

## Chapter 02

### Analyzing Business Transactions

#### True / False Questions

1. The entire process of analyzing, recording, and reporting business transactions is based on the fundamental accounting equation.

True   False

2. When using the fundamental accounting equation, an accountant must make sure that total assets are always equal to total liabilities and owner's equity.

True   False

3. Assets always equal debts of the business plus the financial interest of the owner.

True   False

4. When cash is paid to a creditor, the firm's liabilities decrease.

True   False

5. Al Dunn Bakery bought a new oven for \$1,380. Al paid \$300 as a cash down payment and will pay the balance in 30 days. Total assets increased by \$1,080.

True   False

6. If the owner takes cash out of the business for personal use, the withdrawal should be recorded as an expense of the business.

True   False

7. When cash is collected from accounts receivable, the total amount of assets increases.

True   False

8. A company has assets of \$56,320 and liabilities of \$29,500. The owner's equity is \$85,820.

True   False

9. The expenses for a period are reported on the balance sheet.

True   False

10. A double line drawn under the figures in a money column shows that the computation is complete.

True   False

11. A business transaction is a financial event that affects the resources of a business.

True   False

12. If there is an excess of expenses over revenues, the excess represents a profit.

True   False

13. A withdrawal of funds by the owner for personal use is considered a business expense.

True   False

14. The statement of owner's equity is prepared before the balance sheet so that the ending capital balance is available.

True   False

15. If assets are \$8,000 and liabilities are \$2,000, owner's equity is \$10,000.

True   False

16. The amount of net income or net loss is needed to complete the statement of owner's equity.

True   False

17. Withdrawals by the owner are reported on the income statement.

True   False

18. The income statement is also known as the profit and loss statement.

True   False

19. The net income or net loss for the period is shown on both the income statement and the balance sheet.

True   False

## Fill in the Blank Questions

20. The property that a business owns is referred to as its \_\_\_\_\_.

\_\_\_\_\_

21. The debts or obligations of a business are known as its \_\_\_\_\_.

\_\_\_\_\_

22. The income statement shows revenue, \_\_\_\_\_, and net income or net loss for a period of time.

\_\_\_\_\_

23. The financial interest of the owner in a business is called owner's equity or \_\_\_\_\_.

\_\_\_\_\_

24. The account used to record amounts that are owed for goods or services purchased on credit are known as \_\_\_\_\_.

\_\_\_\_\_

25. When a business sells services for cash, assets increase and revenue \_\_\_\_\_.

\_\_\_\_\_

26. The account used to record amounts that will be collected from charge account customers in the future are referred to as \_\_\_\_\_.

\_\_\_\_\_

27. The \_\_\_\_\_ is the financial report that shows the assets, liabilities, and owner's equity of a business on a specific date.

\_\_\_\_\_

28. If assets are \$17,000 and owner's equity is \$10,000, liabilities are \_\_\_\_\_.

\_\_\_\_\_

29. When a business pays cash for salaries, assets decrease and expenses \_\_\_\_\_.

\_\_\_\_\_

30. Funds taken from the business by the owner for personal use are called \_\_\_\_\_.

\_\_\_\_\_

31. The statement of \_\_\_\_\_ reports the changes that have occurred in the owner's financial interest during the reporting period.

\_\_\_\_\_

32. When revenue is greater than expenses, the result is a net \_\_\_\_\_.

\_\_\_\_\_

33. When revenue and expenses are equal, the firm is said to \_\_\_\_\_.

\_\_\_\_\_

34. The three-line heading of a financial statement shows who, what, and \_\_\_\_\_.

\_\_\_\_\_

### Multiple Choice Questions

35. The balance sheet shows

- A. the results of business operations.
- B. all revenues and expenses.
- C. the amount of net income or loss.
- D. the financial position of a business at a given time.

36. Amounts that a business must pay in the future are known as

- A. accounts receivable.
- B. accounts payable.
- C. capital.
- D. expenses.

37. Examples of assets are:

- A. cash and accounts receivable.
- B. cash and revenue.
- C. cash and rent expense.
- D. investments by the owner and revenue.

38. Ginger Yale Ice Company receives money from a customer on account. Recording this transaction will

- A. increase Accounts Receivable.
- B. increase G. Yale, Capital.
- C. decrease Accounts Payable.
- D. increase Cash.

39. If a business issues a check for \$100 to purchase office supplies, analyze the effect on the accounting equation.

- A. *Financial Interest* will increase
- B. *Property* will decrease
- C. *Financial Interest* will decrease
- D. Total *Property* will remain the same

40. If a business issued a check for \$1,000 to pay for two months rent in advance, analyze the effect on the firms' assets, liabilities and owner's equity.

- A. Cash will increase
- B. Accounts Payable will decrease
- C. Prepaid Rent will increase
- D. Owner's Capital will increase

41. The owner's investment or equity in a business is called

- A. cash.
- B. drawing.
- C. capital.
- D. accounts payable.

42. At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, \$1,200; Prepaid Insurance, \$500; Equipment, \$36,200 and Cash, \$40,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, \$12,000; Allen Office Equipment, \$9,500.

The total assets for the SloMo Delivery Service are

- A. \$42,350.
- B. \$78,550.
- C. \$76,850.
- D. \$41,850.



43. At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, \$1,200; Prepaid Insurance, \$500; Equipment, \$36,200 and Cash, \$40,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, \$12,000; Allen Office Equipment, \$9,500.

The total amount of Liabilities is

- A. \$36,200.
  - B. \$9,500.
  - C. \$21,500.
  - D. \$40,650.
44. Total assets of Douglas Fuhr Furniture Co. are \$36,000 and the total liabilities are \$12,000. What is the amount of the owner's equity?
- A. \$36,000
  - B. \$24,000
  - C. \$48,000
  - D. \$6,000
45. If during the year total assets increase by \$75,000 and total liabilities decrease by \$16,000, by how much did owner's equity increase/decrease?
- A. \$91,000 increase
  - B. \$59,000 decrease
  - C. \$91,000 decrease
  - D. \$75,000 increase

46. Which financial statement is reported as of a specific date?

- A. Balance Sheet
- B. Statement of Owner's Equity
- C. Income Statement
- D. Statement of Changes in Financial Position

47. A net loss results

- A. when expenses are greater than revenue.
- B. when assets are greater than liabilities.
- C. when revenue is greater than expenses.
- D. when expenses are greater than assets.

