryTOP:ACBSP:APC-02-GAAPKEY:Bloom's: KnowledgeNOT:1 min.

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

ANS: balance sheet

PTS:1DIF:Difficulty: EasyOBJ:LO: 2-5NAT:BUSPROG: CommunicationSTA:AICPA FN-ReportingTOP:ACBSP: APC-09-Financial StatementsKEY:Bloom's: ComprehensionNOT:1 min.Image: StatementsImage: Statements

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

ANS: statement of owner's equity

PTS:1DIF:Difficulty: EasyOBJ:LO: 2-5NAT:BUSPROG: CommunicationSTA:AICPA FN-ReportingTOP:ACBSP: APC-09-Financial StatementsKEY:Bloom's: ComprehensionNOT:1 min.1

- 10. A(n) ______ is a reduction in owner's equity as a result of the owner taking cash or other assets out of the business for personal use.
 - ANS: withdrawal
 - PTS:1DIF:Difficulty: EasyOBJ:LO:2-4NAT:BUSPROG:CommunicationSTA:AICPA FN-ReportingTOP:ACBSP:APC-02-GAAPKEY:Bloom's:KnowledgeNOT:1 min.
- 11. ______ is the amount by which business assets exceed the business liabilities.

ANS: Owner's equity

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

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

ANS: accounts receivable

- PTS:1DIF:Difficulty: EasyOBJ:LO:2-1NAT:BUSPROG:CommunicationSTA:AICPA FN-ReportingTOP:ACBSP:APC-02-GAAPKEY:Bloom's:KnowledgeNOT:1 min.
- 13. A(n) ______ is an economic event that has a direct impact on the business.
 - ANS: business transaction
 - PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-3 NAT: BUSPROG: Communication STA: AICPA BB-Industry

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

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

ANS: account

PTS:1DIF:Difficulty: EasyOBJ:LO: 2-3NAT:BUSPROG: CommunicationSTA:AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY:Bloom's: KnowledgeNOT:1 min.

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

ANS: business entity concept

PTS:1DIF:Difficulty: EasyOBJ:LO: 2-1NAT:BUSPROG: CommunicationSTA:AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY:Bloom's: KnowledgeNOT:1 min.KEY:State State State

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

ANS: assets

PTS:1DIF:Difficulty: EasyOBJ:LO: 2-1NAT:BUSPROG: CommunicationSTA:AICPA BB-IndustryTOP:ACBSP: APC-02-GAAPKEY:Bloom's: KnowledgeNOT:1 min.

MATCHING

Match the terms with the definitions.

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

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

1.	ANS:	Q	PTS:	1	DIF:	Difficulty: Eas	sy	
	OBJ:	LO: 2-1	NAT:	BUSPROG: O	Commur	nication	STA:	AICPA BB-Industry
	TOP:	ACBSP: APC	-02-GA	AP	KEY:	Bloom's: Know	wledge	
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2.	ANS:	F	PTS:	1	DIF:	Difficulty: Eas	sy	
	OBJ:	LO: 2-5	NAT:	BUSPROG: 0	Commur	nication	STA:	AICPA BB-Industry
	TOP:	ACBSP: APC	-09-Fin	ancial Stateme	ents		KEY:	AICPA BB-Industry Bloom's: Knowledge
	NOT:	1 min.						
3.	ANS:	J	PTS:	1	DIF:	Difficulty: Eas	sy	
	OBJ:	LO: 2-4	NAT:	BUSPROG: 0	Commur	nication	STA:	AICPA BB-Industry
	TOP:	ACBSP: APC	-02-GA	AP	KEY:	Bloom's: Know	wledge	
	NOT:	1 min.						
4.	ANS:	Κ	PTS:	1	DIF:	Difficulty: Eas	sy	
	OBJ:	LO: 2-4	NAT:	BUSPROG: 0	Commur	nication	STA:	AICPA BB-Industry
	TOP:	ACBSP: APC	-02-GA	AP	KEY:	Bloom's: Know	wledge	
	NOT:	1 min.						
5.	ANS:	Р	PTS:	1	DIF:	Difficulty: Eas	sy	
	OBJ:	LO: 2-1	NAT:	BUSPROG: 0	Commur	nication	STA:	AICPA BB-Industry
	TOP:	ACBSP: APC	-02-GA	AP	KEY:	Bloom's: Know	wledge	
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6.	ANS:	Ν	PTS:	1	DIF:	Difficulty: Eas	sy	
	OBJ:	LO: 2-4	NAT:	BUSPROG: 0	Commur	nication	STA:	AICPA BB-Industry Bloom's: Knowledge
	TOP:	ACBSP: APC	-09-Fin	ancial Stateme	ents		KEY:	Bloom's: Knowledge
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7.	ANS:	L	PTS:	1	DIF:	Difficulty: Eas	sy	AICPA BB-Industry
	OBJ:	LO: 2-5	NAT:	BUSPROG: 0	Commur	nication	STA:	AICPA BB-Industry
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8.	ANS:	S	PTS:	1	DIF:	Difficulty: Eas	sy	AICPA BB-Industry
	OBJ:	LO: 2-5	NAT:	BUSPROG :	Commun	nication	STA:	AICPA BB-Industry
	TOP:	ACBSP: APC	-09-Fin	ancial Statem	nents		KEY:	Bloom's: Knowledge
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9.	ANS:	Ι	PTS:	1	DIF:	Difficulty: Eas	sy	AICPA BB-Industry
	OBJ:	LO: 2-3	NAT:	BUSPROG:	Commun	nication	STA:	AICPA BB-Industry
	TOP:	ACBSP: APC	-02-GA	AP	KEY:	Bloom's: Know	wledge	
	NOT:	1 min.						
10.	ANS:	Н	PTS:	1	DIF:	Difficulty: Eas	sy	AICPA BB-Industry
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	TOP:	ACBSP: APC	-02-GA	AP	KEY:	Bloom's: Know	wledge	
	NOT:	1 min.						
11.	ANS:	D	PTS:	1	DIF:	Difficulty: Eas	sy	AICPA BB-Industry
	OBJ:	LO: 2-2	NAT:	BUSPROG:	Commun	nication	STA:	AICPA BB-Industry
	TOP:	ACBSP: APC	-02-GA	AP	KEY:	Bloom's: Know	wledge	
	NOT	1 min						
12.	ANS:	E	PTS:	1	DIF:	Difficulty: Eas	sy	AICPA BB-Industry
	OBJ:	LO: 2-1	NAT:	BUSPROG:	Commun	nication	STA:	AICPA BB-Industry
	TOP:	ACBSP: APC	-02-GA	AP	KEY:	Bloom's: Knov	wledge	
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13.	ANS:	В	PTS:	1	DIF:	Difficulty: Eas	sy	
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	NOT:	1 min.						AICPA BB-Industry
14.	ANS:	A	PTS:	1	DIF:	Difficulty: Eas	sy	
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15.	ANS:	C	PTS:		DIF:	Difficulty: Eas	Sy CTL	
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