48. The income statement shows

- A. the financial position of a business on a specific date.
- B. revenue and owner's equity.
- C. the results of operations for a period of time.
- D. the total value of the business.

49. If the income statement covered a six-month period ending on November 30, 2013, the third line of the income statement heading would read

- A. Month Ended November 30, 2013.
- B. November 30, 2013.
- C. Six-month Period Ended November 30, 2013.
- D. Month of November, 2013.

50. When the owner invests cash in a business,

- A. assets and revenue increase.
- B. assets increase and owner's equity decreases.
- C. liabilities decrease and owner's equity increases.
- D. assets and owner's equity increase.

51. When equipment is purchased on credit,

- A. assets and liabilities increase.
- B. assets increase and liabilities decrease.
- C. assets and owner's equity increase.
- D. assets and expenses increase.

52. When equipment is purchased for cash,

- A. assets decrease and expenses increase.
- B. one asset increases and another asset decreases.
- C. assets and owner's equity increase.
- D. assets increase and liabilities decrease.

53. If a business receives \$5,000 on account from clients who owed money for services previously billed, identify the effect on the accounting equation

- A. assets decrease and liabilities increase.
- B. liabilities decrease and owner's equity decreases.
- C. assets remain the same and owner's equity remains the same.
- D. owner's equity increases and revenue increases.

54. When the owner withdraws cash for personal use,
- A. assets decrease and expenses increase.
  - B. assets decrease and owner's equity increases.
  - C. assets decrease and owner's equity decreases.
  - D. owner's equity decreases and revenue decreases.
55. When the owner writes a company check to pay the firm's electric bill,
- A. assets and owner's equity increase.
  - B. assets decrease and expenses increase.
  - C. assets and liabilities decrease.
  - D. expenses increase and owner's equity increases.
56. Identify the account below that is classified as an asset account and would appear on the left side of the accounting equation.
- A. Accounts Receivable.
  - B. Owner's Capital.
  - C. Accounts Payable.
  - D. Revenue.
57. Assets and liabilities are reported on
- A. the balance sheet.
  - B. the income statement.
  - C. the statement of owner's equity.
  - D. both the balance sheet and the income statement.

58. The financial statement that is prepared first is

- A. up to the accountant.
- B. the income statement.
- C. the balance sheet.
- D. the statement of owner's equity.

59. The rent paid for future months is a(n)

- A. asset.
- B. liability.
- C. expense.
- D. revenue.

60. The statement of financial position is another term for which financial statement?

- A. Income Statement
- B. Statement of Owner's Equity
- C. Balance Sheet
- D. Trial Balance

61. Which financial statement is a representation of the accounting equation?

- A. Income Statement
- B. Statement of Owner's Equity
- C. Balance Sheet
- D. Profit and Loss Statement

62. The Statement of Owner's Equity is calculated as follows:

- A. beginning capital + net income - withdrawals + additional investments = ending capital
- B. beginning capital + net loss + withdrawals + additional investments = ending capital
- C. beginning capital + net loss - withdrawals + additional investments = ending capital
- D. beginning capital + net income + withdrawals + additional investments = ending capital

63. An Income Statement is all of the following except:

- A. a formal report of business operations.
- B. a profit and loss statement.
- C. a statement of revenues less withdrawals and expenses.
- D. a statement of income and expenses.

64. At the end of the first month of operations for Jackson's Catering Service, the business had the following accounts: Cash, \$19,000; Prepaid Rent, \$500; Equipment, \$5,000 and Accounts Payable \$2,000. By the end of the month, Jackson's had earned \$20,000 of Revenues, \$1,000 of Utilities Expenses and \$1,500 of Salaries Expenses. Calculate the net income to be reported by the company for this first month.

- A. \$20,000
- B. \$19,000
- C. \$17,500
- D. \$12,000

65. At the end of its first year of operations, Shapiro's Consulting Services reported net income of \$25,000. They also had account balances of: Cash, \$18,000; Office Supplies, \$2,000 and Accounts Receivable \$10,000. The owner's total investment for this first year was \$5,000. Calculate the **ending** balance to be reported on the Statement of Owner's Equity in the Owner's Capital account.

- A. \$30,000
- B. \$25,000
- C. \$20,000
- D. \$5,000

66. Identify the type of accounts that would appear on a firm's income statement

- A. assets and liabilities.
- B. revenues and expenses.
- C. assets and revenues.
- D. liabilities and expenses.

67. Owner's equity is:

- A. the amount taken out of a business by the owner for personal use.
- B. the financial interest of the owner of a business.
- C. the amount the owner owes the business.
- D. the revenues less the expenses.

68. Given the options below, identify the correct accounting equation formula.

- A.  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$
- B.  $\text{Liabilities} = \text{Assets} + \text{Owner's Equity}$
- C.  $\text{Assets} + \text{Liabilities} = \text{Owner's Equity}$
- D.  $\text{Assets} + \text{Owner's Equity} = \text{Liabilities}$

69. The balance sheet shows each of the following except the:

- A. net income of the business.
- B. amount and types of property the business owns.
- C. owner's interest.
- D. amount owed creditors.

70. The Balance Sheet heading includes each of the following except:

- A. firm's name.
- B. firm's address.
- C. title of the report.
- D. date of the report.

71. Choose the option below that reflects the correct order in which to prepare the three financial statements

- A. Balance Sheet; Income Statement; Statement of Owner's Equity.
- B. Income Statement; Statement of Owner's Equity; Balance Sheet.
- C. Income Statement; Balance Sheet; Statement of Owner's Equity.
- D. Statement of Owner's Equity; Balance Sheet; Income Statement.



72. An expense by definition is not:

- A. an amount a business must pay in the future.
- B. an outflow of cash.
- C. the use of other assets.
- D. the incurring of a liability.

### Short Answer Questions

73. On December 1, 2016, Geneva Jordan opened her new business with the following assets and liabilities. Complete the accounting equation for the firm.

<b>Accounts Payable</b>	<b>\$ 1,100</b>	<b>Prepaid Rent</b>	<b>\$ 6,000</b>
<b>Cash</b>	<b>3,950</b>	<b>Loans Payable</b>	<b>15,500</b>
<b>Equipment</b>	<b>26,200</b>	<b>Supplies</b>	<b>1,250</b>

Assets \$\_\_\_\_\_ = Liabilities \$\_\_\_\_\_ + Owner's Equity \$\_\_\_\_\_

74. During October, a firm had the following transactions involving revenue and expenses. Did the firm earn a net income or incur a net loss for the period? What was the amount?

Paid \$1,200 for rent

Provided services for \$2,750 in cash

Paid \$250 for telephone service

Provided services for \$1,900 on credit

Paid salaries of \$1,675 to employees

Paid \$350 for office cleaning service

75. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Performed services on credit

76. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Paid cash for utilities

77. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Sent a check to a creditor

78. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Issued checks to pay salaries

79. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Purchased a computer for cash

80. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Received cash from credit customers



81. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Performed services for cash

82. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

The owner made an additional investment of cash

83. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Purchased furniture on credit

84. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Had a computer repaired; payment is due in 30 days

85. Guy McKinley started the McKinley Charter Service at the beginning of August 2016. On August 31, 2016, the accounting records of the business showed the following information. Prepare an income statement and a statement of owner's equity for the month and a balance sheet as of August 31, 2016.

<b>Equipment</b>	<b>\$ 17,000</b>	<b>Rent Expense</b>	<b>\$4,500</b>
<b>Accounts Receivable</b>	<b>2,600</b>	<b>Cash</b>	<b>5,000</b>
<b>Fees Income</b>	<b>28,000</b>	<b>Salaries Expense</b>	<b>9,600</b>
<b>Boats</b>	<b>103,000</b>	<b>Utilities Expense</b>	<b>1,900</b>
<b>Gasoline Expense</b>	<b>6,500</b>	<b>Supplies</b>	<b>2,300</b>
<b>Loans Payable</b>	<b>77,500</b>	<b>Initial Investment</b>	<b>51,000</b>
<b>Owners' Withdrawal</b>	<b>4,100</b>		

86. On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

Cash	Accounts Payable
Accounts Receivable	Shawn Dahl, Capital
Office Equipment	Revenue
Canoe and Kayak Equipment	Expenses

#### Transactions

1. Shawn Dahl invested \$45,000 in cash to open the business
2. Paid \$12,700 in cash for the purchase of kayak and canoe equipment
3. Paid \$1,050 in cash for rent expense
4. Purchased additional kayak and canoe equipment for \$3,800 on credit
5. Received \$3,900 in cash for kayak rentals
6. Rented canoes and kayaks for \$1,200 on account
7. Purchased office equipment for \$125 in cash
8. Received \$800 in cash from credit clients
9. Shawn Dahl withdrew \$1,500 in cash for personal expenses

Based on the information shown in transaction #4 above, indicate the accounts affected and use plus and minus to show the changes caused by the transaction.

87. On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

Cash	Accounts Payable
Accounts Receivable	Shawn Dahl, Capital
Office Equipment	Revenue
Canoe and Kayak Equipment	Expenses

#### Transactions

1. Shawn Dahl invested \$45,000 in cash to open the business
2. Paid \$12,700 in cash for the purchase of kayak and canoe equipment
3. Paid \$1,050 in cash for rent expense
4. Purchased additional kayak and canoe equipment for \$3,800 on credit
5. Received \$3,900 in cash for kayak rentals
6. Rented canoes and kayaks for \$1,200 on account
7. Purchased office equipment for \$125 in cash
8. Received \$800 in cash from credit clients
9. Shawn Dahl withdrew \$1,500 in cash for personal expenses

Based on the information shown above, what is the balance of Accounts Receivable for Whitewater Rentals at the end of September?

88. On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

Cash	Accounts Payable
Accounts Receivable	Shawn Dahl, Capital
Office Equipment	Revenue
Canoe and Kayak Equipment	Expenses

#### Transactions

1. Shawn Dahl invested \$45,000 in cash to open the business
2. Paid \$12,700 in cash for the purchase of kayak and canoe equipment
3. Paid \$1,050 in cash for rent expense
4. Purchased additional kayak and canoe equipment for \$3,800 on credit
5. Received \$3,900 in cash for kayak rentals
6. Rented canoes and kayaks for \$1,200 on account
7. Purchased office equipment for \$125 in cash
8. Received \$800 in cash from credit clients
9. Shawn Dahl withdrew \$1,500 in cash for personal expenses

Based on the information above, what is the fundamental accounting equation at the end of September for Whitewater Rentals?



89. On June 1, Donna Banhil established Solo Services, a voice consulting service. Enter the following transactions for June in the table below using + and - to indicate increases or decreases:

**Transactions**

1. Donna Banhil invested \$15,000 in cash to open the business
2. Paid \$1,500 for June's rent
3. Paid \$4,500 for rent in advance, for the next three months (July-September)
4. Purchased office supplies for \$800 on credit
5. Performed voice consulting services and immediately received \$1,200 from clients.
6. Gave voice lessons to charge account clients and earned \$9,000
7. Paid \$100 cash for the supplies purchased earlier in the month
8. Received \$1,000 in cash from credit clients billed earlier in the month

Trans	Cash	Assets Accts. Rec.	Prepaid Rent	Office Supplies	=	Liab. Accts. Pay.	Owner's Equity		
							D. Banhil, Capital	Rev.	Expense
1									
2									
3									
4									
5									
6									
7									
8									
Bal									

90. The figure below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of \$72,000 (Transaction 1).

Trans		Assets		=	Liab.		Owner's Equity		
	Cash	Accts	Supp	Equip	Accts		G. Sawyer,	Rev.	Expense
		Rec			Pay		Capital		
1	+72,000						+72,000		
2	- 8,200			+8,200					
3		5,200						+5,200	
4				+3,680	+3,680				
5	- 3,500								-3,500
6	+ 670	- 670							
7	- 2,400						- 2,400		
8	- 450		+450						
Bal	58,120 +	4,530 +	450 +	11,880 =	3,680	+	69,600 +	5,200 +	-3,500

What was the net income or net loss for Sawyer Architecture Services for the month of June?

91. The figure below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of \$72,000 (Transaction 1).

Trans		Assets		=	Liab.		Owner's Equity		
	Cash	Accts	Supp	Equip	Accts		G. Sawyer,	Rev.	Expense
		Rec			Pay		Capital		
1	+72,000						+72,000		
2	- 8,200			+8,200					
3		5,200						+5,200	
4				+3,680	+3,680				
5	- 3,500								-3,500
6	+ 670	- 670							
7	- 2,400						- 2,400		
8	- 450		+450						
Bal	58,120 +	4,530 +	450 +	11,880 =	3,680	+	69,600 +	5,200 +	-3,500

Prepare the statement of owner's equity for Sawyer Architecture Services for the month ended June 30, 2016.

92. The figure below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of \$72,000 (Transaction 1).

Trans		Assets		=	Liab.		Owner's Equity		
	Cash	Accts	Supp	Equip	Accts		G. Sawyer,	Rev.	Expense
		Rec			Pay		Capital		
1	+72,000						+72,000		
2	- 8,200			+8,200					
3		5,200						+5,200	
4				+3,680	+3,680				
5	- 3,500								-3,500
6	+ 670	- 670							
7	- 2,400						- 2,400		
8	- 450		+450						
Bal	58,120 +	4,530 +	450 +	11,880 =	3,680	+	69,600 +	5,200 +	-3,500

Prepare the balance sheet for Sawyer Architecture Services as of June 30, 2016.

93. Cullen Beatty plans to start a consulting business—Cullen Consulting Services. In preparation to do this, on April 1, 2016, he invested \$50,000 in cash and \$19,000 in equipment, and opened an account at Office Plus by purchasing \$1,500 in office supplies which is due by the end of the month. He then signed a one-year lease agreement on an office building for \$6,000, paying the full amount in advance.

Prepare a Balance Sheet for Cullen Consulting Services as of April 1, 2016, before he conducts any services.

94. Cullen Beatty plans to start a consulting business—Cullen Consulting Services. In preparation to do this, on April 1, 2016, he invested \$50,000 in cash and \$19,000 in equipment, and opened an account at Office Plus by purchasing \$1,500 in office supplies which is due by the end of the month. He then signed a one-year lease agreement on an office building for \$6,000, paying the full amount in advance.

Cullen would like an explanation of the accounting for his business actions as of April 1, 2016.

Explain the terms and interactions between the categories on a Balance Sheet.

## Chapter 02 Analyzing Business Transactions **Answer Key**

### True / False Questions

1. The entire process of analyzing, recording, and reporting business transactions is based on the fundamental accounting equation.

TRUE

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

2. When using the fundamental accounting equation, an accountant must make sure that total assets are always equal to total liabilities and owner's equity.

TRUE

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record*

*these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

3. Assets always equal debts of the business plus the financial interest of the owner.

TRUE

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounts and Their Relationships*

4. When cash is paid to a creditor, the firm's liabilities decrease.

TRUE

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounts and Their Relationships*

5. Al Dunn Bakery bought a new oven for \$1,380. Al paid \$300 as a cash down payment and will pay the balance in 30 days. Total assets increased by \$1,080.

TRUE

*AACSB: Analytic*

*AICPA BB: Critical Thinking*



*AICPA BB: Industry*

*AICPA FN: Decision Making*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

6. If the owner takes cash out of the business for personal use, the withdrawal should be recorded as an expense of the business.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

7. When cash is collected from accounts receivable, the total amount of assets increases.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record*

*these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

8. A company has assets of \$56,320 and liabilities of \$29,500. The owner's equity is \$85,820.

**FALSE**

Using the fundamental accounting equation, owner's equity would be \$26,820

$(\$56,320 = \$29,500 + \$26,820)$

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

9. The expenses for a period are reported on the balance sheet.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

10. A double line drawn under the figures in a money column shows that the computation is complete.

TRUE

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Prepare an income statement.*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Learning Objective: 02-06 Define the accounting terms new to this chapter.*

*Topic: Accounting Equation and Financial Statements*

11. A business transaction is a financial event that affects the resources of a business.

TRUE

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Business Transactions and Events*

12. If there is an excess of expenses over revenues, the excess represents a profit.

FALSE

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

13. A withdrawal of funds by the owner for personal use is considered a business expense.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

14. The statement of owner's equity is prepared before the balance sheet so that the ending capital balance is available.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Topic: Accounting Equation and Financial Statements*

15. If assets are \$8,000 and liabilities are \$2,000, owner's equity is \$10,000.

**FALSE**

Using the fundamental accounting equation, owner's equity would be \$6,000 ( $\$8,000 = \$2,000 + \$6,000$ )

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

16. The amount of net income or net loss is needed to complete the statement of owner's equity.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Topic: Accounting Equation and Financial Statements*

17. Withdrawals by the owner are reported on the income statement.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Topic: Accounting Equation and Financial Statements*

18. The income statement is also known as the profit and loss statement.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

19. The net income or net loss for the period is shown on both the income statement and the balance sheet.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Prepare an income statement.*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Topic: Accounting Equation and Financial Statements*

## Fill in the Blank Questions

20. The property that a business owns is referred to as its \_\_\_\_\_.

assets

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounts and Their Relationships*

21. The debts or obligations of a business are known as its \_\_\_\_\_.

liabilities

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounts and Their Relationships*

22. The income statement shows revenue, \_\_\_\_\_, and net income or net loss for a period of time.

expenses

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

23. The financial interest of the owner in a business is called owner's equity or \_\_\_\_\_.

capital

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounts and Their Relationships*

24. The account used to record amounts that are owed for goods or services purchased on credit are known as \_\_\_\_\_.

accounts payable

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounts and Their Relationships*

25. When a business sells services for cash, assets increase and revenue \_\_\_\_\_.

increases

*AACSB: Analytic*

*AICPA BB: Industry*



*AICPA FN: Reporting*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

26. The account used to record amounts that will be collected from charge account customers in the future are referred to as \_\_\_\_\_.

accounts receivable

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

27. The \_\_\_\_\_ is the financial report that shows the assets, liabilities, and owner's equity of a business on a specific date.

balance sheet

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounting Equation and Financial Statements*

28. If assets are \$17,000 and owner's equity is \$10,000, liabilities are \_\_\_\_\_.

\$7,000

Assets = Liabilities + Owner's Equity; therefore, \$17,000 = \$7,000 + \$10,000.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

29. When a business pays cash for salaries, assets decrease and expenses \_\_\_\_\_.

increase

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

30. Funds taken from the business by the owner for personal use are called \_\_\_\_\_.

withdrawals

*AACSB: Analytic*

*AICPA BB: Industry*

AICPA FN: Reporting

Blooms: Remember

Difficulty: 1 Easy

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

31. The statement of \_\_\_\_\_ reports the changes that have occurred in the owner's financial interest during the reporting period.

owner's equity

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Blooms: Remember

Difficulty: 1 Easy

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Topic: Accounting Equation and Financial Statements*

32. When revenue is greater than expenses, the result is a net \_\_\_\_\_.

income

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Blooms: Understand

Difficulty: 1 Easy

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

33. When revenue and expenses are equal, the firm is said to \_\_\_\_\_.

break even

AACSB: Analytic

*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Blooms: Remember*  
*Difficulty: 1 Easy*

*Learning Objective: 02-04 Prepare an income statement.*  
*Topic: Accounting Equation and Financial Statements*

34. The three-line heading of a financial statement shows who, what, and \_\_\_\_\_.

when

*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Blooms: Remember*  
*Difficulty: 1 Easy*

*Learning Objective: 02-04 Prepare an income statement.*  
*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*  
*Topic: Accounting Equation and Financial Statements*

## Multiple Choice Questions

35. The balance sheet shows
- A. the results of business operations.
  - B. all revenues and expenses.
  - C. the amount of net income or loss.
  - D. the financial position of a business at a given time.

*AACSB: Analytic*  
*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounting Equation and Financial Statements*

36. Amounts that a business must pay in the future are known as

- A. accounts receivable.
- B. accounts payable.**
- C. capital.
- D. expenses.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounts and Their Relationships*

37. Examples of assets are:

- A. cash and accounts receivable.**
- B. cash and revenue.
- C. cash and rent expense.
- D. investments by the owner and revenue.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounts and Their Financial Statements*

38. Ginger Yale Ice Company receives money from a customer on account. Recording this transaction will

- A. increase Accounts Receivable.
- B. increase G. Yale, Capital.
- C. decrease Accounts Payable.
- D. increase Cash.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounts and Their Relationships*

39. If a business issues a check for \$100 to purchase office supplies, analyze the effect on the accounting equation.

- A. *Financial Interest* will increase
- B. *Property* will decrease
- C. *Financial Interest* will decrease
- D. Total *Property* will remain the same

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Property and Financial Interest*

40. If a business issued a check for \$1,000 to pay for two months rent in advance, analyze the effect on the firms' assets, liabilities and owner's equity.
- A. Cash will increase
  - B. Accounts Payable will decrease
  - C. Prepaid Rent will increase
  - D. Owner's Capital will increase

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

41. The owner's investment or equity in a business is called

- A. cash.
- B. drawing.
- C. capital.
- D. accounts payable.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounts and Their Relationships*

42. At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, \$1,200; Prepaid Insurance, \$500; Equipment, \$36,200 and Cash, \$40,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, \$12,000; Allen Office Equipment, \$9,500.

The total assets for the SloMo Delivery Service are

- A. \$42,350.
- B. \$78,550.
- C. \$76,850.
- D. \$41,850.

Assets = Accounts Receivable, \$1,200 + Prepaid Insurance, \$500 + Equipment \$36,200 + Cash, \$40,650 = \$78,550.

*AACSB: Analytic*



*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Topic: Accounting Equation and Financial Statements*

43. At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, \$1,200; Prepaid Insurance, \$500; Equipment, \$36,200 and Cash, \$40,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, \$12,000; Allen Office Equipment, \$9,500.

The total amount of Liabilities is

- A. \$36,200.
- B. \$9,500.
- C. \$21,500.
- D. \$40,650.

Liabilities = Simpson Supply Company, \$12,000 + Allen Office Equipment, \$9,500 = \$21,500.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Topic: Accounting Equation and Financial Statements*

44. Total assets of Douglas Fuhr Furniture Co. are \$36,000 and the total liabilities are \$12,000. What is the amount of the owner's equity?

- A. \$36,000
- B. \$24,000**
- C. \$48,000
- D. \$6,000

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity: } \$36,000 = \$12,000 + \$24,000$$

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

45. If during the year total assets increase by \$75,000 and total liabilities decrease by \$16,000, by how much did owner's equity increase/decrease?

- A. \$91,000 increase**
- B. \$59,000 decrease
- C. \$91,000 decrease
- D. \$75,000 increase

$$\$75,000 = (\$16,000) + \$91,000$$

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Evaluate*

*Difficulty: 3 Hard*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

46. Which financial statement is reported as of a specific date?

- A. Balance Sheet
- B. Statement of Owner's Equity
- C. Income Statement
- D. Statement of Changes in Financial Position

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Topic: Accounting Equation and Financial Statements*

47. A net loss results

- A. when expenses are greater than revenue.
- B. when assets are greater than liabilities.
- C. when revenue is greater than expenses.
- D. when expenses are greater than assets.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: The Accounting Equation and Financial Statements*

48. The income statement shows

- A. the financial position of a business on a specific date.
- B. revenue and owner's equity.
- C. the results of operations for a period of time.
- D. the total value of the business.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

49. If the income statement covered a six-month period ending on November 30, 2013, the third line of the income statement heading would read

- A. Month Ended November 30, 2013.
- B. November 30, 2013.
- C. Six-month Period Ended November 30, 2013.
- D. Month of November, 2013.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

50. When the owner invests cash in a business,

- A. assets and revenue increase.
- B. assets increase and owner's equity decreases.
- C. liabilities decrease and owner's equity increases.
- D. assets and owner's equity increase.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

51. When equipment is purchased on credit,

- A. assets and liabilities increase.
- B. assets increase and liabilities decrease.
- C. assets and owner's equity increase.
- D. assets and expenses increase.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounts and Their Relationships*

52. When equipment is purchased for cash,
- A. assets decrease and expenses increase.
  - B. one asset increases and another asset decreases.**
  - C. assets and owner's equity increase.
  - D. assets increase and liabilities decrease.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounts and Their Relationships*

53. If a business receives \$5,000 on account from clients who owed money for services previously billed, identify the effect on the accounting equation
- A. assets decrease and liabilities increase.
  - B. liabilities decrease and owner's equity decreases.
  - C. assets remain the same and owner's equity remains the same.**
  - D. owner's equity increases and revenue increases.

Cash is increased by \$5,000 but Accounts Receivable is reduced by \$5,000 so there is no change in total assets.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

54. When the owner withdraws cash for personal use,
- A. assets decrease and expenses increase.
  - B. assets decrease and owner's equity increases.
  - C. assets decrease and owner's equity decreases.
  - D. owner's equity decreases and revenue decreases.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

55. When the owner writes a company check to pay the firm's electric bill,
- A. assets and owner's equity increase.
  - B. assets decrease and expenses increase.
  - C. assets and liabilities decrease.
  - D. expenses increase and owner's equity increases.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

56. Identify the account below that is classified as an asset account and would appear on the left side of the accounting equation.

- A. Accounts Receivable.
- B. Owner's Capital.
- C. Accounts Payable.
- D. Revenue.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*



57. Assets and liabilities are reported on

- A. the balance sheet.
- B. the income statement.
- C. the statement of owner's equity.
- D. both the balance sheet and the income statement.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounts and Their Relationships*

58. The financial statement that is prepared first is

- A. up to the accountant.
- B. the income statement.
- C. the balance sheet.
- D. the statement of owner's equity.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

59. The rent paid for future months is a(n)

- A. asset.
- B. liability.
- C. expense.
- D. revenue.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounts and Their Relationships*

60. The statement of financial position is another term for which financial statement?

- A. Income Statement
- B. Statement of Owner's Equity
- C. Balance Sheet
- D. Trial Balance

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounting Equation and Financial Statements*

61. Which financial statement is a representation of the accounting equation?

- A. Income Statement
- B. Statement of Owner's Equity
- C. Balance Sheet
- D. Profit and Loss Statement

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

62. The Statement of Owner's Equity is calculated as follows:

- A. beginning capital + net income - withdrawals + additional investments = ending capital
- B. beginning capital + net loss + withdrawals + additional investments = ending capital
- C. beginning capital + net loss - withdrawals + additional investments = ending capital
- D. beginning capital + net income + withdrawals + additional investments = ending capital

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Topic: Accounting Equation and Financial Statements*

63. An Income Statement is all of the following except:

- A. a formal report of business operations.
- B. a profit and loss statement.
- C. a statement of revenues less withdrawals and expenses.
- D. a statement of income and expenses.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

64. At the end of the first month of operations for Jackson's Catering Service, the business had the following accounts: Cash, \$19,000; Prepaid Rent, \$500; Equipment, \$5,000 and Accounts Payable \$2,000. By the end of the month, Jackson's had earned \$20,000 of Revenues, \$1,000 of Utilities Expenses and \$1,500 of Salaries Expenses. Calculate the net income to be reported by the company for this first month.

- A. \$20,000
- B. \$19,000
- C. \$17,500
- D. \$12,000

Revenues \$20,000 - Utilities Expense \$1,000 - Salaries Expense \$1,500 = Net Income \$17,500

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

65. At the end of its first year of operations, Shapiro's Consulting Services reported net income of \$25,000. They also had account balances of: Cash, \$18,000; Office Supplies, \$2,000 and Accounts Receivable \$10,000. The owner's total investment for this first year was \$5,000. Calculate the **ending** balance to be reported on the Statement of Owner's Equity in the Owner's Capital account.

- A. \$30,000
- B. \$25,000
- C. \$20,000
- D. \$5,000

Investments \$5,000 + Net Income \$25,000 = \$30,000

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

66. Identify the type of accounts that would appear on a firm's income statement

- A. assets and liabilities.
- B. revenues and expenses.**
- C. assets and revenues.
- D. liabilities and expenses.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

67. Owner's equity is:

- A. the amount taken out of a business by the owner for personal use.
- B. the financial interest of the owner of a business.**
- C. the amount the owner owes the business.
- D. the revenues less the expenses.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-06 Define the accounting terms new to this chapter.*

*Topic: Accounting Equation and Financial Statements*

68. Given the options below, identify the correct accounting equation formula.

- A. Assets = Liabilities + Owner's Equity
- B. Liabilities = Assets + Owner's Equity
- C. Assets + Liabilities = Owner's Equity
- D. Assets + Owner's Equity = Liabilities

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

69. The balance sheet shows each of the following except the:

- A. net income of the business.
- B. amount and types of property the business owns.
- C. owner's interest.
- D. amount owed creditors.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounting Equation and Financial Statements*

70. The Balance Sheet heading includes each of the following except:

- A. firm's name.
- B.** firm's address.
- C. title of the report.
- D. date of the report.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Topic: Accounting Equation and Financial Statements*

71. Choose the option below that reflects the correct order in which to prepare the three financial statements

- A. Balance Sheet; Income Statement; Statement of Owner's Equity.
- B.** Income Statement; Statement of Owner's Equity; Balance Sheet.
- C. Income Statement; Balance Sheet; Statement of Owner's Equity.
- D. Statement of Owner's Equity; Balance Sheet; Income Statement.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Topic: Accounting Equation and Financial Statements*



72. An expense by definition is not:

- A. an amount a business must pay in the future.
- B. an outflow of cash.
- C. the use of other assets.
- D. the incurring of a liability.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Define the accounting terms new to this chapter.*

*Topic: Accounting Equation and Financial Statements*

### Short Answer Questions

73. On December 1, 2016, Geneva Jordan opened her new business with the following assets and liabilities. Complete the accounting equation for the firm.

<b>Accounts Payable</b>	<b>\$ 1,100</b>	<b>Prepaid Rent</b>	<b>\$ 6,000</b>
<b>Cash</b>	<b>3,950</b>	<b>Loans Payable</b>	<b>15,500</b>
<b>Equipment</b>	<b>26,200</b>	<b>Supplies</b>	<b>1,250</b>

Assets \$\_\_\_\_\_ = Liabilities \$\_\_\_\_\_ + Owner's Equity \$\_\_\_\_\_

Assets \$37,400 = Liabilities \$16,600 + Owner's Equity \$20,800

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

74. During October, a firm had the following transactions involving revenue and expenses. Did the firm earn a net income or incur a net loss for the period? What was the amount?

Paid \$1,200 for rent

Provided services for \$2,750 in cash

Paid \$250 for telephone service

Provided services for \$1,900 on credit

Paid salaries of \$1,675 to employees

Paid \$350 for office cleaning service

Net income: \$1,175

Feedback:  $\$2,750 + 1,900 - \$1,200 - \$250 - \$1,675 - \$350 = \$1,175$  Net Income

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Prepare an income statement.*

*Topic: Accounting Equation and Financial Statements*

75. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Performed services on credit

plus Accounts Receivable; plus Revenue

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

76. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Paid cash for utilities

plus Expenses; minus Cash

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

77. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Sent a check to a creditor

minus Accounts Payable; minus Cash

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounting Equation and Financial Statements*

78. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Issued checks to pay salaries

plus Expenses; minus Cash

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

79. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Purchased a computer for cash

plus Equipment; minus Cash

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounting Equation and Financial Statements*

80. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Received cash from credit customers

plus Cash; minus Accounts Receivable

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*



81. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Performed services for cash

plus Cash; plus Revenue

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

82. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

The owner made an additional investment of cash

plus Cash; plus K. Mitchell, Capital

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounting Equation and Financial Statements*

83. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Purchased furniture on credit

plus Furniture; plus Accounts Payable

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounting Equation and Financial Statements*

84. The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

<b>Cash</b>	<b>K. Mitchell, Capital</b>
<b>Accounts Receivable</b>	<b>Revenue</b>
<b>Equipment</b>	<b>Expenses</b>
<b>Accounts Payable</b>	

Had a computer repaired; payment is due in 30 days

plus Expenses; plus Accounts Payable

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Topic: Accounting Equation and Financial Statements*

85. Guy McKinley started the McKinley Charter Service at the beginning of August 2016. On August 31, 2016, the accounting records of the business showed the following information. Prepare an income statement and a statement of owner's equity for the month and a balance sheet as of August 31, 2016.

Equipment	\$ 17,000	Rent Expense	\$4,500
Accounts Receivable	2,600	Cash	5,000
Fees Income	28,000	Salaries Expense	9,600
Boats	103,000	Utilities Expense	1,900
Gasoline Expense	6,500	Supplies	2,300
Loans Payable	77,500	Initial Investment	51,000
Owners' Withdrawal	4,100		

MCKINLEY CHARTER SERVICE		
Income Statement		
Month Ended August 31, 2016		
Revenue:		
Fees Income		\$28,000
Expenses:		
Gasoline Expense	\$6,500	
Rent Expense	4,500	
Salaries Expense	9,600	
Utilities Expense	<u>1,900</u>	
Total Expenses		<u>22,500</u>
Net Income		<u>\$5,500</u>

MCKINLEY CHARTER SERVICE		
Statement of Owner's Equity		
Month Ended August 31, 2016		
Guy McKinley, Capital, August 1, 2016		\$51,000
Net Income for August	5,500	
Less Withdrawals for August	<u>4,100</u>	
Increase in Capital		<u>1,400</u>
Guy McKinley, Capital, August 31, 2016		<u>\$52,400</u>

MCKINLEY CHARTER SERVICE			
Balance Sheet			
August 31, 2016			
Assets		Liabilities	
Cash	\$5,000	Loans Payable	\$77,500
Accounts Receivable	2,600		
Supplies	2,300	Owner's Equity	
Equipment	17,000	Guy McKinley, Capital	<u>52,400</u>
Boats	<u>103,000</u>	Total Liabilities	
Total Assets	<u>\$129,900</u>	and Owner's Equity	<u>\$129,900</u>

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Reporting

Blooms: Create

Difficulty: 3 Hard

Learning Objective: 02-04 Prepare an income statement.

Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.

Topic: Accounting Equation and Financial Statements

86. On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

Cash	Accounts Payable
Accounts Receivable	Shawn Dahl, Capital
Office Equipment	Revenue
Canoe and Kayak Equipment	Expenses

#### Transactions

1. Shawn Dahl invested \$45,000 in cash to open the business
2. Paid \$12,700 in cash for the purchase of kayak and canoe equipment
3. Paid \$1,050 in cash for rent expense
4. Purchased additional kayak and canoe equipment for \$3,800 on credit
5. Received \$3,900 in cash for kayak rentals
6. Rented canoes and kayaks for \$1,200 on account
7. Purchased office equipment for \$125 in cash
8. Received \$800 in cash from credit clients
9. Shawn Dahl withdrew \$1,500 in cash for personal expenses

Based on the information shown in transaction #4 above, indicate the accounts affected and use plus and minus to show the changes caused by the transaction.

plus Canoe and Kayak Equipment; plus Accounts Payable

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounting Equation and Financial Statements*

87. On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

Cash	Accounts Payable
Accounts Receivable	Shawn Dahl, Capital
Office Equipment	Revenue
Canoe and Kayak Equipment	Expenses

#### Transactions

1. Shawn Dahl invested \$45,000 in cash to open the business
2. Paid \$12,700 in cash for the purchase of kayak and canoe equipment
3. Paid \$1,050 in cash for rent expense
4. Purchased additional kayak and canoe equipment for \$3,800 on credit
5. Received \$3,900 in cash for kayak rentals
6. Rented canoes and kayaks for \$1,200 on account
7. Purchased office equipment for \$125 in cash
8. Received \$800 in cash from credit clients
9. Shawn Dahl withdrew \$1,500 in cash for personal expenses

Based on the information shown above, what is the balance of Accounts Receivable for Whitewater Rentals at the end of September?

The balance of Accounts Receivable at September 30 is \$400.

Feedback: Beginning Accounts Receivable, \$0 + sales on account, \$1,200 - collections on account, \$800 = Ending Accounts Receivable, \$400.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Measurement*

*AICPA FN: Reporting*



*Blooms: Apply*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

88. On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

Cash	Accounts Payable
Accounts Receivable	Shawn Dahl, Capital
Office Equipment	Revenue
Canoe and Kayak Equipment	Expenses

Transactions

1. Shawn Dahl invested \$45,000 in cash to open the business
2. Paid \$12,700 in cash for the purchase of kayak and canoe equipment
3. Paid \$1,050 in cash for rent expense
4. Purchased additional kayak and canoe equipment for \$3,800 on credit
5. Received \$3,900 in cash for kayak rentals
6. Rented canoes and kayaks for \$1,200 on account
7. Purchased office equipment for \$125 in cash
8. Received \$800 in cash from credit clients
9. Shawn Dahl withdrew \$1,500 in cash for personal expenses

Based on the information above, what is the fundamental accounting equation at the end of September for Whitewater Rentals?

Assets \$51,350 = Liabilities \$3, 800 + Owner's Equity \$47,550

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Topic: Accounting Equation and Financial Statements*

89. On June 1, Donna Banhil established Solo Services, a voice consulting service. Enter the following transactions for June in the table below using + and - to indicate increases or decreases:

**Transactions**

1. Donna Banhil invested \$15,000 in cash to open the business
2. Paid \$1,500 for June's rent
3. Paid \$4,500 for rent in advance, for the next three months (July-September)
4. Purchased office supplies for \$800 on credit
5. Performed voice consulting services and immediately received \$1,200 from clients.
6. Gave voice lessons to charge account clients and earned \$9,000
7. Paid \$100 cash for the supplies purchased earlier in the month
8. Received \$1,000 in cash from credit clients billed earlier in the month

Trans		Assets			=	Liab.	Owner's Equity		
	Cash	Accts. Rec.	Prepaid Rent	Office Supplies		Accts. Pay.	D. Banhil, Capital	Rev.	Expense
1									
2									
3									
4									
5									
6									
7									
8									
Bal									

Trans		Assets			=	Liab.	Owner's Equity		
	Cash	Accts. Rec.	Prepaid Rent	Office Supplies		Accts. Pay.	D. Banhil, Capital	Rev.	Expense
1	+15,000						+15,000		
2	-1,500								-1,500
3	-4,500		+4,500						
4				+800		+800			
5	+1,200							+1,200	
6		+7,000						+7,000	
7	- 100					-100			
8	+1,000	-1,000							
Bal	<u>11,100</u>	<u>6,000</u>	<u>4,500</u>	<u>800</u>		<u>700</u>	<u>15,000</u>	<u>8,200</u>	<u>1,500</u>

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

AICPA FN: Reporting

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.

Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.

Topic: Business Transactions and Events

90. The figure below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of \$72,000 (Transaction 1).

Trans	Assets			=	Liab.		Owner's Equity		
	Cash	Accts Rec	Supp		Equip	Accts Pay	G. Sawyer, Capital	Rev.	Expense
1	+72,000						+72,000		
2	- 8,200				+8,200				
3		5,200						+5,200	
4					+3,680	+3,680			
5	- 3,500								-3,500
6	+ 670	- 670							
7	- 2,400						- 2,400		
8	- 450		+450						
Bal	58,120 +	4,530 +	450 +	11,880 =	3,680	+	69,600 +	5,200 +	-3,500

What was the net income or net loss for Sawyer Architecture Services for the month of June?

Net income was \$1,700.

Feedback: Revenue, \$5,200 - Expenses, \$3,500 = Net Income, \$1,700.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

AICPA FN: Reporting

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Prepare an income statement.

Topic: Accounting Equation and Financial Statements

91. The figure below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of \$72,000 (Transaction 1).

Trans		Assets		=	Liab.		Owner's Equity		
	Cash	Accts	Supp	Equip	Accts		G. Sawyer,	Rev.	Expense
		Rec			Pay		Capital		
1	+72,000						+72,000		
2	- 8,200			+8,200					
3		5,200						+5,200	
4				+3,680	+3,680				
5	- 3,500								-3,500
6	+ 670	- 670							
7	- 2,400						- 2,400		
8	- 450		+450						
Bal	58,120 +	4,530 +	450 +	11,880 =	3,680	+	69,600 +	5,200 +	-3,500

Prepare the statement of owner's equity for Sawyer Architecture Services for the month ended June 30, 2016.

Sawyer Architecture Services		
Statement of Owner's Equity		
Month Ended June 30, 2016		
Greg Sawyer, Capital, June 1, 2016		72,000
Net Income for June	1,700	
Less Withdrawals for June	(2,400)	
Decrease in Capital		(700)
Greg Sawyer, Capital, June 30, 2016		<u>71,300</u>

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

AICPA FN: Reporting

Blooms: Create

Difficulty: 2 Medium

Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.

Topic: Accounting Equation and Financial Statements

92. The figure below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of \$72,000 (Transaction 1).

Trans		Assets		=	Liab.		Owner's Equity		
	Cash	Accts Rec	Supp	Equip	Accts Pay		G. Sawyer, Capital	Rev.	Expense
1	+72,000						+72,000		
2	- 8,200			+8,200					
3		5,200						+5,200	
4				+3,680	+3,680				
5	- 3,500								-3,500
6	+ 670	- 670							
7	- 2,400						- 2,400		
8	- 450		+450						
Bal	58,120 +	4,530 +	450 +	11,880 =	3,680	+	69,600 +	5,200 +	-3,500

Prepare the balance sheet for Sawyer Architecture Services as of June 30, 2016.

Sawyer Architecture Services			
Balance Sheet			
June 30, 2016			
Assets		Liabilities	
Cash	58,120	Accounts Payable	3,680
Accounts Receivable	4,530		
Supplies	450	Owner's Equity	
Equipment	11,880	Greg Sawyer, Capital	71,300
Total Assets	74,980	Total Liabilities and Owner's Equity	74,980

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

AICPA FN: Reporting

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.

Topic: Accounting Equation and Financial Statements

93. Cullen Beatty plans to start a consulting business—Cullen Consulting Services. In preparation to do this, on April 1, 2016, he invested \$50,000 in cash and \$19,000 in equipment, and opened an account at Office Plus by purchasing \$1,500 in office supplies which is due by the end of the month. He then signed a one-year lease agreement on an office building for \$6,000, paying the full amount in advance.

Prepare a Balance Sheet for Cullen Consulting Services as of April 1, 2016, before he conducts any services.

Cullen Consulting Services Balance Sheet April 1, 2016			
Assets		Liabilities	
Cash	\$44,000	Accounts Payable	\$ 1,500
Supplies	1,500		
Prepaid Rent	6,000	Owner's Equity	
Equipment	19,000	Cullen Beatty, Capital	69,000
Total	<u>\$70,500</u>	Total	<u>\$70,500</u>

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Blooms: Create*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounting Equation and Financial Statements*

94. Cullen Beatty plans to start a consulting business—Cullen Consulting Services. In preparation to do this, on April 1, 2016, he invested \$50,000 in cash and \$19,000 in equipment, and opened an account at Office Plus by purchasing \$1,500 in office supplies which is due by the end of the month. He then signed a one-year lease agreement on an office building for \$6,000, paying the full amount in advance.

Cullen would like an explanation of the accounting for his business actions as of April 1, 2016.

Explain the terms and interactions between the categories on a Balance Sheet.

Answers will vary. Items that should be included are:

The Balance Sheet is a format report of a business's financial condition

--on a certain date

--reports assets, liabilities, and owner's equity of a business

--reports property owned by a business, obligations (debts) of a business

--reports the financial interest (proprietorship, net worth) of the owner

--total assets equals the total liabilities plus total owner's equity

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Decision Making*

*AICPA FN: Reporting*

*Blooms: Create*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Topic: Accounting Equation and Financial Statements*